INNOVATION, IMITATION, AND ENTREPRENEURSHIP: THE INTRODUCTION AND DIFFUSION OF THE HOMEOWNERS POLICY, 1944-1960

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ABSTRACT

This paper uses the introduction of the homeowners policy in the United States insurance market in the 1950s to explore the process of innovation and the role that innovators (entrepreneurs) and imitators play within it through an examination of Schumpeter's theory of innovation and its discussion in the recent economic literature on innovation and imitation. Schumpeter's model of entrepreneurial innovation is tested through a case study of the homeowners policy's introduction in 1950 and its subsequent diffusion throughout the decade. The policy was an innovative product which helped transform the property-casualty sector of the insurance industry. Thus, this case study supports Schumpeter's model of entrepreneurial innovation and illustrates the significant role that imitation plays within it.[1]

Introduction

"Last week the Pennsylvania insurance agents of the Insurance Co. of North America received a revolutionary document from the home office in Philadelphia," reported *Business Week* in June of 1950. The "revolutionary document" was INA's (as the firm was referred to in the trade) "homeowners' policy," a policy which combined "fire and 'extended coverage'[2] . . . on the home and its contents, theft insurance, premises liability, and medical payments for injuries to guests and others—all wrapped up in one package."[3]

Business Week's language was not hyperbolic; the homeowners policy was indeed a revolutionary one. This "multiple line" policy played a major role in the transformation of the way business was done in property and liability insurance. It quickly became the dominant type of policy used to insure people's houses, their contents, and the legal liabilities that accompanied property ownership. Introduced in 1950, by 1955 homeowners' insurance was earning insurers $59 million in premiums. In 1956 the *Casualty and Surety Journal* proclaimed that the homeowners policy "is the fastest growing package policy ever." In 1960 homeowners' insurance sales had increased 1,000 percent over 1955 premiums to $617 million, and the policy had become the industry standard.[4] As *Business Week* correctly predicted in 1950, the homeowners policy was an innovative, new product that changed an industry.

This paper uses the introduction of the homeowners policy to explore some of the fundamental questions about innovation, entrepreneurship, and economic development. It focuses on the process of innovation and the role that innovators (entrepreneurs) and

imitators play within it through an examination of economic theory, the recent economic literature, and a case study of the introduction of the homeowners policy in the U.S. insurance market.

Imitation as a factor in economic development has received limited attention.[5] A number of economists who have examined the subject argue that the business leaders and firms that imitate major innovations and diffuse them throughout the economy play *the* central role in economic growth, and not the original innovators themselves. The scholars who embrace this argument take issue with what they contend is a major precept in the scheme of economic development put forward by Joseph A. Schumpeter, the most important theoretician to examine the issue. Economist James Schmitz explains this contention in "Imitation, Entrepreneurship, and Long-Run Growth" (*Journal of Political Economy*, 1989):

In the Schumpeter model, the innovating entrepreneur plays the key role, with imitators assigned a minor part in the growth process. In contrast the theory below focuses on the role of imitation—the act of transferring and implementing a new technology—in promoting growth. Rather than the Schumpeterian innovating entrepreneur, it is the activities of imitating entrepreneurs that drive growth.[6]

Schmitz goes on to observe that "[t]hough the historical record indicates its importance, theoretical research on growth has underemphasized the importance of imitation."[7]

The noted economist of technology, Nathan Rosenberg, echoes Schmitz's argument in *Schumpeter and the Endogeneity of Technology* (2000): "Schumpeter . . . attached excessive importance to a single event: the first introduction of an innovation into the market place, and the numerous difficulties encountered by the entrepreneur in achieving that introduction." He looked down upon the "mere imitators" who followed the entrepreneurial innovators. "My own view is that, on the contrary, these so-called 'mere imitators' . . . have commonly been the essential carriers of an improvement process that decisively shapes the eventual contribution of new technologies to productivity improvement."[8]

Unfortunately, this literature has to be read with considerable care, warns Robert R. Nelson, one of the leading neo-Schumpeterian economists. Nelson holds that much of the recent economic analyses of Schumpeter's theory of innovation "have been based on a misreading of Schumpeter, or at least a failure to think through what was basic in Schumpeter's arguments and what was not." Regarding the investigation of Schumpeter's argument on innovation and big business, Nelson goes on to note that "casual reading of *Capitalism, Socialism, and Democracy*, or as time went by, more likely mostly reading of the statements of other economists about the 'Schumpeterian hypothesis' without reading Schumpeter, led to the rise of a little industry of economists exploring that hypothesis econometrically and theoretically."[9]

