

WAR AND INSURANCE

AN ADDRESS

DELIVERED BEFORE THE PHILOSOPHICAL UNION
OF THE UNIVERSITY OF CALIFORNIA AT ITS
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WITH AN INTRODUCTION
AND NOTES

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PREFACE

As a preparation for an address which I had been invited to deliver on the occasion of the twenty-fifth anniversary of the Philosophical Union of the University of California, I read to a general audience, at the summer session of that University at Berkeley (during the last fortnight of July, in the present year) a series of six philosophical lectures. These six preparatory lectures contained a restatement of the theory of what I had called, in a recent book of mine, the "Process of Interpretation," and, in particular, discussed the nature and functions of "Communities of Interpretation." What this last term means the reader of this present book may learn, if he pleases, on pages 47-64.

I had intended to continue and to summarize the main theses of these six lectures in my anniversary address before the Union.

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The summer session ended. The war began.

My address, in the form in which I had intended to read it, was thus rendered useless, and was thrown aside. But the theory both of the "process of interpretation" and of "the communities of interpretation" had, during the last two years, seemed to me capable of a wide range of practical applications; and some of these, including a sketch of certain very general philosophical aspects of banking and of insurance, had been already presented to my audience at Berkeley during the July lectures just mentioned.

Abandoning, then, my previous plans for the address before the Union, I wrote this present address,—partly in the neighborhood of Los Gatos, in the Santa Cruz mountains of the California Coast Range, and partly at Berkeley. This writing took place between August 2 and August 27, under the immediate influence of impressions due to the events which each day's news then brought to the notice of us all; and yet with a longing to see how the theory of "interpre-

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tation" which I owe to the logical studies of the late Mr. Charles Peirce, would bear the test of an application to the new problems which the war brings to our minds.

I have to thank my friend, Mr. John Graham Brooks, of Cambridge, Massachusetts, as well as my colleague, Mr. H. B. Dow (lecturer on Insurance at Harvard University); and, above all, my philosophical colleague at the University of California, Professor Charles H. Rieber (who was my host while I was at Berkeley, and who is also the president of the Philosophical Union), for some careful criticisms of this address; and for their aid in preparing it for publication.

JOSIAH ROYCE.

CAMBRIDGE, MASSACHUSETTS,
September 15, 1914.

INTRODUCTION

WHEN a number of persons are subject to risks, they may contribute to a common fund, and then use this fund as a means of making good certain of the losses which, in consequence of these risks, fall upon one or another member of the company of adventurers who thus contribute. The contributions themselves form an insurance fund. The method of business in question constitutes the basis of the modern institution called insurance. The special ways in which the adventurers are brought into association, and the sorts of risk against which the individual members of a group of insurers are protected, vary widely. But at the basis of any systematic modern method of insurance lie considerations which belong to the general theory of probability, and which are everywhere in question in the statistical sciences. Since risks, and the adventures of individual

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men, are amongst the most practical matters with which we are acquainted, while the theory of probability and the principles of statistical science involve some of the most abstruse problems of logic and mathematics, insurance, viewed either as a mode of business or as a social institution, is one of the most momentous instances of the union of very highly theoretical enterprises with very concrete social applications.

Furthermore, as experience shows, the insurance principle comes to be more and more used and useful in modern affairs. Not only does it serve the ends of individuals, or of special groups of individuals. It tends more and more both to pervade and to transform our modern social order. It brings into new syntheses not merely pure and applied science, but private and public interests, individual prudence, and a large regard for the general welfare, thrift, and charity. It discourages recklessness and gambling. It contributes to the sense of stability. It quiets fears and encourages faithfulness.

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But this principle of insurance has not yet been applied to international affairs, and, in so far as the present writer is aware, no one has heretofore proposed that a group of nations should form an organization for the mutual insurance of its members against any kind of risks.

