Insurance and Equality Revisited

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Introduction

The chief aim of this paper is to assess the prospects of an egalitarian justification for social insurance programs. By social insurance programs I mean universal, mandatory insurance programs that protect citizens from broadly shared human risks like ill health, disability, unemployment, and poverty in old age. Providing an egalitarian justification for these programs would mean giving some recognizably egalitarian reason why these programs should exist—why they should be preserved or expanded in places where they are already found, and why they should be established in places where they do not yet exist.

It has been known for some time that social insurance programs are not well justified on grounds of distributive egalitarianism, distributive egalitarianism meaning concern for equality considered as a pattern in the distribution of some good.[1] But recent work by theorists like Debra Satz, Elizabeth Anderson, Xavier Landes and Pierre-Yves Néron,

[1] See Goodin, *Reasons for Welfare*, 157-160; Heath, "Three Normative Models of the Welfare State," 33-37; Landes and Néron, "Public Insurance and Equality," 142-147; Moss, *When All Else Fails,* 22-52.

and Deborah Stone suggests that these programs may be justified on relational egalitarian grounds.[2] Relational egalitarianism is the view that the proper object of egalitarian concern is the way that citizens relate to one another.[3] Relational egalitarians aim to eliminate hierarchies based on race, sex, class, and the like, so that citizens may relate to one another as equals. If relational egalitarians concern themselves with the pattern of distribution of certain goods, it is because they see a more equal distribution of those goods as instrumental to bringing about relations of equality among fellow-citizens; relational egalitarians do not regard an equal distribution of any good as something valuable for its own sake.

In the first section of this paper, I review the problems facing a distributive egalitarian justification of social insurance programs by way of an account of how insurance works and why it is beneficial. This account provides important context for the second section, where I consider and reject three possible relational egalitarian justifications for social insurance programs. I close in the third section by arguing that social insurance programs are best justified by appeal to efficiency, not equality.

I. Distributive Egalitarianism

Social insurance programs are not well justified in the name of distributive egalitarianism.[4] The reason is simple: insurance is, at bottom, expectation-preserving.[5] In other words, insurance *qua* insurance does not raise or lower people's expectations; it merely secures those expectations in the face of risk. Someone who is already very badly off

[2] Satz, *Why Some Things Should Not Be for Sale*; Anderson, "How Should Egalitarians Cope with Market Risks?;" Landes and Néron, "Public Insurance and Equality;" Stone, "Beyond Moral Hazard."
[3] Anderson, "What Is the Point of Equality?," 313-314; Schemmel, "Distributive and Relational Equality," 124.
[4] See n.1 above.
[5] Goodin, *Reasons for Welfare*, 159; Heath, "Benefits of Cooperation," 317; Heath, "Three Normative Models of the Welfare State," 33-37.

cannot raise her expectations through the purchase of insurance; she can only make her probable disadvantage more certain.[6]

To see this, it is helpful to consider how insurance schemes work and why they are beneficial. Insurance schemes are able to reduce individuals' exposure to uncertainty through the pooling of risk. Risk pooling works by way of the law of large numbers, which states that as you increase the number of trials of a gamble, the average result tends to converge on the expected value.[7] The law of large numbers implies that when a group of people facing the same risk decide to pool their gains and losses, each person exchanges the unpredictable returns from their individual risks for the relatively more stable average returns of the group. In this way, pooling risks with a sufficiently large number of people enables individuals to swap a gamble with an expected value of *x* for the certainty or near-certainty of *x*.[8]

We can see how this works with the help of a simplified example.[9] Imagine a farmer whose fields yield 10 tons of grain in normal times, more than enough to feed her family. But her fields are prone to severe but highly localized flooding, which can destroy her entire crop. If the chance of a flood in any given year is 20%, then her expected yield is eight tons per year. But this is merely a statistical expectation; she will not actually receive eight tons of grain, at least not on her own. Instead, she will receive either ten tons or nothing—feast or famine.

But suppose our farmer meets 99 other farmers, all facing similar but independent risks. Suppose they should all agree to pool their risks, holding any gains or losses in

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[6] Goodin, *Reasons for Welfare*, 160.
[7] Hacking, *Introduction to Probability and Inductive Logic,* 190-192; Heath, "Benefits of Cooperation," 322.
[8] Goodin, *Reasons for Welfare*, 159; Heath, "Benefits of Cooperation," 323.
[9] I adopt this example from Heath, "Benefits of Cooperation," 322-323; cf. Moss, *When All Else Fails,* 28-31.

common. In that case, each farmer can expect, with over 95% confidence, an annual yield between 7.2 and 8.8 tons, and each can be effectively certain ($p>.997$) of receiving at least 6.8 tons of grain per year.[10,11] Adding more farmers to the pool would narrow the range of outcomes even further.

This kind of arrangement is likely to be beneficial because our farmer is likely to be extremely risk averse. We can suppose that a guaranteed return of at least 6.8 tons of grain is sufficient to keep her family fed through the year. Probably she cares much less about gains above that subsistence threshold. The chance for a few extra tons of grain might be nice, but it is nothing compared to the security against starvation that the risk pooling arrangement brings.

This is how risk pooling generates welfare gains. It does not alter people's expectations; the risk pooling arrangement just described carries an expected return of 8 tons of grains, just like the expected returns of going it alone. The difference is only that, thanks to the "large numbers" effect, the returns from the risk pooling arrangement are much less uncertain. Because of risk aversion, most people prefer the more stable returns that risk pooling makes possible.

