

# THE ASCENT OF MONEY

## Widows, Warfare & Welfare: How Insurance Has Shaped Our World

**GRADE LEVEL:** 9-12

**TOPIC/SUBJECT MATTER:** Economics, World History, Personal Finance

**TIME ALLOTMENT:** Three to four 45 minute class periods

### OVERVIEW:

In this media-enhanced lesson utilizing clips from the PBS series *THE ASCENT OF MONEY*, students will be introduced to the concept of insurance and the role it has played in determining the world's political and economic landscape since its inception in the 18<sup>th</sup> century. An Introductory Activity will explore students' own attitudes toward insurance, asking whether they regard it as a right or a privilege.

The Learning Activities will begin by explaining the origins of the modern insurance fund, with an online activity to help students understand the law of averages upon which insurance is founded. The expansion of insurance from a privately purchased (and often unaffordable) privilege to a state-sponsored right is explored through the narrative of modern Japan, whose militaristically motivated pre-World War II policies of universal health care helped lay the foundations for the postwar "welfare state"—a socialistic model that came to be widely adopted throughout much of the industrialized world. Finally, the history of modern Chile is used to illustrate how some of the inherent shortcomings of the welfare state came to be addressed—for better or worse—by a return to a system of privatized, capitalistic insurance which has come to define much of modern economic conservatism.

A Culminating Activity asks students to compare and contrast the insurance systems of several different nations based upon what they've learned throughout the lesson about the relative pros and cons of varying approaches.

### MEDIA RESOURCES:

#### Video:

Available on *The Ascent of Money* website

Clip 1: Who Bears The Risk?

Clip 2: The Birth of Insurance

Clip 3: From the Cradle to the Grave

Clip 4: Trickle Down Economics

#### Websites:

"Ken White's Coin Flipping Page"

<http://shazam.econ.ubc.ca/flip/>

A simple site demonstrating Bernoulli's Law of Averages through a coin-toss simulator.

# THE MARKET OF MONEY

## “The Uninsured in America: The U.S. vs. Other Nations”

[www.pbs.org/newshour/indepth\\_coverage/health/uninsured/international.html](http://www.pbs.org/newshour/indepth_coverage/health/uninsured/international.html)

A PBS “Online Newshour” site featuring a comparative breakdown of health insurance systems in six different countries.

## STANDARDS:

### National Standards for Economics

(Available at <http://www.councilforeconed.org/ea/standards/>)

#### Standard 4: Role of Incentives

People respond predictably to positive and negative incentives.

#### Standard 10: Role of Economic Institutions

Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.

#### Standard 15: Growth

Investment in factories, machinery, new technology, and in the health, education, and training of people can raise future standards of living.

#### Standard 16: Role of Government

There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income.

#### Standard 17: Using Cost/Benefit Analysis to Evaluate Government Programs

Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

#### Standard 19: Unemployment and Inflation

Unemployment imposes costs on individuals and nations. Unexpected inflation imposes costs on many people and benefits some others because it arbitrarily redistributes purchasing power. Inflation can reduce the rate of growth of national living standards because individuals and organizations use resources to protect themselves against the uncertainty of future prices.

# THE POINT OF NOW

## Standard 20: Monetary and Fiscal Policy

Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices

## National Standards for History

World 5-12 Standards (available at <http://nchs.ucla.edu/standards/>)

### **Era 7 - An Age of Revolutions, 1750-1914**

#### **Standard 5D**

The student understands transformations in South, Southeast, and East Asia in the era of the "new imperialism." Therefore, the student is able to:

- Analyze Japan's rapid industrialization, technological advancement, and national integration in the late 19th and early 20th centuries.

#### **Standard 6A**

The student understands major global trends from 1750 to 1914. Therefore, the student is able to:

- Assess the importance of ideas associated with nationalism, republicanism, liberalism, and constitutionalism on 19th-century political life in such states as Great Britain, France, the United States, Germany, Russia, Mexico, Argentina, the Ottoman Empire, China, and Japan.

### **Era 8 - A Half-Century of Crisis and Achievement, 1900-1945**

#### **Standard 1A**

The student understands the world industrial economy emerging in the early 20th century. Therefore, the student is able to:

- Explain leading ideas of liberalism, social reformism, conservatism, and socialism as competing ideologies in the early 20th-century world.