To discover whether or not economists writing in the vein of Schmitz and Rosenberg have misread Schumpeter's theory of innovation and the role imitation plays in it requires a brief review of that theory. For Schumpeter entrepreneurship was defined by

innovation. "For actions which consist in carrying out innovations we reserve the term Enterprise; the individuals who carry them out we call Entrepreneurs," he wrote in *Business Cycles* in 1939.[10] Schumpeter viewed this entrepreneurial role as fundamental to economic development: "innovation is the outstanding fact in the economic history of capitalist society."[11]

Given the centrality of entrepreneurial innovation to his theory of economic development, Schumpeter took care to concisely define innovation. It was:

> the introduction of new commodities... . Technological change in the production of commodities already in use, the opening up of new markets or sources of supply, Taylorization of work, improved handling of material, the setting up of new business organizations such as department stores—in short any 'doing things differently' in the realm of economic life... .[12]

Schumpeter termed these entrepreneurial innovations "New Combinations."[13]

Since tradition and routine stifled change, Schumpeter held that innovations *tend* to be undertaken by new firms.[14] "[N]ew combinations are, as a rule embodied, as it were," he wrote in *The Economic Theory of Development*, "in new firms which generally do not arise out of the old ones but start producing beside them; . . . in general it is not the owner of stage-coaches who build railways."[15] As innovative new firms rose, many non-innovative firms, and even entire industries, were rendered uncompetitive or obsolete, and were down-sized or destroyed.[16] Those lucky "firms and industries" that managed to survive the consequences of innovation were "forced to undergo a difficult and painful process of modernization, rationalization and reconstruction."[17] Schumpeter held that this "process of incessant rise and decay of firms and industries . . . is the central—though much neglected—fact about the capitalist machine."[18] He would later, in *Capitalism, Socialism, and Democracy* (1942), term the process "Creative Destruction."[19]

Although many non-innovative firms ended up "dying" in the destructive orgy that accompanied economic evolution, Schumpeter observed that for a smaller number of old firms, innovation created "new opportunities for expansion" as the "new methods or commodities create New Economic Space."[20] Indeed, once an entrepreneur managed to devise and establish a new combination, subsequent emulation became much easier. The old firms initially able to copy the original innovator do so and "[t]hen other entrepreneurs follow. . . . Whenever a . . . trade beholds the new thing done and its major problems solved," Schumpeter wrote, "it becomes much easier for other people to do the same thing and even to improve upon it. In fact, they are driven to copying it if they can, and some people will do so forthwith."[21]

Thus in Schumpeter's theory of innovation, entrepreneurial changes in business activity created an environment conducive to further change. Innovations were copied, applied in similar and related lines, and even transferred to other non-related fields. Through this widespread entrepreneurial copying, significant innovations transformed entire sectors of the economy. One consequence of extensive imitation was "that innova-

tions do not remain isolated events, and are not evenly distributed in time, but that on the contrary they tend to cluster, to come about in bunches, simply because some, and then most, firms follow in the wake of successful innovation."[22] The result, the Austrian economist concluded, was that innovation pushed capitalist economic development forward not evenly, but rather "by jerks and rushes." It was "a distinct and painful process."[23] Clearly than, imitation plays a significant role in Schumpeter's theory of innovation.

While satisfactory in its broad sweep, a number of problems emerge in trying to empirically apply Schumpeter's theory of innovation. One is, when do the copiers cease being innovators and thus entrepreneurs? At some point the new combination becomes a routine part of business and thus no longer new and innovative.[24] This was not a trivial issue for Schumpeter for he held that "[I]nnovations" are "the only function . . . fundamental in history and essential in theory" to entrepreneurs. These innovators stood in clear contrast to what Schumpeter termed "the mere head or manager of a firm who runs it on established lines."[25]

The introduction of the homeowners policy in 1950 provides a useful case study to test Schumpeter's entrepreneurial innovation model. The policy meets his "new combination" criteria: it was a new product, imitation of it was both rapid and widespread, and it helped transform an important industry sector.[26]