This risk pooling arrangement is really just a rudimentary insurance program. To see this, instead of imagining the farmers pooling all their gains and losses at harvest time, we might think of each of the non-flooded farmers simply keeping her own crop but paying a premium of two tons of grain into the insurance pool. These two tons can then be used to compensate the farmers who lose their crop. If eighty of the hundred farmers each pay two

[10] I assume here that the flooding fits a normal or Gaussian distribution.
[11] Heath, "Benefits of Cooperation," 323.

tons of grain in premium, then they will have the 160 tons needed to give eight tons of grain to each of the 20 farmers whose crops were predictably destroyed.[12]

From this simple model of an insurance scheme, it is easy to see how someone might get the impression that insurance is an egalitarian arrangement. The insurance pool redistributes resources from farmers who do well to those who do badly, eliminating inequality in the *ex post* distribution of grain. But it is important to see that this redistribution is not necessarily connected to *overall* equality in any meaningful way. Insurance equalizes people's outcomes with respect to a particular gamble, but only with respect to that particular gamble. It leaves any background inequalities untouched.[13] Thus there is no reason in principle why the effects of insurance cannot be quite regressive overall. For example, a farmer who was otherwise quite wealthy but who happened to see his grain crop wiped out one year could receive compensation from a group of farmers who are all much worse off than he is on the whole, just because their crop came in unharmed. On the other hand, a farmer who was actually very needy but did not suffer a flood in a given year would receive no help from the insurance plan.

Social insurance programs exhibit much the same logic as the risk-pooling arrangement just described. To the extent that things like health needs, unemployment, and longevity are uncertain, citizens can realize welfare gains by pooling their risks in these areas. Most people prefer the stability that social insurance provides to the uncertain returns that come from going it alone.

[12] Heath, "Reasonable Restrictions on Underwriting," 131-132.
[13] Heath, "Three Normative Models of the Welfare State,"33-34.

But social insurance programs also exhibit the same egalitarian shortcomings as other insurance programs. For one thing, these programs tend to ignore background inequalities, meaning that people who are disadvantaged in ways that fall outside of the protected classes of risks are not helped. Moreover, these programs are not typically means-tested; they pay out whenever anyone suffers a protected loss, even if the victim is already relatively well-off and would continue to be relatively well-off even in the absence of the insurance payments. In short, the main impact of social insurance programs is to make people's expectations more secure, not to make them more equal.

Having said that, I must concede that even though providing security is the *main* effect of these programs, there are other things at work, too. In the real world, social insurance schemes are not pure risk pooling devices. They often come with a significant subsidy for high-risk and low-income individuals, a subsidy that is apparent even ex ante.

With private insurance schemes, there is a pressure toward pricing plans at 'actuarially fair' rates, where what a person pays into the scheme is equal to what she expects to take out (plus administrative costs, of course). The main reason for this is that private schemes are *voluntary*. A private insurance plan that charged individuals significantly more than their expected costs would expect to see those individuals drop out and seek a better deal elsewhere, while a plan that charged people significantly less than their expected costs would not be able to meet its obligations over the long run.[14]

Social insurance programs are not voluntary, however, and so they are not subject to the same constraints. Thus these schemes can (and usually do) involve a significant amount of cross-subsidization, where wealthy and low-risk individuals pay significantly more than

[14] Heath, "Reasonable Restrictions on Underwriting," 152.

their expected costs in order to provide a subsidy to poor and high-risk persons. So, for example, one recent study of Canada's public health insurance systems estimated that these programs spend about 15% more on members of the bottom income quintile over their whole lives than they spend on those in the top quintile, even after adjusting for the fact that the rich tend to live longer than the poor; this largely reflects the fact that poor people tend to suffer worse health outcomes than rich people. Even more significantly, though, the same study found that members of the top income quintile pay into the system about 8.5 times what members of the bottom income quintile pay, because these insurance programs are mostly funded through Canada's progressive income tax system.[15]

This shows that social insurance programs like Canada's make significant contributions to distributive equality. Yet this does not necessarily provide a distributive egalitarian justification for these programs. This is because distributive egalitarianism does not offer any particular egalitarian reason to think that all of this redistribution must take place by way of insurance programs rather than in some other way. After all, we could just as easily achieve the same redistributive effect without the insurance scheme, by redistributing income directly or by setting up some other progressively-funded (and perhaps means-tested) benefit. Distributive egalitarianism provides no distinct rationale for insurance programs, as opposed to any other progressively-funded government program, to exist.

Another way of putting the point is that the redistributive component of social insurance programs is analytically separable from their expectation-stabilizing component. Their redistributive component is attributable to their progressive price structure, while

[15] Canadian Institute for Health Information, *Lifetime Distributional Effects of Publicly Financed Health Care in Canada*, 11.

their expectation-stabilizing component is attributable to risk pooling and the operation of the 'large numbers' effect. To the extent that people's expectations are not just made more *certain* but actually *improved*, that is not attributable to the operation of insurance per se; rather, it is an artifact of how we happen to *price* social insurance. In other words, it is really a feature of the tax system, not the insurance system.[16] Thus these social insurance programs are not readily justified on distributive egalitarian grounds.