#### **Standard 2B**

The student understands the global scope, outcome, and human costs of the war. Therefore, the student is able to:

- Analyze the role of nationalism and propaganda in mobilizing civilian populations in support of "total war"
- Assess the short-term demographic, social, economic, and environmental consequences of the war's unprecedented violence and destruction

### **Era 9 - The 20th Century Since 1945: Promises and Paradoxes**

#### **Standard 1A**

The student understands major political and economic changes that accompanied post-war recovery. Therefore, the student is able to:

- Explain how the Western European countries and Japan achieved rapid economic recovery after World War II.
- Analyze connections between the political stabilization of Western European societies and the Marshall Plan, the European Economic Community, government planning, and the growth of welfare states.

# THE POINT OF NOW

## Standard 2B

The student understands how increasing economic interdependence has transformed human society. Therefore, the student is able to:

- Compare systems of economic management in communist and capitalist countries and analyze the global economic impact of multinational corporations.

## Standard 3A

The student understands major global trends since World War II. Therefore, the student is able to:

- Analyze causes of economic imbalances and social inequalities among the world's peoples and assess efforts made to close these gaps.

## MATERIALS:

For the class:

- Computer with internet access and audiovisual projection system
- Blackboard or whiteboard

For each student:

- “Who Should Pay?” Student Organizer

## OBJECTIVES:

Students will be able to:

- Explain how the first modern insurance fund was created
- Define Bernoulli's Law of Averages
- Describe the origins and foundations of the modern welfare state
- Describe the shortcomings of the welfare state and how they have been addressed by Milton Friedman and other conservative economists
- Compare and contrast the insurance systems of several modern nations

## PREP FOR TEACHERS:

Prior to teaching this lesson, you will need to:

- Preview all of the video segments and Web sites used in the lesson.
- Download the video clips used in the lesson to your classroom computer, or prepare to watch them using your classroom's Internet connection.
- Bookmark the Web sites used in the lesson on each computer in your classroom. Using a social bookmarking tool such as [del.icio.us](http://del.icio.us) or [diigo](http://diigo) (or an online bookmarking utility such as [portaportal](http://portaportal)) will allow you to organize all the links in a central location.
- Make copies of the “Who Should Pay?” student organizer.

## INTRODUCTORY ACTIVITY

1. Ask if anyone would like to volunteer a definition of what insurance is. (*Answers will vary.*)

Explain that all types of insurance are essentially contracts—a [promise](#) from the insurer of compensation for specific potential future losses (of life, health, property, or almost anything else) in [exchange](#) for a periodic [payment](#) from the insured. It is a calculation of risk on behalf of both parties. Tell students that over the next few class sessions they will be learning about

# THE ASCENT OF MONEY

insurance and the role it has played in world history, economics, and politics using clips from the PBS series *THE ASCENT OF MONEY*, hosted by Niall Ferguson.

2. For the first clip, provide students with a FOCUS FOR MEDIA INTERACTION by asking which three options Ferguson offers for “deal[ing] with the risks and uncertainties of the future?” WATCH Clip 1, “Who Bears the Risk?”

3. Review the focus question: What are the three options Ferguson suggests for who should bear the risks of the future? (*1 - The individual, by purchasing private insurance; 2 - the community, through voluntary charity; 3 - the state, through compulsory taxes.*)

4. Distribute the “Who Should Pay?” Student Organizer. After explaining that there are no “correct” answers, give students a few minutes to read the organizer’s list of expenses commonly incurred over the course of a lifetime and mark on the organizer—according to the options established by Ferguson—which ones they feel should be 1) paid for by the individual, 2) paid through charity, or 3) paid for by the government. When students have completed their organizers, ask for a show of hands indicating how they categorized each expense, asking students who responded differently to explain why they feel as they do. Tabulate the results on a blackboard or whiteboard, also noting the results on your own copy of the organizer. Ask the class what they think the results say about their collective politics and philosophy? (*Accept all answers.*) Put your own copy of the organizer aside for later use in the lesson’s Culminating Activity.