To understand why the homeowners policy was an innovative and imitative success some background on the history of the insurance industry in the United States is necessary. At the start of the twentieth century the "American System" of insurance, as it was called, divided private insurers into three industry branches or "lines": 1) life and health; 2) fire and marine; and, 3) casualty and surety. Regulation of the insurance industry was the province of the states and most of them prohibited insurers from crossing industry branch borders and writing multiple lines of insurance.[27]

The insurance industry's regulatory regime was further confounded by the 1869 Supreme Court ruling in *Paul v. Virginia.* In that decision the Court concluded that "[i]ssuing a policy of insurance is not a transaction of commerce."[28] One consequence of the *Paul* decision was that the U.S. Government could not regulate the insurance industry. Until the reversal of the ruling in 1944, Federal regulatory laws, including anti-trust laws, did not apply to it.[29] Insurers employed this freedom to create trade associations, called "bureaus," which were ultimately granted the responsibility to develop standardized products—policies—and set prices—insurance premium rates.[30] Thus, the insurance industry's practice largely left product development to its trade associations (bureaus). The cooperative nature of product development in the insurance business and its fragmented legal structure helped serve as brakes on innovation in it, particularly product innovation. Robert I. Mehr and Emerson Cammack observe in *Principles of Insurance* (1980) that "the industry is often criticized for failure to innovate and develop new products quickly, and insurers are still accused of excessive conservatism."[31]

Critics of the 1940s and 1950s had similar complaints. They argued that the insurance industry, as it had evolved under the American System, was rigid, balkanized, and

unresponsive to the needs of customers. Even worse, the separation of insurers into "tight little provinces of fire and marine companies" and "casualty and surety companies" resulted in "narrow coverages." This translated into high premiums because the insured had to purchase "so many separate policies" from different firms.[32] This industry environment meant that INA's venture to design and introduce a new policy was far more radical in reflection than it first appears.

On first glance INA was an unlikely innovator for it was one of a conservative industry's oldest firms. Founded in 1792 in Philadelphia, in 1950 the Insurance Company of North America possessed one of the most venerable names in the business.[33] But for all its age and tradition, the INA of the 1940s and 1950s was an entrepreneurial firm. Under executives Benjamin Rush (1916-1939) and John Diemand (1941-1964), INA led an attack on the legal line division of insurance and bureau restrictions on policy coverages and rates. After years of effort, in 1944, the company and its supporters convinced the National Association of Insurance Commissioners (N.A.I.C.) to approve in principle the ability of all non-life insurers to write multiple line policies in the main property and casualty lines of insurance—fire, marine, and liability. One of the reasons INA and the other reformers were successful in this effort was that automobile and airplane transportation presented both property and liability perils. Insurers' experience in over thirty years of automobile underwriting in particular, made the problem with the old line divisions obvious to nearly all regulators.[34]

By 1951 most states had passed legislation that permitted non-life companies to write policies that combined the fire (property) and casualty (liability) lines. The Insurance Company of North America used this newly granted authority to write in multiple lines of insurance. Under it INA introduced its innovative new product, the Homeowners policy, in 1950.[35]

To understand why this policy was a successful innovation, a better understanding of the perils homeowners confronted and how traditional lines of insurance worked (or failed) to cover them is needed. Homeowners faced the obvious threats to the loss of, or damage to their property through fire, natural causes—e.g., hail, wind storms, and hurricanes—and theft. Fire insurers sold fire, theft, and extended coverage (which covered various natural disasters) policies to protect homeowners from these perils.

In addition to the perils to property, home ownership also created the potential for legal liability. If a person on your property is injured through your negligent actions, or if you damaged another person's property by negligent actions taken on your property, you can be held liable for damages. If, for example, your dog is inadequately restrained and bites the postal carrier, or if a tree you are cutting down falls the wrong way and crushes your neighbor's car, you stand the possibility of being sued for damages by the injured party. Casualty insurers sold policies—personal liability and property damage liability—to cover homeowners against these perils.

