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## Josiah Royce and The World Order: Can Insurance Reduce War and Environmental Disaster?

Leslie ARMOUR

*RÉSUMÉ.* — Josiah Royce proposait un plan d'assurance internationale protégeant contre la guerre et les catastrophes naturelles. Son idée était que les guerres deviendraient de moins en moins probables si on interdisait à ceux qui les déclenchent de recueillir des fonds auxquels presque toutes les nations seraient susceptibles de contribuer. La raison sous-jacente est sa conviction que les relations dyadiques engendrent des confrontations, cependant que les relations médiatisées par des tiers intéressés à réconcilier les rivaux tendent à se stabiliser. Les systèmes légaux, ou bancaires, ainsi que l'assurance sont des exemples de « communautés d'interprétation » médiatrices. Cet article examine les bases historiques et philosophiques de ces vues et suggère qu'on s'en inspire pour faire face à la pollution et autres types de dommages environnementaux. Je fais valoir que, si les primes sont fondées sur la capacité de causer du dommage, le plan a une chance de succès puisqu'il sera dans l'intérêt économique des partis de récolter les avantages de ne pas maintenir des machines de guerre, et qu'il sera économiquement viable d'adopter des contrôles de pollution. Le plan pose toutefois un certain nombre de difficultés sérieuses, que l'article explore également.

*SUMMARY.* — Josiah Royce proposed an international insurance scheme to protect against war and natural disasters. His idea was that wars would become less likely if those who started them were barred from collecting from a fund to which nearly all nations would be likely to contribute. Underlying his view is his belief that dyadic relations produce confrontations while relations which are mediated by third parties with an interest in bringing rivals together tend to be more stable. Legal systems, banks, and insurance are examples of mediating "communities of interpretation". This paper examines the historical and philosophical bases for these claims and argues that they can be extended to deal with pollution and other kinds of environmental damage. I urge that, if the premiums are based on ability to cause damage, the plan has a chance of success because it will be in the economic interest of the parties to reap the advantages of not maintaining war

*machines, and it will become economically feasible to adopt pollution controls. The plan does pose a number of serious difficulties, and these are explored.*

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On the outbreak of the First World War Josiah Royce proposed a new plan to give the world a chance for peace<sup>1</sup>: He argued that the world order was dominated by dyadic relations and that such relations were inherently dangerous. States confronted states, empires confronted empires, and, since they had competing interests and no effective agency to resolve their differences, violence almost inevitably resulted. His central argument was that there is a principle developed through the creation of systems of insurance, banking, and law, especially insurance, which holds a powerful potential for improving the odds in favour of peace and for decreasing the chances or mitigating the damage of some major natural and humanly caused disasters.

He proposed to provide an agency or agencies which would have a natural interest in bringing disputing states and associations of states, as well as multinational corporations and related quasi-independent agencies into agreement. At its simplest, this might work somewhat like fire insurance, though there are many subtleties and complications involved. The same principle could be used, Royce argued, to help cope with natural disasters and disease. Evidently, if it worked at all, it could be used to reduce environmental risks.

Suppose each country was assessed a premium based on its ability to start a war or to threaten the environment. A country could reduce its premiums by reducing its arms or controlling its polluting industries. Every country would be happy to have other countries participate in the scheme, for participation would reduce the risk to everyone and reduce any country's need to invest in armaments. Royce did not extend his argument, but participation would also encourage investment in environmental protection without reducing ability to compete.

It is obvious, of course, that, if any country could finally conquer the whole world, it could also seize the insurance fund and so defeat the whole scheme. But to the extent that the scheme gives every country a vested interest in preventing this outcome and also provides incentives for decreasing armaments, it decreases the likelihood that this will happen.

One might argue that a country could acquire power by staying out of the scheme, but economic developments have made this much less likely. We have seen how Germany and Japan have been able to take advantage of prohibition from full participation in the world arms race. We have also seen what happens when, like the Soviet Union, a country devotes too great a proportion of the resources of a weak economy to armaments.

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1. Josiah ROYCE, *War & Insurance*, An address delivered before the philosophical union of the University of California at its twenty-fifth anniversary at Berkeley, California, August 27. 1914. New York, Macmillan, 1914.

Royce was above all concerned with war and he insisted that any country which started a war for any reason whatsoever would lose its claim on the insurance fund. This, though obviously a more difficult idea than Royce imagined, would, in itself, be a massive deterrent.