Someone might object here that even though the redistribution of wealth that social insurance brings about could in theory be achieved in other ways, not everything that is theoretically possible is politically viable. The straightforward redistribution of wealth is just not that popular, politically speaking, and setting up new progressive social programs is more difficult and uncertain than defending existing ones. In the real world, social insurance programs effect a lot of redistribution of wealth that otherwise simply would not occur, so distributive egalitarians should cheer it.

This argument may be right, as far as it goes. Two points are worth making, however. First, at the level of the first-best, there are strong distributive egalitarian reasons to favor cash transfers over in-kind benefits like insurance packages; this is because in-kind transfers will arbitrarily privilege certain conceptions of the good over others.[17] Thus the direct government provision of goods and services, even when progressively funded, should not be seen as an unmitigated win from a distributive egalitarian point of view; it has egalitarian costs of its own.

[16] Heath, "Three Normative Models of the Welfare State," 35.
[17] Dworkin, *Sovereign Virtue*, 147f; Heath, "Political Egalitarianism," 500.

Moreover, even at the level of second best, it is notable that what this pragmatic argument could be used to justify literally any government program with some egalitarian distributive consequences. This seems to go too far. It hardly seems reasonable to say that public funding for the arts, for example, is really a distributive egalitarian initiative just because such funding makes theater tickets slightly more affordable for the poor than they would otherwise be. To the extent that any social program produces some beneficial egalitarian side-effects, distributive egalitarians may cheer it, but that alone does not give them license to claim that program as their own, as *justified by* distributive egalitarianism. For that we would need some distinctly egalitarian reason why these programs should exist in the first place.

Responsibility-Sensitive Distributive Egalitarianism

In the discussion so far, I have taken for granted a rather crude conception of distributive equality. But before closing this section, it is worth considering whether a more nuanced conception of distributive equality, such as the one defended by responsibility-sensitive egalitarians, or "luck" egalitarians, might fare better in justifying social insurance programs.

Luck egalitarians believe that fairness requires that our concern for distributive equality must be modulated by a principle of responsibility. Thus, according to luck egalitarianism, while it is unfair for one person to be worse off than another through no fault of her own, it is not necessarily unfair if one person is worse off than another due to factors for which that person is appropriately held responsible. Because social insurance programs appear to redistribute social resources to those who suffer *undeserved* misfortune from those who do not, superficially they might appear to fit more naturally with a theory of equality that is sensitive to responsibility in this way.[18]

The problem with this line of thinking is that, from the point of view of individual responsibility, what matters most is the decision whether or not to purchase insurance in the first place. As Ronald Dworkin points out, the option to purchase insurance against future bad luck immediately converts such bad luck from 'brute luck' into 'option luck,' or in other words from a circumstance beyond a person's control to a risk voluntarily undertaken (or, if you prefer, voluntarily retained).[19] For example, prior to the institution of a risk pooling scheme, if one of the farmers in the example above lost his entire crop to a hail storm, he could claim that he is owed redress on luck egalitarian grounds, that is, on the grounds that this misfortune was due to no fault of his own. But once the risk pooling scheme is in place, for him to decline to participate is for him to assume (or retain) the risk voluntarily; if he then loses his crop, he would appear to have no claim grounded in fairness against the lucky farmers.

From this point of view, the most significant obstacle to a luck egalitarian justification for social insurance schemes is that such schemes are mandatory. Some people might prefer not to purchase the kinds of insurance products that social insurance programs provide to all citizens; they might prefer to spend their premium on something else, and bear these risks alone instead. There may be good reasons to force those people to carry insurance anyway—indeed, I believe that there are—but those reasons are not readily derived from the luck egalitarian commitment to redressing undeserved misfortune. Again,

[18] This appearance is somewhat misleading. See Landes and Néron, "Public Insurance and Equality," 143-147. I pursue a different line of objection here.
[19] Dworkin, *Sovereign Virtue,* 73-74.

this is simply because declining insurance is itself a choice for which a person may be held responsible.[20]

This is not to say that social insurance schemes cannot be justified, all things considered, for those who endorse some version of luck egalitarianism. There is more to justice than equality, as luck egalitarians often remind us. Dworkin himself, for example, ultimately appeals to paternalism to justify making a certain basic insurance package mandatory.[21] Be that as it may, the important point is that the justification for social insurance programs does not easily follow *from* a commitment to luck-egalitarianism.[22]

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[20] Here it is worth pausing to consider an objection to my argument against luck egalitarianism that might arise upon reading the conclusion of my paper. Ultimately, I will argue that efficiency, not equality, is what justifies social insurance programs. Because of widespread failure in certain kinds of private insurance markets, many forms of insurance will not be available at all, or will not be available on reasonable terms, unless the state intervenes to make such insurance mandatory. But my argument against luck egalitarianism as a justification for social insurance appears to turn on the idea that private insurance would be available, such that individuals could purchase or decline it. Could not the luck egalitarian argue that market failure in the insurance sector combined with the imperative to redress unchosen misfortune yields an argument for social insurance?
I believe the important point here is that luck egalitarianism *alone* does not provide a justification for social insurance; it does so only when conjoined with the market failure argument. But in fact the market failure argument is sufficient on its own; once we make the appeal to market failure, the luck egalitarian argument adds nothing of any importance. If private insurance markets worked just fine, there would be no luck egalitarian rationale for mandatory insurance. The fact that private markets do not work 'just fine' provides sufficient reason to intervene on its own; the appeal to luck egalitarianism is superfluous.

