CHAPTER VII.

INSURANCE.

The term insurance has already been used in describing the fund accumulated to meet uncertain losses. It is evident that in a static state all producers who are exposed to risk must accumulate such funds. While it is uncertain whether the accumulation of any individual producer will be enough to meet the loss he suffers, that of the entire body of producers in any industry must be large enough to cover the losses of the group as a whole. Otherwise there would be in the long run a great diminution in the amount of capital in hazardous industries, and a serious disturbance of the static adjustment. Such a phenomenon is inconsistent with the notion of the static state. A fruit-dealer who at irregular intervals suffers loss through decay must add to the price of his fruit enough to cover such uncertain loss. A ship-owner has to increase his freight rates more or less, if his ships occasionally lie idle in port. In this sense, then, every producer, in the absence of all opportunity of transferring his risk, must insure himself. Such insurance would be defined as the accumulation of a fund to meet uncertain losses. From the point of view of economic theory, as has already been shown, the insurance fund includes only that part of the accumulation that is intended to cover the uncertain part of the loss; it is that part only whose amount is affected by the influence of uncertainty.

This individualistic method of providing for uncertain loss is spoken of sometimes as *latent* insurance,[1] and sometimes as

[1] "Partout où il y a un risque à courir, une assurance latente protège la valeur