Royce's plan is incomplete, but its basic idea is not easy to fault<sup>2</sup>. It was written at the outbreak of World War I, when, nearing the end of his life and heartbroken at the incipient clash of the two societies to which he was most attached, the United States and Germany, he isolated himself at Los Gatos in the Santa Cruz mountains of California to prepare what he hoped would be the most important of his many addresses to the California Philosophical Union.

In this paper, I want to argue not only that Royce was basically correct but that his plan can be extended (in ways which he partly envisaged)<sup>3</sup> so as to increase the likelihood of our being able to save the global environment and improve the chances of human survival.

#### I. THE FAILURE TO ACHIEVE A WORLD ORDER

Before we look closely at Royce's solution, however, we must be clear about what problems are to be solved and satisfy ourselves that Royce's theses are still correct. He believed both that dyadic relations are ultimately dangerous and that no solution based on developing or humanizing the kinds of relations which have dominated the international scene will suffice to bring peace and protect us against preventable disasters.

It must be admitted that, since Royce wrote, the search for a world order which would provide a reliable basis for peace and stability seems to have made little real progress. The oldest solution, the creation of federations which would combine enough diversity to meet the aspirations of culturally distinct groups of human beings with enough common order to guarantee peace, has a checkered past and an uncertain future. Some federations — notably the Soviet Union and the Yugoslav federation — have recently collapsed. Others, including the Canadian federation, are undergoing severe strains. A European federation is emerging but not without serious difficulties over common currencies, legal systems, and the creation of joint defence forces. The most stable federation, the United States of America, survived a horrendous civil war and, stung by that experience, became a federation which has frequently sought to limit cultural and linguistic diversity.

2. Very little recent literature mentions Royce's plan. A recent study, John CLENDENNING's *The Life and Thought of Josiah Royce* (Madison, University of Wisconsin Press, 1985), contains a brief discussion and seems to accept the view that Royce was overly idealistic, but a recent French study, Gladys BOURNIQUE's *La Philosophie de Josiah Royce* (Paris, J. Vrin, 1988, p. 298), says that Royce's idea is very ingenious.

3. He says, *War and Insurance*, p. 74, that the same principle would provide insurance against earthquakes and volcanoes, certain migratory pestilences and certain tropical diseases, some destructive storms, and recurrent famines, and marine disasters. Royce gives, in the text we have, no explanation for the expressions "certain" and "some", but most likely the qualification is simply that he was concerned with disasters which crossed national boundaries.

Attempts at much larger but looser associations, the League of Nations and the United Nations, have appeared to thrive most readily, as in the very first days of the League, when they were controlled by major powers with common aims, or perhaps when, (as may now be the case with the United Nations), they are dominated by a single power capable of giving cohesion to their policies. But, even if one supposed that domination by a single benign power was a good thing, it would be unwise to rely on this method of unification. For the world situation is unlikely to permit a single power to determine the course of events, and experience does not lead one to suppose that such a power would always be benign. One must suppose, in any case, that, as other powers emerge to challenge the United States, the United Nations will come under new strains.

Without such associations, it seems natural to suppose that nation-states with common interests but diverse aims and real possibilities for achieving prosperity at one another's expense will collide. This is particularly true if the political and economic forces present them with constant challenges to their cultures and languages. Such challenges are inevitable in a world linked by a global economy and by methods of communication which enable the more powerful to flood the less powerful with information and propaganda.

I want to argue, as Royce did, that the apparent likelihood of collision stems largely from a failure to structure the background situation in ways which, within countries, have proved quite successful in reducing certain kinds of disasters.

Traditional federations have in common that they attempt to reconcile differences of aim and outlook by means of direct negotiation between the rival parties. The collisions form ordered pairs: The federation against all its members, the federation against one or more of its members, one of its members against all the others, groups of members against other groups of members, and so on.

## II. THE FORMS OF MEDIATING AGENCIES

In the nature of things, therefore, large associations of independent states are unstable. Philosophically, it is often thought that such associations are modelled on relations which hold between autonomous individuals who live within democratic societies. If so, associations of states should make use, if it is possible, of whatever kinds of institutions provide stability within states. Individual states are always involved in change, too, but they tend to be more stable than large associations of states.

Ordinary social processes *within* states are facilitated by the introduction of agencies which flourish in so far as they succeed in reconciling diverse interests or in bringing disputing parties together. They create, Royce claimed, triadic relations of a special kind. Banks succeed by bringing together two groups of people — lenders and borrowers — whose interests conflict in principle. Agents bring hockey players and football players together with professional sports promoters.