The present essay offers reasons why such a proposal is both timely and feasible. Since the whole subject is new, what is attempted in this brief discussion cannot be a mature plan. This paper is preliminary, is tentative, and intends to be subject to a thoroughgoing revision. Its whole present purpose is gained, in fact, if it leads to a serious revision of its own imperfections. It wishes to attract the attention of some wiser minds than that of its author to the fact that, at the moment of an unprecedented crisis in the world's history, the possibility of precisely this new mode of international coöperation which is here outlined is worthy of a somewhat careful study.

Nations, viewed as corporate entities, are as subject to risks as are individual human

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beings. Some of these risks are principally moral in their nature; but many of them can be more or less exactly estimated in economic terms. Thus, floods, famines, pestilences, earthquakes, and volcanoes may interfere, in various fashions, with the economic as well as with the rest of the social life of the peoples thus afflicted. Apart from actual famines, the considerable failure of their crops may impair, for a season, the normal supplies of individual nations. Internal crises, social and political, may interrupt their healthy development in ways involving not only moral disasters, but heavy expenses. Such evils come upon various nations with irregularly recurrent, but also with widely different, weight and seriousness. Only a vast and long-continued collection and an exceedingly difficult statistical analysis of the facts regarding such calamities could determine the regularities which a sufficiently large number of instances of national disaster would be, if properly studied, certain to show. Such regularities, however, if once discovered,

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would furnish an "actuarial basis" upon which an insurance of individual nations against such risks could conceivably be undertaken.

But in order that an insurance could be actually undertaken, there would have to be in existence a vast and well-secured fund, contributed by a great number of individual nations, and held, under established rules, ready to supply the means of paying to an insured nation — perhaps the whole of its loss in case of any previously defined sort of disaster; or perhaps such a portion of that loss as an equitably devised insurance contract, duly adjusted to the contribution previously made by the nation in question, declared to be payable from the common fund in case a certain definite disaster befell one of the nations which had subscribed to the insurance agreement.

Since all irregularly distributed phenomena of a given type, if sufficiently numerous, — so long as they are indeed finite in number, — show some kind of statistical regularity,

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this "actuarial basis" for various forms of international insurance could be furnished by the patient study of the economically definable risks and losses of a sufficiently large group of nations, followed through a long enough period of time.

But an essay which, like the present one, proposes a new international enterprise, gains little from a mention of this purely theoretical possibility. The fortunes of nations, — their risks and their calamities, in so far as such matters are estimable in economic terms at all, — might indeed be studied historically and statistically (as if by an observer from another planet), in case we had any hope that a group of nations could be induced to contribute to a common fund to be used for the insurance of individual nations against any special sorts of disaster. And a sufficient study of duly collected historical and statistical materials could indeed indicate to an expert actuary the way in which a group of nations could make provision for compensating the individual mem-

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bers of the group for certain disasters. But the main concern of this essay lies in proposing as a topic for further study and conference the practical question whether any valid grounds can be given why various nations ought to be urged to contribute to such a common insurance fund.

The proposal seems so far away from our present habits of international intercourse, and so unlikely to meet approval, that one who glances at the title of the present essay is likely to turn away from it without further reading. The only hope of the author lies in the fact that the topic of the essay may be approached from various sides, and may consequently arouse the interest of several sorts of people. Where one possible reader finds himself forthwith repelled, another may be induced to give to the topic a second thought even because of the very aspect of the matter which his neighbor has thought fantastic, or abstruse, or unpractical. The business of this word of introduction consists simply in indicating how many sided the

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topic is, and so how many and varied are the chances that the author's proposals are worthy of being submitted to scrutiny as much when they ought to be rejected as when, by chance, some of them are worthy of approval. For the principal value of these proposals lies in the fact that they have a certain novelty (although they are also the outcome of a lengthy process of previous reflection); that they set forth a method of practical action suited to the present crisis (although they are also founded on the theses of a student of philosophy); that they refer to matters which the experience of the business world has long since tested (although they also speak of issues which the tragedies of the present moment show to be infinitely ideal and pathetic); and finally that, while they are written down in the midst of a world war, they expressly analyze and attempt to use that motive which, in the history of humanity, has thus far most made for peace.