5. Explain that disagreement about how various types of insurance should be paid for is one of the defining aspects of the political landscape both within the United States and the world at large. Explain that those who tend to favor Option 1 probably regard insurance as a privilege to be purchased like any other service, whereas those who tend to favor Option 3 probably regard insurance as a right of citizenship—if not a right of humanity itself.

## LEARNING ACTIVITIES

1. Ask students what they currently do (or *should* be doing!) to prepare for future financial needs? (*Most will answer that they save money.*) Explain that saving is indeed the oldest method of providing for the future, and that it is still a basic element of modern economics, but that insurance is a more recent financial invention that puts a more profitable twist on saving for the future by introducing the element of risk. Tell students that they will now be looking at a clip that explains the origins of the modern life insurance fund. Provide a FOCUS FOR MEDIA INTERACTION by asking students how Robert Wallace and Alexander Webster’s Scottish Ministers’ Widows and Orphans Fund worked. PLAY Clip 2 “The Birth of Insurance.” PAUSE the clip a little more than 3 minutes in, after Professor Ferguson says “...the widows and orphans henceforth would be paid out of the returns on that money, leaving the premiums to accumulate.”

2. Review the focus question: How did Robert Wallace’s and Alexander Webster’s Scottish Ministers’ Widows and Orphans Fund work? (*Premiums were paid by the insured into the fund, which was then invested by the insurers for profit; payments were made from the returns on the investment, leaving the premiums to accumulate.*) Tell students that this remains the basic premise for insurance companies to this day, including Scottish Widows—the present day incarnation of Wallace and Webster’s original fund.

# THE GREAT OF MONEY

3. Explain that all types of insurance are essentially contracts—[promises](#) from the insurer of compensation for future losses (of life, health, property, or almost anything else) in [exchange](#) for a periodic [payment](#) (or "premium") from the insured. Insurance can also be described as a type of gamble—a calculation of risk and probability in which both parties bet against each other: the insured weighs the possibility (or relative imminence) of possible losses against the certainty of paying premiums over time, while the insurer makes exactly the opposite wager. Premium rates are set based upon the insurer's calculation of the insured's risk—the higher the risk, the higher the premium. Provide students with a FOCUS FOR MEDIA INTERACTION for the remainder of the clip by asking them what Professor Ferguson means when he says that "size matters" in calculating insurance risk? PLAY Clip 2 through to the end.

4. Review the focus question: What does Professor Ferguson mean when he says that "size matters" in determining insurance risk? (*The more people who pay into an insurance fund, the easier it is to predict how much will need to be paid out.*) Ask students why they think this is? (*Accept all answers.*)

5. Have students log on to the "Ken White's Coin Flipping Page" (available at <http://shazam.econ.ubc.ca/flip/>). Ask students what the statistical probability of a flipped coin landing heads up is. (50%) Have each student predict whether a tossed coin will turn up heads or tails, and then have each student flip a coin. Ask how many students predicted incorrectly? (*Probably around half the class.*) Explain that this is a pretty high rate of unpredictability—you certainly wouldn't want to bet your life (or life savings) on it!

6. Next, have each student flip 10 coins and ask how many got within 10% of an even split (i.e. between 4 and 6 heads results)? (*This will probably be well over 50%.*) Finally, have each students flip 100 coins and ask how many got within 10% of the statistical average (i.e. 40 to 60 heads results)? (*This will probably be closer to 100 %.*) Have students note the almost exact split between heads and tails between the many millions of coins flipped on "Ken White's Coin Flipping Page" since the site was established in 1995 (these numbers are given on each flip results page). Ask students why they think this is so? (*Accept all answers.*) Explain that this "law of averages"—also known as Bernoulli's Law—states that a large number of independent measurements of an uncertain quantity tends toward the theoretical average of that quantity; in other words, the larger the number of measurements, the more precisely average the results. Explain that this law of averages is more than a game of nickels and dimes—it's a fundamental principle of the entire world's insurance economy.

7. Ask students what possible problems they might detect in a premiums-based system of private insurance such as Wallace and Webster's Scottish Ministers' Widows and Orphans Fund. (*Accept all answers.*) Tell students that they will now be looking at a clip that examines the primary shortcoming of private insurance: not everyone can afford it! Provide students with FOCUS FOR MEDIA INTERACTION by asking them how Japan addressed this problem, and why. PLAY Clip 3 "From the Cradle to the Grave." PAUSE clip about 3 minutes in, after Ferguson says: "The wartime slogan 'all people are soldiers' was adapted to become 'all people should have insurance.'"