Legal systems function in ways which often go unnoticed. It is true that the criminal law is not an agency which brings law-breakers and their victims into agree-

ment. Rather it is an agency which allows people with competing interests to live together on terms which are mutually advantageous. The law does not really work by force. Force is useful against small minorities. But if ten thousand Torontonians took to bank robbing on a given day, the banking system (or more likely the currency system) would have to be reorganized. Legal systems work because they create institutions with a basic interest in keeping the peace and in contriving arrangements which persuade disputants that they have had access to the most effective means of settling disputes.

Insurance systems work not merely by protecting against risks but also by reducing the risks. Health insurance premiums (whether paid by individuals or governments) provide the means by which health services can be developed in such a way as to reduce the risk of death, prolonged illness, and permanent disability. Workers' compensation schemes provide political pressure to reduce risks in the work place. Fire insurance companies promote safety legislation.

### III. DYADIC RELATIONS IN THE INTERNATIONAL ARENA

Royce did not explore the extent to which, in fact, some mitigating agencies do work well in the international sphere. But with the obvious exception of banking activities, the internal arrangements which mitigate confrontation do not extend very effectively to the mitigation of international *conflicts* or to the reduction of international violence. One might argue that the international investments of insurance companies have some (though minor) peacekeeping effect since nations tend to be friendly toward other nations from which they hope to receive investments. But there is no war insurance.

There *is* a system of international law which is very good at dealing with many kinds of conflicts between individuals and persons which extend beyond national borders, and there *is* a World Court which deals with questions which arise between states. But the Court has never been effective at preventing or stopping violent confrontation, because it lacks the various kinds of political power and economic leverage which would enable it to do so, and because it can only hear such disputes as the parties agree to lie within its jurisdiction. (Sometimes they do so by a general grant of jurisdiction and sometimes on a case by case basis.)

Banks operate internationally even though they must do so, by and large, under the protection of various local legal systems. They acquire a measure of independence by shifting their resources around the world. This enables them to put economic pressure on national governments. Since such governments frequently want continuing investments or have need of loans, banks promote to some extent, an environment conducive to peace and good order. But banks also create conditions for confrontation, especially between developed and underdeveloped countries. There is a World Bank, but it is heavily dependent on funds from the developed world and tends to over-represent the interests of its sources of wealth.

Josiah Royce is one of the few philosophers to ask whether war is a preventible risk against which we could be insured. In 1914, he could point to the obvious: Everyone had seen the increasing tensions between the empires of Britain, France and Germany, the arms race, and the power of inward-looking nationalism, often fostered by external oppression.

There is little doubt that the political relations which gave rise to wars *were* dominantly dyadic: The French Empire against the British Empire or, occasionally, both against Germany; incipient nation-states in the Balkans against the Austro-Hungarian and Turkish empires; Slavic and Greek Orthodox eastern Europe against encroaching German-speaking and western Christian middle Europe; the combined western powers against the remnants of the Chinese empire. There seemed invariably to be two sides and neither individuals nor nations had much chance of avoiding the need to choose sides.

When the First World War erupted and, later, when the Second World War became, in many ways, its continuation, these two-option confrontations produced bewildering irrationality and bitterness. In the midst of what was to become Yugoslavia, the ancient line between eastern and western Christianity divided people with similar languages and closely related cultures including the still struggling Serbs and Croats. The war provided little option but to join one side (associated through accidents of history with the Germans and their Austrian allies) or the other (associated with Russian and pan-Slav movements). In the Balkans, Britain and France suddenly became the allies of eastern Christianity and Slavic culture against the Germans and Austrians. To divide in two is generally to create irrationality whether in a country, a federation or a family. Even in Belgium the old line of demarcation between the Roman Empire and those outside it had become a division of language, and more than a few Belgians were seduced by the claim that, by culture and language, those who did not speak French belonged on the German side.

Royce himself, an idealist philosopher with Hegelian roots, had idolized both German culture and American political democracy. Now he had to choose between them. His aim became to keep others from having to make irrational choices. Have dyadic relations either diminished in scope or become less dangerous since 1914?

It may be argued that a single power, especially the United States, can create a situation in which, ultimately, there are no rival desires. Through processes of democratic negotiation, the development of acceptable programmes for sustainable development, and the judicious use of economic pressure and charity, the new world order might finally emerge without provoking a counter power.