While the homeowners of the 1930s and 1940s were quick to protect their property from fire and theft—an estimated 97.7 percent of 1943 homeowners had fire insurance—few were conscious of the legal liabilities that accompanied property ownership and insured against them. Only 6.4 percent of homeowners carried any liability insur-

ance in 1943.[36] Apparently few homeowners asked for liability insurance and few insurance salespeople solicited it.[37]

A number of journalists writing for home and garden magazines pointed out that ignorance of this risk was a serious mistake. "The simple act of living under a roof," wrote Ray Giles in 1947, "brings you face to face with liabilities that call for insurance protection." The home was a dangerous place, he continued, and "during the last 10 years" accidents "killed 300,000 persons and injured nearly 30,000,000 more in the nation's homes."[38] *House and Garden* warned about the legal implications of serious injury to an outsider on a homeowner's property. If the homeowner was found liable in such an accident, "the loss of the whole investment in your home" as well as "all of your savings . . . might be forfeited to settle a heavy claim."[39] Clearly an insurance policy that closed the gap between fire and casualty insurers and covered all of the perils of home ownership—fire, theft, personal liability, and property damage liability—would offer an invaluable service by providing "the kind of insurance that will protect homeowners from ruinous losses."[40]

INA's introduction of the homeowners policy in 1950 took advantage of this opportunity. It was a revolutionary product because it broke down the traditional industry division between casualty and fire insurance in a major consumer market. Erasing this industry division allowed INA to provide homeowners with the protection they needed in one policy with standardized coverages. This innovation allowed INA to tap the large and rapidly growing post-1945 homeowners market while significantly reducing its costs. Multiple line policies cut insurers' administrative and sales costs by allowing them to combine many separate policies, previously sold by different companies, into one. INA used this cost advantage to make the homeowners policy "about 20% cheaper than the total premiums on separate policies" that gave "similar coverage."[41]

INA was innovative in pricing as well as product. In cutting the price of its homeowners insurance, INA broke with the industry's cooperative method in setting premium rates. This allowed it to undercut the Bureau companies' high premiums and sell even more policies.[42]

Other insurers were quick to realize the advantages of the homeowners policy and many other competitors rushed to bring out their own versions. One firm "was so eager to market a policy that it simply reprinted INA's policy form by photo-offset, and then found to its embarrassment, that it had forgotten to blot out the words 'Insurance Company of North America' in one place." "It is unlikely," exalted the insurance writer William H. A. Carr, that "any other insurance policy ever was as enthusiastically welcomed as the [INA] Homeowners."[43] INA's introduction of the homeowners policy in 1950 and its imitation by many competitors helped make multiple line insurance the fastest growing segment of the new field of property-casualty insurance (fire and marine plus casualty and surety).[44] By 1960 the homeowners policy was widely diffused (sold by many insurers and purchased by many homeowners) and it had become a routine part of the property-casualty insurance business.

The success of this new multiple line insurance policy forced traditional fire insurers to adapt to these new competitive conditions. An industry sector-wide "rationalization"

was the result as INA's and imitators' homeowners policy sales skyrocketed, while the sales of traditional fire insurance policies stalled under price and product competition, and effectively lost market share in the rapidly expanding residential insurance market of the 1950s.[45] By 1960 creative destruction was "modernizing" the non-life insurance industry as competition from INA, its early emulators, and other innovators forced traditional insurers in the fire and marine, and casualty lines into bankruptcies or mergers.[46]

This case study of creative destruction in property and casualty insurance illustrates the effectiveness of Schumpeter's entrepreneurship/innovation theory in explaining industry change. The transformation of this economic sector, beginning with the introduction of the Homeowners policy, followed his model closely: 1) an entrepreneurial enterprise introduces a new product (new combination); 2) other firms rush to imitate it; 3) older firms using traditional methods cannot compete and shrink, merge, or are driven into bankruptcy; 4) the industry is thereby "modernized;" and, 5) innovation (including the early imitators) provides efficiencies in the form of lower costs for insurers and lower prices and better coverage of risks for homeowners. This case also establishes a corollary to the model: that once an innovation is widely diffused, it becomes a routine part of business and thereby ceases to be entrepreneurial.

This study also illustrates the complexity of Schumpeter's theory of innovation. As the theoretical discussion above shows, he clearly viewed imitation as a key element in the process of entrepreneurial innovation and economic development. Imitations as well as initial innovations were central in the creation of the innovation clusters that drove capitalist economic progress forward. Thus, neo-Schumpeterians and the Austrian economist's recent critics would do well to follow Robert Nelson's advice and carefully read their Schumpeter.