8. Review the focus question: How did Japan address the issue of insurance affordability, and why? (*It "nationalized" insurance—i.e. had the government pay for it—with the aim of creating a large and able-bodied population of soldiers and workers to help realize its imperial ambitions.*) Ask students what they think this policy led to? (*Answers will vary, but should mention Japan's*

# THE RISE OF WELFARE

*defeat and near destruction in World War II.*) Explain that very similar policies of nationalized insurance were adopted by other nations of this era—including Nazi Germany—for similar militaristic reasons.

9. Tell students that the next part of the clip will explain why the end of Japan’s “warfare state” was just the beginning of what would become known as the “welfare state.” Provide students with a FOCUS FOR MEDIA INTERACTION by asking them what economic lesson the Japanese and other exhausted combatants drew from the wreckage of World War II? RESUME PLAYING Clip 3. PAUSE after another 3 minutes, after Ferguson says “and when they died, the state would pay their dependents.”

10. Review the focus question: What economic lesson did the Japanese and other exhausted combatants draw from the wreckage of WWII? (*They determined that the modern world was too dangerous and unpredictable for private insurance, so risk had to be nationalized. A minimum standard of living for all citizens “from the cradle to the grave” would be guaranteed by the state, including education, unemployment, health care, retirement, and death benefits.*) Explain that this policy of “nationalization” is also commonly understood as a form of “socialism,” and that it was a system adopted not only in Japan, but throughout much of the western world after World War II.

11. Ask students what they think would be the pros and the cons of this modern “welfare state.” (*Accept all answers.*) Provide students with a FOCUS FOR MEDIA INTERACTION for the remainder of the clip by asking them what Professor Ferguson believes was the fatal flaw of the modern welfare state. PLAY Clip 3 through to the end.

12. Review the focus question: What does Professor Ferguson believe was the fatal flaw of the modern welfare state? (*That the safety net of the welfare state stifled the incentives and disincentives of capitalism: reward for industriousness and hardship for idleness.*) Explain that the result was “stagflation”—low growth combined with high inflation—while welfare states’ treasuries were steadily drained by “entitlement” payments to citizens who had come to expect government insurance as a right.

13. Explain that in the 1970s, Chicago economist Milton Friedman proposed a solution that was first tested in Chile, which had been bankrupted in part by the welfare state benefits offered under the recently deposed communist regime. Provide students with a FOCUS FOR MEDIA INTERACTION by asking them what Friedman’s economic advice was for Chile’s new right wing military dictator, General Augusto Pinochet. PLAY Clip 4 “Trickle Down Economics.” PAUSE after Ferguson says “Friedman found himself denounced for acting as a consultant to a military dictator, responsible for the executions of over 2,000 real and suspected communists, and the torture of over 30,000 more.”

14. Review the focus question: What was Friedman’s economic advice for Chile’s new leader, General Augusto Pinochet? (*Cut governmental budget deficit—i.e. government spending—to control inflation, then running at 900%.*) Explain that Friedman’s economic theory was based on the principle that government spending increases the money supply, which in turn increases inflation. Tell students that despite Friedman’s political condemnation for having worked with the brutal Pinochet, he was eventually awarded a Nobel Prize in economics for the success of his economic theory—commonly known as “Monetarism.”