One might argue that, despite inherent weaknesses, this process has been facilitated by the growth of international organizations, not only the United Nations but also various regional groupings such as the European Community.

Admittedly, the European Community is not like the Athenian Federation. One basic difference is that it has developed institutions which cut across the lines of the member states. It has begun to have effects on the legal systems, safety standards, and consumer product standards of its member states. It is also true that there are

organizations of a different kind — mostly quasi-subsiidiaries of the United Nations like UNESCO and the World Health Organization — which have, in a quiet way, laid some foundations for a different order.

But the deep concerns of states on the borders of the European Community make clear that it does create confrontations. As it becomes a super-state, the economic condition of anyone in its neighbourhood but excluded from it is seriously imperilled. Its internal agricultural arrangements have contributed to a crisis for farmers all over the world. Its comparative wealth has given it immigration problems. States outside its bounds are quite unable to provide adequate protection for their nationals who find themselves within it and who often, now, form oppressed minorities within a rich society.

Yet could one not imagine a series of overlapping federations extending outward from western Europe and northern North America so as eventually to embrace everyone in a political and economic union which would preserve the integrity of cultures and yet permit the sharing of prosperity? And could one not imagine the continuous power of the United States and the United Nations being used to force the world gradually along this path?

To begin with, the standard of living common in western Europe and northern North America is literally beyond what is physically possible for the underdeveloped world under present conditions of technology. The world's resources simply do not extend to the provision of a similar standard for everyone.

If the poor become sufficiently organized and are able to obtain the technology to back their demands, massive violence will almost certainly result. One could imagine organizations — UNESCO and the World Health Organization for instance — creating transformations in the outlooks and capacities of both the rich and poor nations so as to induce self-denying ordinances which would permit equalization of wealth. But in so far as United Nations agencies show any real capacity for creating policies which run counter to those of the great industrial powers, such organizations tend to be rendered powerless, as UNESCO has discovered.

Thus Royce's point remains. We need to establish fundamentally different kinds of ordering structures. Perhaps Royce's argument cuts even more deeply. He claims that dyadic relationships tend eventually to break down because there almost always comes a time when each side develops claims and confronts the other. Given enough time, there would be, in all likelihood, a confrontation between the United Nations and each and every one of its member states. Even quite civilized countries — Canada, or Britain, or France, say — find themselves not infrequently in violation of the Charter of Human Rights.

#### IV. COMMUNITIES OF INTERPRETATION AND "THE INVISIBLE HAND"

Royce's central notion is that one needs a third party that can function to interpret the rival parties to one another, and that tends to succeed when and only when the



other parties succeed. When such third parties are complex and have a functioning structure they serve as what he calls "communities of interpretation"<sup>4</sup>.

In *War and Insurance*, the heart of the argument stems from his account of what he believes are three historic "communities of interpretation": the judicial community, the banking community and the insurance community.

Royce focuses almost exclusively on the aspects of these institutions which bear directly on the escape from confrontational situations posed by dyadic social relations, but other aspects of them are important for any critical understanding of Royce's project. I shall therefore discuss them largely in my own way.

Let us begin with the law. As I suggested, at first sight the law fulfils Royce's ideal. But problems quickly develop. The *civil* law does stand between competing parties. It succeeds in so far as, by and large, people prefer litigation to other methods of settling disputes. And the *criminal* law functions ultimately by creating rules which are neutral to the rival interests of members of the community. Even muggers rely on the likelihood that they will be able to get home with their loot without themselves being attacked and that they will be able to use it before they are robbed.

But law can cause other problems. When it creates special privileges, it loses some of its universal claims and sets up opposition. It may do so by creating specialized kinds of property such as tax-free charitable trusts, by creating legal persons such as corporations with limited liability, and by establishing privileges such as tax-free expense accounts for members of parliament. When the law prohibits goods and services for which there is a demand, it creates an opportunity for a counter-society with its own laws to supply these goods and services. In such cases the relation becomes dyadic again and phenomena such as the unresolved war between the state and organized crime in the United States arise.

The civil law has, in many jurisdictions, become complex and burdensome and some think that it has come to serve the interests of the legal community itself more than it serves any other interest. When agencies which serve to bring rival parties together themselves become dominant the relation again becomes dyadic: the lawyers against the people, for instance. The law often has a monopoly, though, in some areas (arbitration, for instance), the creation of alternative agencies is fairly easy once the principle is understood and the functions of the agency are in demand.