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Notes

1. Case studies are a fairly standard method employed by business historians and institutional economists to test theoretical propositions. Only by actually testing theory empirically can we measure thought against reality and thereby develop some sense of its validity. There are surprisingly few empirical economic studies that apply Schumpeter's theory of entrepreneurial innovation works to the real world conditions and almost none that deal with the question of imitation (see note 5 below for an introduction to this literature).

2. Extended coverage typically included "lightning, hail, windstorm, explosion, riot and civil commotion, aircraft, land vehicles, smoke or smudge insurance." "Packaged Policies Catch On," *Business Week*, 30 September 1950, 100.

3. Ibid.

4. U.S. Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* v. 2 (Washington, D.C.: Government Printing Office, 1975), 1062, 1064; Erwin H. Luecke, "Comprehensive Dwelling Policy," *Casualty and Surety Journal* 17:2 (March 1956), 27; Harry W. Melville, "The Homeowners Policy," *Casualty and Surety Journal* 17:3 (May 1956), 1; Victor Gerdes, "Review of 1959," *Casualty and Surety Journal* 21:1 (January 1960), 2; William H. A. Carr, *Perils Named and Unnamed: The Story of the Insurance Company of America* (New York: McGraw-Hill Book Company, 1967), 263-65.

5. Yale Brozen, "Factors in Modern Industrial Development: Invention, Innovation, and Imitation," *American Economic Review* 41 (May 1951); Edwin Mansfield, "Technical Change and the Rate of Imitation," *Econometrica* 29 (October 1961); Mansfield, "Intrafirm Rates of Diffusion of an Innovation," *Review of Economics and Statistics* 45:4 (November 1963); Carl A. Futia, "Schumpeterian Competition," *Quarterly Journal of Economics* 94:4 (June 1980); Henry G. Grabowski and John M. Vernon, "Pioneers, Imitators, and Generics–A Simulation Model of Schumpeterian Competition," *Quarterly Journal of Economics* 102:3 (August 1987); Nathan Rosenberg and W. Edward Steinmuller, "Why are Americans Such Poor Imitators, *American Economic Review* 78:2 (May 1988); Paul S. Segerstrom, "Innovation, Imitation, and Economic Growth," *Journal of Political Economy* 99 (August 1991); Boyan Jovanovic and Glenn M. MacDonald, "Competitive Diffusion," *Journal of Political Economy* 102 (February 1994); Katsuhito Iwai, "A Contribution to the Evolutionary Theory of Innovation, Imitation and Growth," *Journal of Economic Behavior and Organization* 43 (2000); Maria Brouwer, "Entrepreneurship and Uncertainty: Innovation and Competition among the Many," *Small Business Economics* 15:2 (2000). Two important discussions of the role of imitation in innovation by non-economists are Steven Schnaars' *Managing Imitation Strategies: How Late Entrants Seize Market Share from Pioneers* (New York: Free Press, 1994) and Everett M. Rogers' *Diffusion of Innovations* (New York: Free Press, 1962).

6. James A. Schmitz, Jr., "Imitation, Entrepreneurship, and Long-Run Growth," *Journal of Political Economy* 97 (June 1989), 722.

7. Ibid.

8. Nathan Rosenberg, *Schumpeter and the Endogeneity of Technology: Some American Perspectives* (New York: Routledge, 2000), 61, 62.

9. Robert R. Nelson, *The Sources of Economic Growth* (Cambridge, Massachusetts: Harvard University Press, 1996), 87, 91.

10. Joseph A. Schumpeter, *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process* [1939], abridged ed. (New York: McGraw-Hill, 1964), 77.

In the interest of brevity, I will employ examples primarily from *Business Cycles* to discuss Schumpeter's theory of entrepreneurship and innovation. While he discussed this theory in other writings, e.g., *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*, Redvers Opie, trans. (New York: Oxford University Press, 1974; reprint of same title, Cambridge: Harvard Economic Studies Series v. 44, 1934); "The Creative Response in Economic History," *Journal of Economic History* 7:2 (November 1947); *Capitalism, Socialism, and Democracy*, 3rd ed. (New York: Harper and Brothers, 1950); and "Economic Theory and Entrepreneurial History," [1949] in *Explorations in Enterprise*, ed. Hugh G. J. Aitken, (Cambridge, MA: Harvard University Press, 1965), innovation receives the most detailed attention in *Business Cycles*. For a more extensive discussion of Schumpeter's definition of entrepreneurship and innovation, and their role in economic development see Samuel P. Black, Jr. and John Paul Rossi, *Entrepreneurship and Innovation in Automobile Insurance: Samuel P. Black, Jr. and the Rise of Erie Insurance, 1923-1961*, (New York: Routledge, 2001), chapter 1.