[21] Dworkin, "*Sovereign Virtue* Revisited," 114-115.

[22] There remains to be considered the form of luck-egalitarianism known as 'all-luck egalitarianism,' according to which differential option luck is just as unjust as differential brute luck. So, for example, imagine two farmers, both of whom decline to participate in the insurance scheme described earlier. Suppose that one of the farmers loses his crop to flooding and the other does not. If we are moved by the idea that one person should not be worse off than another through no fault of her own, then we should condemn the inequality that obtains between these two uninsured farmers. Both behaved equally (im)prudently, so both should enjoy the same outcomes. This is the impetus behind all-luck egalitarianism, according to which all inequalities due to luck should be redressed.
The implications of all-luck egalitarianism for social insurance are a bit hard to pin down. To a first approximation, it would seem to imply that we ought to maintain two distinct risk pools: one for those who choose to have insurance, and one for those who decline it. The only real difference between choosing to pool risks and refusing to do so, in an all-luck egalitarian world, would be that by refusing to pool risks you would be forced to pool risks with other refusers rather than with other willing poolers. Moreover, all-luck egalitarianism would seem to imply that we ought to have mandatory risk pooling, not just for big and broadly shared risks like unemployment and ill health, but for all risks big and small. This seems quite different from social insurance as we know it.
The all-luck egalitarian could of course appeal to further values like efficiency or liberty to moderate the requirements of her view and bring it more in line with the operation of real-world social insurance programs. Such a story would have to be quite complicated, I should think, but I do not doubt that it could be told. For my purposes, I think it suffices to say that the implications of all-luck egalitarianism *considered by itself* do not

II. Relational Egalitarianism

Many theorists have suggested that equality does provide a justification for public insurance schemes, if equality is understood relationally rather than distributively.[23] As I have said, according to relational egalitarians, the point of equality is not in the first instance to bring about a certain pattern in the distribution of goods, but rather to bring about relations of equality among citizens based on reciprocity and mutual respect.[24] If relational egalitarians concern themselves with the distribution of goods at all, it is only as a means to more equal relations among citizens.

I will consider (and reject) three ways in which relational egalitarianism might be claimed to justify social insurance programs. First, it might be that co-membership in an insurance pool is an intrinsically egalitarian relationship. Failing that, there are at least a couple of ways that social insurance might promote or contribute to relational equality. It may be that social insurance programs *express* relations of equality more effectively than the relevant alternatives. Or it might be that social insurance programs *protect* relations of equality, by protecting people from the kinds of disastrous outcomes that can undermine equal standing. I take up each of these possibilities in turn.

Social Insurance as an Intrinsically Egalitarian Relationship

First, it could be argued that co-membership in an insurance pool is itself a kind of egalitarian relationship. Xavier Landes and Pierre-Yves Néron suggest something like this view when they claim that public insurance schemes 'create specific moral relations among

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bring us very close to anything like real-world social insurance programs; all-luck egalitarianism does not offer an *egalitarian* justification for these programs.

[23] See n.2 above.

[24] Anderson, "What Is the Point of Equality?," 313-314.

individuals,' where policyholders 'stand together as equals' in the face of uncertainty.[25] Deborah Stone suggests something similar when she talks about insurance as a 'moral opportunity,' an opportunity to cooperate with and help others in need.[26]

Even if it is true that the relationship between members of an insurance pool is an intrinsically egalitarian relationship, this does not yet provide a justification for *social* insurance. The reason is that this does not explain why participation in such a relationship ought to be universal and mandatory. There is such a thing as private insurance, after all. If people want to participate in the intrinsically egalitarian relationship of pooling risks, why should not their participation be voluntary?[27]

It would be difficult to deny that the relationships between members of a commune or a kibbutz is an intrinsically egalitarian one, but it hardly follows that such relations ought to be universal and mandatory. Even in an egalitarian society—perhaps *especially* in an egalitarian society—participation in this sort of relationship should be voluntary. It is hard to see why the same point shouldn't apply to social insurance programs. At the very least, we are owed an account of which kinds of egalitarian relations ought to be mandatory and which kinds ought not, and why.

Having said all of that, though, I think it is nonetheless a mistake to characterize the relationship among co-members of an insurance pool as an egalitarian one. As we saw in the previous section, insurance is not in the first instance a matter of setting aside resources to help the unfortunate. Rather, it is a matter of pooling risks so that everyone can cope with uncertainty more effectively. The reduction in uncertainty that insurance provides is *achieved* by setting aside resources to redress certain losses, but this should not be

[25] Landes and Néron, "Public Insurance and Equality," 149.
[26] Stone, "Beyond Moral Hazard," 53.
[27] Joseph Heath makes this point in his reply to Landes and Néron. Heath, 'On Equality and Social Insurance."

mistaken for the purpose of the scheme. The purpose of the scheme is to help individuals manage risk. After all, insurance does not redress all forms of disadvantage, but only those that are conducive to managing risk.[28]

Thus while we might say that insurance involves a group of people agreeing to "share one another's fate," it is important to see that this sharing is not an open-ended commitment to helping those who fall on hard times. It is rather a form of mutually beneficial collective action to deal with risk, a form of collective action that is made stronger by each person's participation. In this respect, it is not unlike the way that members of a labor union agree to "share one another's fate" through collective bargaining. This is above all a *strategy*, a way of securing a better contract for every member than each could achieve on her own. In other words, it is a form of solidarity, not equality.[29]