Even more than the law, however, banks, as they prosper, become powerful in their own right and may well come to control the affairs of those they set out to serve. For this and other reasons, Adam Smith argued that banks need to be regulated and interest rates controlled<sup>5</sup>.

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4. ROYCE, *War and Insurance*, p. 56.

5. ADAM SMITH, *An Enquiry into the Nature and Causes of the Wealth of Nations*, London, Strahan and Cadell, 1776. The third edition of 1784 is usually thought of as definitive and is the basis of the modern editions, ed. E. Cannan, New York, Modern Library, 1937, and R. H. Campbell, A. S. Skinner, W. B. Todd, Oxford, The Clarendon Press, 1976. The problems about the necessary structures for running an economy are in Book II, Chapters II-V. Interest rates are discussed at the end of Chapter IV. For a longer discussion of these questions in Smith's writings see LESLIE ARMOUR, "Smith, Morality, and the Bankers", *Review of Social Economy* 24, no 3, December 1976.

Unless there is still another agency, such as the state, standing between the bank and its customers, the bank becomes a dangerous organization. Does this suppose an infinite regress of "third party" agencies? Who then stands between the state and its customers?

Royce's hope, evidently, was that something like Adam Smith's invisible hand would emerge<sup>6</sup>. Agencies which do not work ought to provoke the creation of competing agencies which work better. In reality, however, the process more frequently takes a different form. Public dissatisfaction with what Royce termed "communities of interpretation" creates a demand for regulatory agencies.

In the international sphere this poses serious problems. The regulatory agencies with which we are familiar are generally arms of particular states whose legitimacy is accepted by the peoples they govern. The problem in the international sphere is precisely that, if there is no universally accepted government, effective regulatory agencies cannot easily come into existence.

Furthermore, any powerful agency will likely provoke opposition. There are and will almost certainly continue to be interests opposed, if not to peace, then to programmes which would dismantle war machines. Some of them are political or politico-economic. President Eisenhower spoke of a "military-industrial complex". Others are simply groups filled with missionary zeal. If people will not voluntarily do what is good for them, they suppose that someone should be in a position to force them to do so. If it were to have real opposition, the insurance agency would certainly be tempted to use its wealth to protect its own position, and the need for regulation would then arise quite quickly.

Against this argument, one *can* point to some real examples of the "invisible hand" at work. The most interesting is the one which has developed since the Second World War out of the experience of the General Agreement on Tariffs and Trade, GATT. By and large, members have struggled to stay within its framework despite the fact that from time to time every country has felt that its policies, its decisions, and even its existence threaten some national interest or other. Opposition to it is controlled by the fact that, for any single country or small group of countries, being outside it might be too costly. The same consideration would apply to the war and environment insurance programme.

Moreover, GATT has not developed into a powerful bureaucracy which might dominate the world, for it is not invulnerable to criticism. Its success depends on its near universality. A single country or group of countries can hardly destroy it, but a large group of strategically placed countries with a lively world trade could certainly weaken it.

One may contrast this with the World Bank which is regarded by many third world countries as a doubtful asset — a help but still a threat to sovereignty, and even, when it imposes various kinds of restraint, a threat to continued orderly government. The difference is that, unlike the General Agreement on Tariffs and Trade,

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6. SMITH, *Wealth of Nations*, Cannan edition, p. 423.

the World Bank must have the good will of rich nations if it is to help poor ones. It must, therefore, help poor nations on terms which rich nations are prepared to accept. As an institution, it has little leverage of its own and must rely on persuasion. Even if we assume that rich nations are sometimes prepared to act against their own short-run best interests, we must accept that the World Bank's powers of persuasion evaporate if it strays from whatever is the economic orthodoxy at a given time. For the people that it must persuade in the first place are the economic advisers to prosperous nations.

Hopefully, the insurance scheme will resemble GATT more than it resembles the World Bank.

#### V. THE STRUCTURE OF THE INSURANCE PLAN

We still need to put more precision on the war and pollution insurance plans, and then to consider how the normal weaknesses of insurance schemes may apply to such an arrangement, and how such weaknesses may be overcome.