11. Schumpeter, *Business Cycles*, 61, 62.

12. Ibid., 59.

13. Ibid., 62.

14. Ibid., 68-69.

15. Schumpeter, *Theory Economic of Development*, 66. Schumpeter is quite clear here that he was not establishing a hard-and-fast rule that all innovative firms had to be new companies, but rather that this "generally" was the case. Thus, this passage holds out the possibility, however uncommon, that owners of stagecoaches *could* build railways.

16. This is because "only some firms carry out innovations and then act along new cost curves, while the others cannot and have merely to adapt themselves, in many cases by dying." Schumpeter, *Business Cycles*, 72.

17. Ibid., 110.

18. Ibid., 70.

19. Schumpeter, *Capitalism, Socialism, and Democracy*, 83.

20. Schumpeter, *Business Cycles*, 110.

21. Ibid., 75.

22. Ibid.

23. Ibid., 75, 72.

24. In a footnote in *Business Cycles* Schumpeter discusses "Induced Innovations" which . . . denote those additional improvements which present themselves in the process of copying the first innovations in a field and of adaption by existing firms to their doings" (76). But Schumpeter argues, rather incompletely at an earlier point, that adaption is not innovation (46).

25. Ibid., 77.

26. It also provides a useful corrective in the study of product innovation because the homeowners policy helped transform a service industry and technology was not central to the product's introduction or success. Most of the studies in this area focus on technology, often in manufacturing, and treat technological change as synonymous with innovation.

See: William J. Abernathy, *The Productivity Dilemma: Roadblock to Innovation in the Automobile Industry*, (Baltimore: Johns Hopkins University Press, 1978); Abernathy and Kim B. Clark, "Innovations: Mapping the Winds of Creative Destruction," *Research Policy* 14 (1985); Abernathy and James M. Utterback, "Patterns of Industrial Innovation," *Technology Review* (June-July 1978); Zoltan J. Acs and David B. Audretsch, "Innovation in Large and Small Firms: An Empirical Analysis," *American Economic Review* 78 (September 1988); Richard Florida and Martin Kenney *The Breakthrough Illusion: Corporate America's Failure to Move from Innovation to Mass Production* (New York: Basic Books, 1990); Louis Galambos and Jane Eliot Sewell, *Networks of Innovation: Vaccine Development at Merck, Sharp & Dohme and Mulford, 1895-1995* (New York: Cambridge University Press, 1995); H. Grabowski and J. Vernon, "Innovation and Structural Change in Pharmaceuticals and Biotechnology," *Industrial and Corporate Change* 3 (1994); Edwin Mansfield, "Intrafirm Rates of Diffusion of an Innovation," *Review of Economics and Statistics* 45 (November 1963); Richard R. Nelson and Sidney G. Winter, "In Search of Useful Theory of Innovation," *Research Policy* 6 (1977); James M. Utterback, "The Process of Technological Innovation within the Firm," *Academy of Management Journal* 14 (1971); Utterback and Fernando F. Suarez, "Innovation, Competition, and Industry Structure," *Research Policy* 22 (1993); James M. Utterback, *Mastering the Dynamics of Innovation: How Companies Can Seize Opportunities in the Face of Technological Change* (Cambridge: Harvard Business School Press, 1994); Eric von Hippel, *The Sources of Innovation* (New York: Oxford University Press, 1988).

27. Benjamin Rush, "Multiple Line Coverage," *Annals of the American Academy of Political and Social Science* 130 (March 1927), 182-83; David L. Bickelhaupt, *General Insurance*, 10th ed. (Homewood, Illinois: Richard D. Irwin, 1979), 46-50; Robert I. Mehr and Emerson Cammack, *Principles of Insurance*, 7th ed. (Homewood, Illinois: Richard D. Irwin, 1980), 6-8; Harold F. Williamson, "Insurance," *Encyclopedia of American Economic History* v. 2, Glenn Porter, ed. (New York: Charles Scribner's Sons, 1980), 729-35.