The Expressive Function of Insurance

While social insurance may not be an intrinsically egalitarian arrangement, it is worth considering whether it may promote or contribute to relational equality in some way. One way that social insurance may contribute to relational equality is by way of the expressive or symbolic aspect of these programs. In this vein, relational egalitarians are particularly concerned with the attitudes that social institutions express toward citizens, and have been

[28] Heath, "Reasonable Restrictions on Underwriting," 143.
[29] As I understand these terms, the key difference between solidarity and equality is that solidarity is organized around the pursuit of mutual advantage, while equality involves some degree of impartial concern for others. I am aware that there are conceptions of solidarity that understand it as a form of impartiality (see for example Ruud ter Meulen's recent "Solidarity and Justice in Health Care"). But clearly there are paradigm cases of solidarity that are organized around the idea of mutual advantage, the labor movement being but the most obvious, and this is the sense in which I use the term here.

critical of the kinds of humiliating and demeaning messages that luck egalitarian institutions would allegedly send to citizens.[30]

Luck egalitarianism holds that citizens' entitlement to social assistance is grounded in their undeserved misfortune, including among other things the undeserved misfortune of being born insufficiently talented, intelligent, good-looking, or socially adept. Elizabeth Anderson argues that compensating citizens because they are disadvantaged in these ways sends to those citizens the message that society views them as innately inadequate and deserving of pity.[31] It also encourages citizens to view themselves in this light, or at least to present themselves in this light as a condition of receiving assistance. This is sometimes called the 'humiliation objection' to luck egalitarianism.

On this score, Landes and Néron specifically contrast the messages sent by social insurance programs with the messages sent by programs implemented along luck egalitarian lines. With social insurance, citizens' entitlement to compensation is grounded in equal membership in an insurance pool. Citizens are compensated, not because of their innate inadequacy, but because they have contributed to the program and have now suffered an insured loss. Landes and Néron argue that this circumvents the humiliation objection and sends a powerful message of equal standing.[32]

The problem with this argument is that the humiliation problem arises only with respect to the luck egalitarian rationale for compensating very specific forms of disadvantage—disadvantage due to things like lack of talent, intelligence, or social grace. When we consider traditional social insurance programs—health, disability, and unemployment insurance, together with old age pensions—it is simply not true that these

[30] Anderson, "What Is the Point of Equality?," 305-307; Schemmel, "Distributive and Relational Equality," 133f.
[31] Anderson, "What Is the Point of Equality?," 305-307.
[32] Landes and Néron, "Public Insurance and Equality," 149.

programs offer a less demeaning path to compensation for citizens who are disadvantaged in those particular ways. In fact, traditional social insurance programs do not offer *anything* to the stupid, untalented, or awkward as such, except perhaps in the extreme case where these disadvantages rise to the level of a disability. To the extent to which the welfare state as we know it offers any assistance at all to those who are disadvantaged in these ways, it is through ordinary means-tested assistance programs, not through social insurance.

When we think about the kinds of claims that social insurance programs actually do compensate, it is not clear that the contrast with luck egalitarian messaging is so favorable. In fact, it is not clear that they are different at all. In both cases, citizens are forced to claim something like 'Through no fault of my own, I am sick…' or 'Through no fault of my own, I lost my job, and I am owed compensation.' When we compare like with like, luck egalitarian claims do not appear to be any more demeaning than social insurance claims.

Thus it is not clear that social insurance programs express relations of equality any more effectively than luck egalitarian institutions aimed at meeting the same needs. This is not a conclusive argument, of course. Whether social insurance programs are more expressive of relations of equality will depend on the relevant contrast, and I have only considered one such contrast here. Still, we have not yet found any reason to think that relational egalitarianism favors social insurance programs over alternative ways of seeing to the same needs.

A moment ago, I suggested that, to the extent to which the traditional welfare state offers anything to the 'innately inadequate' in terms of talent and skill, it is through ordinary means-tested assistance rather than social insurance. It is open to the egalitarian to argue that the distinction I am relying on here between social insurance and means-tested assistance is not sustainable, conceptually speaking. Ronald Dworkin has shown that means tested assistance can be modeled as a kind of insurance if we are prepared to 'go hypothetical' and ask what kinds of insurance products a prudent person might want to buy from a position of equality, where resources were equally distributed and a person did not know her particular risk of suffering various forms of disadvantage.[33] From that point of view, the possibility of being unable to command a decent wage or enjoy a rewarding social life appears as a risk like any other—and, indeed, as precisely the sort of risk that a prudent person might wish to insure against. Can we think of means-tested assistance programs as a form of hypothetical social insurance?

It may be true that the distinction between risk management and inequality management breaks down from a hypothetical standpoint of perfect equality. This should not be too surprising, since from that standpoint all inequality in the present has already been assumed away; thus inequality can *only* appear as something that might happen in the future, i.e. as a risk. But what exactly does this show? We would need some reason to think that this is the right vantage point for thinking about these matters in the first place.

On that score, relational egalitarians like Anderson specifically reject the idea that people's hypothetical insurance choices provide good guidance regarding what citizens owe to one another, on the grounds that such choices necessarily reflect people's preferences as consumers rather than their needs as citizens.[34] For relational egalitarians, the reason for providing assistance to people in poverty is not that under some idealized set of circumstances a rational person would have purchased poverty insurance; the reason is that

[33] Dworkin, *Sovereign Virtue*, 73f.
[34] Anderson, "What Is the Point of Equality?," 309

poverty compromises a person's ability to participate as an equal in social life. Thus relational egalitarians should reject an approach that would assimilate means-tested assistance programs to hypothetical forms of insurance.