Each country would be invited to participate in an insurance system which would protect against the risks of war, against basic damage to the environment done by polluters in other nations and, as Royce suggested, against certain natural catastrophes. Such risks would include everything from loss of valuable animal and plant species to risks to human beings caused by the disappearance of protective elements such as the upper atmosphere supply of ozone. Included would be damage to landforms from erosion caused by rivers originating in another country, damage to water supplies from pollutants such as acid rain, and possibly even climatic change caused, for instance, by the "greenhouse effect". In addition various natural disasters, plagues and pestilences could be insured against.

The main initial difficulty is going to be that nearly all the risks involved are difficult to calculate. But there is an obvious answer to this difficulty.

Think about war. One who possesses large amounts of war material has a predictable ability to inflict damage. The premium will depend chiefly on estimates of the damage which could be caused by this material. Countries which regard themselves as having good records of non-aggression will want to have their premiums reduced on account of their good records. It will be argued that countries with bad past records should have their premiums increased. But this is not reasonable. Canada may have a good record and many Canadians think large scale violence at home is unimaginable. But that is because they suppose a continued rationality in their political system. A risk attends, inevitably, to the possession of large military forces. A government might mishandle a protest by aboriginal people. A boundary dispute in a period of political confusion following the independence of part of the federation, or even a violent labour dispute, could be a major disaster if existing forces used the weapons they possess. Prospective violence is only a shadow, but it is there.

Indeed, the overriding criterion in setting insurance premiums has to be the degree of military organization and preparedness. In a pinch, countries can buy plenty of weapons. They are not of much use if no military force exists which has been trained

in the use of weapons of a degree of sophistication similar to that of the weapons bought. Furthermore, a country like South Africa may have a fairly good international record but nonetheless be a suspected menace to its neighbours, and a country like Germany may have a bad record but simply lack the military organization needed to become, overnight, a major military menace.

With pollution risks, the degree of industrialization, the kinds of industry and industrial potential, and the availability of mechanisms for detecting pollution before it becomes damaging would have to be the measure. Actual pollution records count, but, in the long run, they are less significant than possession of the kinds of industry which are capable of pollution and which could become polluting if deterioration or economic pressure to cut costs forces changes in policy. If one has the industrial capacity to cause damage, one is a risk even if one has a good record because changing economic circumstances may easily produce strong temptations to cut costs.

Royce himself believed that most of the criticism of his plan would come from those who wondered whether the decisions required could be made convincingly. One can readily imagine the kinds of disputes which might arise over wars. Royce proposed a very simple rule: Whoever starts a war may not receive payments from the fund<sup>7</sup>. But is the responsible country the country whose forces fire the first shot, or the country which provokes the firing of the first shot?

Royce's notion was that the first *aggressive* act was what counted. It might be crossing another's border, or firing the first shot. Perhaps it could, of course, be illegally cutting off vital food supplies to another country. The existing body of international law would have to be taken into account, and this body of law would quickly become more complex if such a scheme came into being. Despite Royce, it is not clear that, if one country shoots another's border guard and the second retaliates with an atomic bomb, the second is really absolvable from all blame. Nor is it clear that the first should be denied all compensation.

Countries entering the new scheme would have to agree in advance to accept jurisdiction of the World Court or set up a new tribunal. Appointments to the World Court are not a major subject of world politics largely because the Court is not taken to be a major element in the world's political arrangements and its judgments are not enforceable. It could quickly become politicised, and protecting its independence would be a major concern.

Similarly, deciding who is responsible for pollution or atmospheric damage is a complex matter. The insurance agency would have to employ a small army of scientists to make the necessary determinations, and political problems would quickly arise. Much existing pollution is caused by countries which are highly industrialized. The rest of the world would think it unfair that further development should be instantly outlawed. The rules would have to allow necessary development in the underdeveloped world and demand sacrifices from the developed world. Only actions in violation of whatever agreement resulted could be the subject of insurance claims.

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7. Royce's own rules are in *War and Insurance*, Chapter VI.

Assuming such intelligible — and hopefully stable — arrangements, the agency would then need to amass the kind of wealth necessary to compensate for disasters of the magnitude expected. If the system worked, the risk would diminish. Premium income would diminish accordingly. In order to reduce its premiums a country could reduce its war machine and control its pollution. But the early risks would be very great. The agency would have to amass large sums fairly quickly, invest them wisely, and prepare for its long-term future out of the income from the capital it collected.

