

Abstract: Technological Imperatives, Productivity and Insurance Costs

The data show that insurance rates have, over the entire postwar period, risen persistently and cumulatively at rates substantially more rapid than the economy's rate of inflation. This paper offers a technological explanation of that phenomenon, taking insurance rates to be the price of a bundle of services including record keeping, information, legal services, medical services, automotive repair, etc. Each of these is shown to be an economic activity whose technology does not lend itself to rapid productivity growth. The result has been, according to data provided in the paper, that each of these has a record of productivity growth slower than that of the economy as a whole. The result, inevitably, has been rising real costs and prices, because services such as health care, legal services, auto repair and, consequently, insurance, are all subject to what has been called "the cost disease of the personal services." Failure by regulators to understand this technological basis of rising insurance costs can lead to the imposition of uncompensatory price ceilings which must reduce the supply of insurance services or cause deterioration in their quality.