To return to the issue of the expressive case for social insurance programs, Anderson suggests obliquely that one reason in favor of universal social insurance programs is that there are 'symbolic advantages to a system that prevents poverty as a side-effect of programs that deliver benefits to everyone, rather than targeting a class of people designated as least advantaged.'[35] Specifically, Anderson suggests that a key benefit of social insurance programs is that they avoid stigmatizing those at the bottom end of the income distribution.

Anderson's argument brings us back to something very much like the distributive egalitarian justification for social insurance programs discussed in Section I, and many of the same objections apply. To the extent that social insurance programs deliver a subsidy to poor and high-risk individuals, this is not a feature of insurance but of how we happen to *pay for* insurance; in other words, it is a feature of the tax system, not the insurance system.[36] Anderson seems to recognize this when she refers to poverty-prevention as a mere "side effect" of these programs. It is odd to think that a program is justified by virtue of its side-effects, since its side-effects are by definition incidental to the main purpose of the program. We could imagine all sorts of progressively-funded social programs that would

[35] Anderson, "How Should Egalitarians Cope with Market Risks?," 267. I should say that it is not clear that Anderson herself intends this account as a justification for social insurance programs in the sense of "justification" that I am using in this essay.
[36] Heath, "Three Normative Models of the Welfare State," 35.

have the side effect of preventing poverty; why out of all of these should we focus on setting up insurance programs? In particular, if the aim is to construct a universal program that prevents poverty without stigmatizing the poor, a universal basic income sees like a far more obvious candidate than a patchwork of social insurance programs that prevent some forms of poverty but not others.

As I have said, egalitarians can of course *cheer* a program for its egalitarian side-effects, such as the ones Anderson points to here. But this alone does not amount to an egalitarian *justification* for that program. This is because a program's egalitarian side-effects do not provide any particular egalitarian reason for setting up these programs (rather than some other programs) in the first place.

Insurance and Disastrous Outcomes

A final possible relational egalitarian justification for social insurance focuses on the fact that social insurance protects people from certain disastrous outcomes, outcomes that can compromise relationships of equality. By providing for people's health needs and supporting them through unemployment, disability, and old age, social insurance prevents people from falling into situations of extreme need, situations where they might become dependent on others and thus subject to their will. In other words, social insurance prevents people from falling into relationships of dependence or domination, which are paradigmatically inegalitarian relationships. This kind of view is suggested by some of Deborah Satz's remarks on so-called *Titanic* cases in *Why Some Things Should Not Be for Sale*.[37]

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[37] See Satz, *Why Some Things Should Not Be For Sale*¸105-110. I would note that while the view I describe is in some ways inspired by Satz's remarks, I do not think it represents Satz's own view.

To illustrate how insurance protects relations of equality in this way, imagine that I suffer a serious accident and require expensive surgery. If I have health insurance, then I will receive the surgery, and with no serious blow to my finances. Without health insurance, I may not receive treatment at all, except perhaps by the mercy or charity of the doctor or hospital. Satz's argument suggests that for another person to have this kind of power over me is not consistent with relations of equality.[38] But even if things are not so dire as all that—even if I am able to pay for the treatment out of my own savings—doing so might leave me financially destitute, and I might become dependent on others in that way. In two significant ways, then, universal health insurance prevents people from falling under the power of others or becoming dependent on then, and thus protects relations of equal citizenship.

I think this view gets closest to the truth about the relational egalitarian case for social insurance. That said, it is worth pointing out some significant differences between the implications of this argument and real-world social insurance programs.

The argument under consideration speaks in favor of protecting citizens' independence by setting a floor below which no one should be allowed to fall; everyone should be guaranteed the resources they need to live free from dependence and domination. Social insurance programs do more than this in some ways, even as they do less than this in others.

Social insurance programs do more than this in the sense that they benefit even well-off persons who are in no realistic danger of falling into relationships of dependence and domination. Health insurance provides for someone's health needs even if that person

[38] Satz, *Why Some Things Should Not Be For Sale*, 105.

could easily pay for them out of pocket; old-age pensions provide a guaranteed income in old age even for those with considerable private savings; and so on.

And in fact, the situation is even stranger than that. It is not just that social insurance programs benefit the well-off as well as the poor; in many cases, they actually pay somewhat *more* to the well-off than to the poor. A person who retires from a high-paying job typically receives a larger public pension than a person who retires from a low-paying job; a person who suddenly loses a high-paying job receives more in unemployment benefits than someone who is fired from a low-paying job. These differences are usually not as great as what strict proportionality would require—social insurance programs are usually somewhat more progressive than a system where contributions were exactly equal to expected benefits—but they still diverge significantly from what relational egalitarianism would appear to predict.

If the purpose of these programs was merely to prevent people from falling into relationships of dependence and domination, we should not expect to see benefits vary with contributions at all (unless perhaps inversely), since presumably the cost of living free from dependence and domination does not go up just because a person has become accustomed to a certain level of material comfort.