Royce did not enquire into the effect of introducing such a massive banking operation to the world economy, but his intuition seems to have been sound. The agency would ideally invest its money so as to reduce its own risks. Underdeveloped economies are a major cause of wars. Undercapitalized industries are a major cause of pollution because they cannot afford the burdens of efficient equipment and pollution control. Presumably, the agency would invest rather heavily in the less developed world and in industries where investment would help to reduce pollution. No doubt it would have to balance risks against results and some of its funds would have to be invested in very safe projects, projects more likely to be located in the industrialized world.

Moreover, it would face the problems which Adam Smith noticed about trying to get interest rates right. If it must work in a world where rates are too low, it will be compelled to charge premiums which are burdensome, or be prevented from responding to safer conditions with lowered rates — thus losing one of its ways of attaining its aims. If interest rates are very high, it will become difficult for borrowers to use the money for the kinds of useful projects which will lower risks in the way that the agency hopes. If interest rates are high, it is usually difficult to borrow money to grow potatoes, because one cannot influence the world price of potatoes in a way which allows one to adjust to suddenly increased costs. It may still be possible to borrow money to open a casino, because it is relatively easy to adjust the margin which the house takes on gambling games. In such times, as Smith suggested, “prodigals and projectors” get the money<sup>8</sup>. It may be that the proposed agency will become so wealthy that it can have some effect itself on world interest rates, but its aims may be frustrated quite often by economic conditions beyond its control. Eventually, no doubt, a global economic regulatory agency with power to set or at least influence interest rates will, in any case, have to be part of any plan for peace.

This leaves us with the problems of insurance activities *per se*. War and pollution do not seem to be cases in which insurance would make it more likely that participants would take increased risks, chiefly because the economic advantages of not building a war machine and the general advantages of reduced pollution are so great. If this is so, neither of the two major difficulties facing any insurance scheme, universality and unknown risks, seems a major threat.

Yet one problem which did not exist for Royce in 1914 has become very serious now: We probably have the means at our disposal to destroy more than any fund could replace. The conventional weapons of 1914 were likely to lead to wars which, however

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8. SMITH, *Wealth of Nations*, Cannan edition, p. 339.

destructive, would end before more than a fraction of the available wealth was actually destroyed. Indeed, the Second World War, for instance, mainly had the effect of destroying a good deal of obsolescent equipment whose replacement (to some extent at the expense of countries like the United States and Canada) put Germany and Japan at the forefront of the industrialized world. A major atomic war could create a quite different situation. The insurance scheme therefore requires a major effort to reduce these risks. It should be a condition of membership in the scheme that the country wanting to join destroyed any atomic weapons it had and remained open for constant inspection to make sure that it did not acquire them.

It is also true that some things we can do to the earth's surface would render it beyond repair. But premiums would be set in such a way as to discourage such activities. It may or may not be true that human population growth alone will render the earth uninhabitable. Fortunately, prosperity and education seem to have the normal effect of reducing population growth, and the schemes fostered by insurance programmes would tend to increase prosperity while demanding the kinds of social orders which encourage education.

If one extends Royce's idea to meet contemporary needs and faces squarely the problems latent in it, it becomes clear that it provides no absolute certainty of success. But it offers great potential rewards. It could fail but it seems very unlikely to add new disasters to the human burden.

Those seem plausible conditions for a step forward.

#### VI. THE PHILOSOPHICAL DEMANDS OF ROYCE'S PLAN

Finally, one very interesting feature of *Royce's War and Insurance* is that its philosophical underpinnings are quite simple. Royce was a post-Hegelian idealist philosopher with very strong rationalist convictions. But little of his complex system is actually needed for his peace plan. He does draw on the idea of a kind of universal underlying rationality whereby the pursuit of rational self-interest turns out to have generally beneficial results. But his "invisible hand" has very little that is mystical about it. It is, in fact, a contrivance. It is largely self-regulating because that is the way it is built.

Certainly, Royce's plan, like earlier schemes suggested by Kant and Herder, has as one of its underpinnings the belief that it is better to let individual human beings and individual nation states work out their own salvation than to impose solutions on them by force. The insurance plan requires relatively little interference with notions of national sovereignty. Royce's belief was that this, in itself, is a precaution against violence. Pragmatically, the claim is that avoiding undue interference is simply something which makes it more likely that it will be adopted.

The scheme does require *some* interference with national sovereignty. It will require a better system of international law and a better system of international banking than any we have now. But it will tend to inspire the creation of such devices in a way which is widely acceptable rather than to impose any pre-arranged plan.