# THE BUILT OF MONEY

15. Provide a FOCUS FOR MEDIA INTERACTION for the next part of the clip by asking students how Friedman’s Chilean protégé Jose Panera took Friedman’s principle of smaller government a step further. PLAY Clip 4 from where it was previously paused. PAUSE after Ferguson says that “in the 20 years since 1987, the Chilean stock market has gone up by a factor of 18.”
16. Review the focus question: How did Friedman’s Chilean protégé Jose Panera take Friedman’s principle of smaller government even further? (*By effectively replacing the national retirement pension system with private retirement plans, in which a portion of an employee’s paycheck is paid into his or her personal account, which then is invested for profit in the market.*) Ask students if they think this was successful? (*Accept all answers, but encourage an understanding that Chile’s economy, built around a new middle class of private pension owners created by Panera’s reform, has prospered.*)
17. Ask students if Panera’s system of private retirement pension funds invested for profit reminds them of anything they’ve learned about earlier in this lesson? (*Wallace and Webster’s original Scottish Ministers Widows and Orphans fund.*) What was the central failing of Wallace and Webster’s brand of insurance? (*Not everybody could afford coverage.*) Explain that Chile’s system—like that of many nations, including the United States—essentially has the same shortcoming: not everyone has a full-time job that offers a pension or benefits, so many have neither.
18. Explain that Professor Ferguson doesn’t consider modern Chile’s lack of universal pensions to be a major problem; like Friedman and Panera, he believes that Chile’s rapidly growing economy—largely driven by private retirement pensions—ultimately benefits everyone. Explain that this “free market” economic philosophy of smaller government and greater privatization of services and industry was embraced (at least in principle) by conservatives in other nations, notably Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States. Modern economic conservatism came to be defined in the 1980s by the notion that “a rising tide floats all boats” (i.e. a strong economy benefits both rich and poor), and its corollary of “trickle-down economics” (in which the prosperity of the wealthy “trickles down” to benefit the middle class and the poor).
19. Explain that this view is vehemently opposed by many other economists and policy-makers, who argue that this free-market philosophy is fundamentally unjust—widening the disparity between rich and poor and failing to provide what they regard as basic socioeconomic rights of citizenship. They also argue that the market is an unreliable guarantor of pensions, health care, and other forms of social insurance—a view that many feel has been validated by the 2008 collapse of worldwide financial markets, which has wiped out many pension funds.
20. Ask students to discuss which economic philosophy they agree with: 1) the “small government,” free market, anti-welfare state approach that regards pensions, health care, and other types of “social security” as privileges to be paid for by the individual, or 2) the “big government,” regulated welfare state approach that regards pensions, health care, and other types of social security as basic rights of citizenship? (*Accept all answers, encouraging discussion and debate while emphasizing that there is no “right” or “wrong” answer.*)

## CULMINATING ACTIVITY

# THE POINT OF CARE

1. Divide the class into five groups, and have each group log on to “[The Uninsured in America: The U.S. vs. Other Nations](#)” website. Assign each group one of five nations featured on the site—Canada, China, Japan, Mexico, or the United Kingdom. Allow 20 minutes for each group to read the website and compile a brief report comparing and contrasting the relative strengths and weaknesses of the insurance model of their assigned nation with that of the United States.
2. Give each group five minutes to present their findings to the rest of the class. Encourage discussion of the pros and cons of each system.
3. Ask the class which system they consider the most “free market?” Which is the most nationalized? What might the nature of a nation’s health care system say about that nation’s culture and society as a whole? Have the class vote on which nation’s system of insurance they consider the best. Why? (*Accept all answers.*)
4. Pull out your copy of the “Who Should Pay” Student Organizer, and review for the class their earlier tabulated responses from the Introductory Activity. Based on those responses, ask students which of the five national systems they’ve been looking at most closely resembles their own collective attitudes to insurance? (*Accept all answers.*) Ask if anyone would now respond differently to the Student Organizer based on what they’ve learned in this lesson? If so, why?
5. As a supplementary homework assignment, have each student write a brief research paper on the nation they were assigned earlier in class, focusing on how that nation’s history may have shaped its approach to healthcare.

# THE BUDGET OF MONEY

## WHO SHOULD PAY? Student Organizer

*The following is a list of expenses commonly incurred over the course of a lifetime. Mark which ones you think should be:*

- 1 = paid for by the individual*
- 2 = paid through charity*
- 3 = paid for by the government*

Medical expense incurred during childbirth.

1      2      3

Preschool child care.

1      2      3

Education through high school.

1      2      3

College education.

1      2      3

Medical treatment for an injury sustained while playing football with friends.

1      2      3

Medical treatment for an injury resulting from dangerous working conditions.

1      2      3

Basic living expenses when between jobs.

1      2      3

Repairs to a house damaged by a hurricane.

1      2      3

Repairs to a house damaged from a fire started by smoking.

1      2      3

Basic living expenses after retirement.

1      2      3

Death and burial expenses of someone killed while serving in the armed forces.

1      2      3

Death and burial expenses of anyone.

1      2      3