To justify this sort of proportionality that we see in social insurance programs, I think it is necessary to appeal to the value of stabilizing people's expectations *per se* rather than simply preventing people from falling into relations of dependence on others. For this proportionality to be justified, in other words, there would have to be some value in preventing people's income from dropping too far in *relative* terms—relative to what that particular individual is accustomed to---rather than merely preventing people's income from falling below some absolute threshold.[39]

From the other side, social insurance programs also do somewhat less than keeping people out of relations of dependence and domination. This is because they do not provide any support to those with no employment income or inadequate employment income where this is due to factors other than disability, retirement, or the sudden loss of a job. These individuals may be in danger of falling into inegalitarian social relations, too. Thus, at a minimum, we can say that in a relational egalitarian world, social insurance programs would need to be supplemented by other forms of income support, like traditional means-tested transfers or perhaps a universal basic income.

This is not necessarily a problem. There is little reason to think that a single set of institutions must do all the work of implementing a theory of justice in the real world. It is a bit odd, however, to think that the same underlying justification—viz., preventing people from falling in to relations of dependence and domination—should yield two very disparate sets of institutions: means-tested assistance programs on the one hand and universal social insurance programs on the other. This is particularly true when a single set of institutions (like those that would guarantee a universal basic income) could do the same work more neatly.

It is only when we consider the various ways in which a universal basic income is an imperfect substitute for programs that act to stabilize people's expectations in the face of uncertainty that a distinct rationale for social insurance shows itself. Even in a society where everyone is guaranteed a certain minimum level of income, most people will become

[39] On this, see Goodin, "Stabilizing Expectations," 530-553.

accustomed to a level of income significantly above that minimum; there might still be value in protecting people against unexpected negative shocks to that income due to sudden unemployment or disability.

To sum up, then, does the importance of protecting people from falling in to relationships of dependence and domination provide a relational egalitarian justification for social insurance programs, in the sense of a distinctly relational egalitarian reason to create such programs? I would argue that it does not. Taken at face value, this consideration speaks in favor of setting a floor below which no one should be allowed to fall. It is a justification for unconditional assistance for those in situations of dire need, or perhaps for a universal basic income. As I have shown, social insurance programs do significantly more for some people than merely keeping them above a certain floor, and they do less than this for others by failing to keep them above the floor. At least from a first-best point of view, if this were the actual justification for social insurance programs, then such programs stand in need of significant reform to serve their purported ends more effectively.

III. Efficientarianism

It is worth noting that all of the relational egalitarian arguments canvassed in the previous section ultimately see the egalitarian justification for social insurance programs as intimately tied to those programs' redistributive character. The difference with distributive egalitarianism is just that relational egalitarians see these programs' redistributive nature as instrumental to some further egalitarian objective, such as preventing people from falling into unequal social relations (as Satz would have it), or taking care of the disadvantaged in a way that does not express demeaning or humiliating attitudes towards them (as we see in Landes and Néron and Anderson).

The appeal of redistribution as a justification for any particular social program is clear. Because redistribution is by nature win-lose, there is an easy answer to the question of why state involvement is not just *beneficial* but genuinely *necessary*—viz., because the "losers" from redistribution will not enter into such an arrangement voluntarily; they have to be coerced. For our purposes, however, the problem with this line of thinking is that a justification for *subsidizing* a particular good like insurance is not necessarily a justification for the direct state *provision* of that good. This is because of the well-established advantage of the market with respect to efficiency. The market's superior efficiency when it comes to delivering most goods and services implies that the optimal solution to inequality is typically just to redistribute *wealth*, and then allow individuals to buy the particular things they need in the marketplace. Or, if we are concerned that people might not spend their money wisely, we can constrain their choices through targeted tax rebates or vouchers. In neither case is it necessary for the state to involve itself in the actual delivery of particular goods and services, with the sacrifices in efficiency that would entail.[40]

There are, however, a number of cases where the market fails to produce the efficient outcome. These are cases where market provision unravels due to free-rider problems. The paradigm case is something like national defense, which is generally thought to be a "public good" in the strict sense of being both non-rival and non-excludable. Such a good will not be supplied at efficient levels by the free market, because individuals can count on being able to free-ride on the efforts of others. Because no particular individual's

[40] Heath, "Three Normative Models of the Welfare State," 34.

contribution will make a difference as to whether defense is provided or not, and because, once provided, everyone can enjoy the benefits of defense whether they contributed anything or not, no one actually has any incentive to contribute anything to supply the good. The coercive apparatus of the state is helpful here to force people to contribute to provide a good that everyone would like to enjoy but that no one has an adequate individual incentive to supply.

Many forms of private insurance suffer from a free-rider problem known as adverse selection.[41] The problem of adverse selection is simply that, at any given price, the people who are most likely to buy insurance are exactly the people who expect to benefit from it the most. So, for example, if health insurance is available to a certain group of people for $5,000 per year, then of that group, the people most likely to purchase insurance are going to be those who anticipate having health care costs in excess of $5,000 per year. If a preponderance of these "bad risks" are the ones purchasing insurance, then over time the average per capita liabilities of the pool will increase. Premiums will eventually have to rise in order to cover the rising average cost. Higher premiums may cause even more of those with relatively low expected health care costs to drop out of the pool, further exacerbating the dynamic of rising average costs and hence rising premiums. Left unchecked, this can cause premiums to rise to the point where the pool effectively prices itself out of existence—the 'adverse selection death spiral.'[42]

Adverse selection is a form of free-riding in that those individuals who know (or anyway expect) themselves to have relatively high health care costs are, in effect, able to

[41] Akerloff, "The Market for 'Lemons,'" 492-494.
[42] See Cutler and Zeckhauser, "Adverse Selection in Health Insurance."

shift some of the costs of their care on to others. It is natural to think that the problem of adverse selection is that high-cost individuals cannot afford the insurance they need, but in fact it is the opposite; the problem of adverse selection is that high-cost persons are able to obtain insurance too cheaply, at prices that do not accurately reflect the costs they bring to the pool. This is what sets in motion the dynamic of rising average costs and rising premiums that can undermine the insurance system for all.

