



The Insurance Compulsion

by Richard W. Rahn

FEAR OF LIFE'S UNCERTAINTIES DRIVES SOCIETIES TOWARD THE MISERY OF SOCIALISM

Venezuela is the latest global disaster caused by socialism. Over the last couple of hundred years, virtually every variety of socialism has been tried — from communism to national socialism (Nazism) and fascism, to various varieties of “democratic socialism” — with one common characteristic — they all failed. Despite the economic failures, loss of liberty and the tens of millions of deaths resulting from the socialist experiments, it has an enduring romantic attraction. Bernie Sanders and millions of his followers call themselves socialists, without embarrassment, claiming that next time they will get it right. Many countries still have socialist parties. How can so many be so ignorant of the never-ending misery socialism has brought?

Many of those who advocate socialism not only suffer from real or studied ignorance, but a fear of not being able to fend for themselves. They fear that they cannot make a living on their own or pay their own medical bills. They fear competition. When some political type says, “The state will take care of you and give you food, shelter and medical care,” for many it becomes easier to accept the words as truth without thinking through the history, costs and consequences of such promises.

Life is scary and uncertain. Children fear the loss of their parents to protect and care for them. Part of becoming an adult is taking

on the responsibility for taking care of ourselves, which means insuring as much as possible against life’s risks. Responsible adults take certain actions, such as insuring against unemployment by deferring immediate gratification and spending time, effort and money to obtain more education and job skills. Responsible adults buy medical insurance, auto insurance and homeowners insurance to protect themselves, at least partially, against events they may not be able to control.

Insurance costs money, and it is human nature to prefer that someone else pay your bills. In essence, socialism is a system in which others are forced to pay your bills no matter how irresponsible you may be. Margaret Thatcher famously pointed out that socialism works until socialist governments run out of other people’s money.

Recognizing that many will be irresponsible and not buy adequate insurance, states require people to buy auto insurance as a condition of driving on public roads. Companies that provide mortgages require those who have a mortgage to buy homeowners insurance.

The first duty of government is to protect the citizens and their property — which requires a military, police and court system. This insurance has to be paid for — and citizens are required to pay taxes for these functions. Most people, not including anarchists, believe these are necessary functions of government. So most debate is about how much to spend on these functions, not whether or not it is desirable to insure against these risks.

The real debate is about how much insurance any individual should be required to pay for versus how much should be voluntary. The socialists promise to insure the individual against almost all of life’s risks, but to do so, they have to compel people to provide whatever share of their earnings necessary to pay for all of the benefits. The demand for more benefits is never-ending. The amount required to pay for the benefits becomes so high that most individual initiative, investment and work incentives are destroyed. State monopoly agencies to provide for all the benefits have little incentive for cost control, nor do the people working within the agencies have many incentives for good “customer” service. At some point, the situation

becomes so bad that the people revolt — which explains why most countries that tried socialism have rejected it in all but name.

The Chinese Communist Party still calls itself socialist, despite having largely a free-market system. A few years back during one of my trips to China, I was in a discussion about the economy with a high-ranking Chinese government official. He had been defending the supremacy of the party. I noted that during the first 30 years of communist rule, the economy had been a disaster, but three decades ago, when they turned to a market economy, with some property rights, work and investment incentives, the economy boomed. His reply: “We originally thought that we could go directly from a poor agrarian society to communism, but then we realized that first we would need to build a rich capitalistic society, which might take 100 years, before going to communism.”

The current debate about the government role in health care insurance illustrates the muddled thinking among the political class. Under Obamacare, there is a requirement that people are compelled to buy insurance from selected providers or pay a fine. Many young people saw this correctly as a bad deal for them, so they chose to pay the fine to a coercive government. Many Republicans said they would take away the purchase requirement as an unjust infringement on personal liberty — but then many quite irrationally said they would cover pre-existing conditions — which destroys any incentive to purchase insurance until one is ill. This is not insurance, but socialist income redistribution, and will lead to a fiscal disaster.

A reason to severely limit government’s role in insuring against individual risk is that history shows free markets can provide insurance for most things more efficiently and without compulsion.

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