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I

Now the body of this essay approaches our main thesis from the side of "War." It discusses in a way which I believe to be somewhat novel some of the deepest motives which render war at present so fatally recurrent and dangerous. Hereupon it draws a contrast between these essentially war-producing motives of human life and those motives which are exemplified in certain of the well-known and important social and commercial institutions of the world. Amongst those motives it dwells in particular upon the ones which are represented by the modern institution of insurance. Hereupon it outlines, with necessary brevity and incompleteness, a plan whereby a possible future organization for mutual insurance amongst the nations may be devised and may tend towards the gradual establishment of more pacific relations among the nations than they now possess.

To the plan thus submitted certain obvious objections arise. While leaving to the essay

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itself its own part in the exposition and defense of the plan for international insurance which is set forth, this Introduction will best serve its purpose if it briefly emphasizes certain of these most obvious objections to the plan proposed, and then points out why they are not final, and how they may be in a measure obviated.

The first of these objections will occur to every reader. If one supposes that for any reason a group of nations were considering whether to contribute to a common fund for the insurance of the individual nations belonging to this group against any class of evils, it would be natural to say: "All international peace, under existing conditions, is fragile. A fund contributed by individual nations for their insurance against disasters would constitute a possible object of predatory attacks. In other words, the safety of the insurance fund would have to be provided for. This would be as difficult as to provide for the carrying out of any other international agreement in which large inter-

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ests were involved. Concerning the administration of the fund differences of opinion would arise. Since the fund would be international, these differences would have to be submitted to arbitration or else to war. To the already existing obstacles which the Hague tribunal has to meet new obstacles would be added. Differences of opinion concerning the use of the insurance funds would frequently involve what is usually called national honor. They would, therefore, be hopeless differences. And this initial defect would appear to belong to any international insurance scheme."

It is worth while in this Introduction to call especial attention to the fact that the plan outlined in the main body of this essay undertakes to meet this very objection by a novel proposal. This proposal contemplates the founding of an entirely new but very easily comprehensible kind of international corporation, — a distinctively new entity which would be neither a nation, nor a court of arbitration, nor an international

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congress, nor a federation of states, nor any such body as at present exists. The new body would be a Board of Trustees, with powers and duties which would be in the main fiduciary *and with no political powers or obligations whatever.*

The new proposal depends upon a consideration which I believe to be deeply founded in human nature, and which can be best understood only if the reader is kind enough first to become acquainted with what this essay sets forth concerning those human relations which I call "dangerous" and those which, as I believe, experience shows to be essentially peaceful in their tendencies. Common sense well recognizes, and all human history, so far as it is applicable to the problem at all, exemplifies the fact, that it is difficult to find, for purposes of dealing with delicate and controversial matters, a trustworthy politician, or a trustworthy diplomat, or a trustworthy ruler, or (in case of matters that involve sufficiently pressing and passionate issues), an entirely trustworthy and

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unprejudiced arbitrator or judge. *But it is much easier to find, under suitable social conditions, a faithful and enlightened and fair-minded trustee.* This essay contains many illustrations of the reasons why this assertion is true.

This essay proposes that a certain fund, contributed by various nations, should be put into the hands of a board of international trustees. The constitution and the mode of selection of the members of this board is briefly set forth in the text. The board, according to the scheme proposed, would have a minimum of judicial powers. These judicial powers would never refer to questions which could be called questions of national honor. The judicial problems of the board would be limited to questions referring to the actual interpretation of certain contracts. These contracts would be either of the nature of insurance policies, or else of other forms of trust agreements. When these contracts had put certain funds into the hands of the board, the funds being