The problem of adverse selection can lead to a situation where everyone is worse off than they would have been if they had been able to prevent the adverse selection dynamic from getting started in the first place, by somehow binding themselves to participating in the insurance pool. This provides a strong case in efficiency for making certain forms of insurance universal and mandatory—i.e. it provides a strong efficientarian case for *social* insurance. To the extent that everyone prefers some security against risk to none, social insurance makes everyone better off (although of course there will be disagreement about exactly *how much* insurance is appropriate for all).[43]

Efficiency is sometimes discounted as an important moral value, perhaps because of its association with a sort of crude economism, but it is in fact a robust and important moral principle. A situation is efficient in the Pareto sense when it is not possible to make at least one person better off without making at least one other person worse off.[44] Following Joseph Heath, we might say that the pursuit of Pareto-efficiency is a matter of eliminating gratuitous suffering—suffering that is not necessary to deliver some benefit to anyone

[43] Akerlof, "The Market for 'Lemons,'" 494.
[44] Rawls, *A Theory of Justice*¸ 58.

else.[45] Arguably, inefficiency in this sense is much worse than mere (distributive) inequality, since at least *someone* benefits from inequality.[46]

My claim is that there are strong efficientarian reasons to set up social insurance programs in places where they are not found, and to preserve and even expand them in places where they already exist. I claim that this is a far better justification for social insurance than the egalitarian justifications on offer, since it alone provides a distinct reason why these universal, mandatory insurance programs should exist.

Again, I do not mean to suggest that social insurance programs do not in fact serve various important egalitarian objectives. Social insurance programs are in fact progressively priced, and so to that extent they promote distributive equality. Social insurance programs do in fact keep some people out of relations of dependence and domination, and they do so without expressing demeaning or humiliating attitudes toward the disadvantaged. As an egalitarian myself I cheer these beneficial side-effects of public insurance schemes. But I tried to show in the previous sections that these are in fact *side-effects*; none of these considerations is tied closely enough to the actual operation of insurance so as to provide any distinct rationale for social insurance programs (rather than some other programs which might serve the same ends, and might do so more effectively) to exist.

The efficientarian rationale, by contrast, is far better. Everyone (or anyway very nearly everyone) wants the protection against risk that insurance provides. When it comes to certain kinds of insurance, many people will be unable to obtain that protection on the private market. This is due to the combination of massive differences in people's actual

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[45] Heath, "Three Normative Models of the Welfare State," 24.
[46] Heath, "Three Normative Models of the Welfare State," 24.

levels of risk plus acute difficulties in accurately assessing and pricing those levels of risks; these factors together generate the problem of adverse selection. By making certain forms of insurance mandatory, this problem is prevented from taking hold, and everyone's situation is thereby improved. This provides a reason why the state needs to be involved, not just in *subsidizing* people's insurance but in *forcing* people to carry insurance—and perhaps even in *delivering* the insurance itself.

Conclusion

My chief aim in this paper has been to reject purported egalitarian justifications for social insurance programs. While I have not denied that social insurance programs in fact promote various egalitarian ends, I have claimed that none of these egalitarian ends is tied closely enough to the actual operation of insurance programs as to provide a genuine egalitarian justification for those programs. What is tied closely to the actual operation of insurance programs is, of course, the provision of insurance, and that is where I have made my case. The failure of private markets to deliver various kinds of insurance products efficiently provides an efficientarian justification for social insurance.

Someone may object that I have presented the reader with a false dilemma. Why must it be that social insurance is justified either be equality or by efficiency? Why cannot social insurance programs be justified both by equality and by efficiency (and perhaps by a great many other values as well)? This may seem like an especially pressing question since I have happily conceded throughout the paper that social insurance programs do in fact promote equality, even as I have claimed that equality does not provide an adequate justification for these programs.

The claim that I wish to make is that my efficientarian argument on its own is sufficient to justify the establishment of a variety of social insurance programs. We may need to appeal to other values like equality in order to determine the precise contours of these programs, such as how they are to be priced to citizens and what precise benefits they should provide. But the argument for universal, mandatory insurance is immediate and present from the start. Protection against risk is something people want, and because of adverse selection it will not be supplied efficiently by the market. This provides the rationale for state provision.

The egalitarian arguments we have considered, by contrast, are not sufficient on their own to justify establishing social insurance programs. Even at their best, what these egalitarian arguments provide is a rationale for a set of protections that are only tangentially connected to the actual functioning of insurance; indeed, as I have said, taken at face value these look much more like arguments for a universal basic income than for social insurance. To add up to a justification for social insurance at all, these relational egalitarian arguments would need to be supplemented with other considerations—considerations like efficiency, perhaps, or paternalism, or solidarity, or political expediency, or path-dependency. The important point is that these egalitarian arguments are not sufficient on their own. Thus I conclude that social insurance programs are not justified by appeal to equality, but they may be justified by efficiency.

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