28. Quoted in Mehr and Cammack, *Principles of Insurance*, 680.

29. Ibid., 679-81.

30. E.g., National Bureau of Casualty Underwriters, "Service and Strength by Association," *Casualty and Surety Journal* 17:4 (July 1956); "Moss-Grown? Critics of Fire Insurance Charge There are Too Many Bureaus, Too Much Red Tape," *Business Week*, 3 June 1950, 78; "Fire Insurance Rate Battle Shapes Up," *Business Week*, 21 August 1954, 86.

31. Mehr and Cammack, *Principles of Insurance*, 679-81.

32. "Packaged Policies," *Business Week*, 100.

33. Marquis James, *Biography of a Business, 1792-1942: Insurance Company of North America* (Indianapolis: Bobbs-Merrill, 1942), chapter 1; Carr, *Perils*, 10-12.

34. Rush, "Multiple Line Coverage,"181-84; Charles J. Haugh, "Postwar Problems in Casualty Insurance," *Casualty and Surety Journal* 5:7 (August-September 1944), 15-17, 19-20; S. Bruce Black, "Multiple Line Underwriting Powers," *Journal of American Insurance* 22:1 (January 1945), 6-7, 21; Carr, *Perils Named and Unnamed*, 155-56, 241-47, 261-65; Marcus Abramson, "The 1945 Legislative Impact," *Casualty and Surety Journal* 6:10 (December 1945), 13-14.

35. "Ray Murphy Reviews Progress in Multiple Line Powers Legislation," *Eastern Underwriter*, 16 September 1949, 48; Carr, *Perils Named and Unnamed*, 261-65; "Package Policies," *Business Week*, 100-01.

36. Hubbard Hoover, "When Will You Be Sued?" *Saturday Evening Post*, 5 April 1947, 91.

37. Ibid., 92.

38. Ray Giles, "Let 'Em Sue! If You Have C.L. Insurance," *Better Homes and Gardens* 26 (November 1947), 206; Giles, "It Protects You Without a Loophole," *Better Homes and Gardens* 27 (October 1948), 254.

39. "Are You Under-Insured? What Every Home Owner Should Know About Insurance," *House and Garden* 90 (August 1946), 85.

40. Hoover, "When Will You Be Sued?" 28, 89.

41. "Packaged Policies," *Business Week*, 100.

42. "Moss-Grown?" *Business Week*, 78; "Fire Insurance Rate Battle Shapes Up," *Business Week*, 21 August 1954, 86.

43. Carr, *Perils Named and Unnamed*, 264-65; Black and Rossi, *Entrepreneurship and Innovation*, 284-86.

44. David L. Bickelhaupt, *Transition to Multiple-Line Insurance Companies* (Homewood, Illinois: Richard D. Irwin, 1961), 8-9.

As Schumpeter's theory regarding clusters of innovation suggests, other insurance firms took the multiline innovation in INA's homeowners policy and applied it to other coverages. Erie Insurance, for example, introduced a "Farm Owners Policy" which combined fire, theft, extended coverage, personal liability and property liability coverages into one policy for farmers. Black and Rossi, *Entrepreneurship and Innovation*, 286-87.

45. In 1951 fire insurance premiums stood at $1.3 billion; in 1961, they were still $1.3 billion ($1.3 billion average for the 1951-1961 period). *Historical Statistics of the United States*, v. 2, 1062, 1064; Melville, "The Homeowners Policy," 1; Gerdes, "Review of 1959," 2.

Between 1945 and 1950 new housing starts increased 128 percent from 326,000 to 1.95 million in 1950. The number of new housing units built between 1950 and 1959 averaged 1.5 million per year. Reflecting on this tremendous increase in and change of American residential housing, Esmond Ewing, Vice President of Travelers Insurance, observed that "American life has become increasingly home and family centered. . . . home ownership [and] larger family size are ... indicative of this trend." *Historical Statistics of the United States*, v. 2, 639; Esmond Ewing, "The Marketplace of Tomorrow," *The Casualty and Surety Journal* 17:1 (January 1956), 1.

46. H. O. Hirt, President, Erie Insurance, "Failures," undated Special Bulletin, c. 1957, Erie Insurance Corporate Archives, Erie, Pennsylvania; "Insurance Rates Put on the Pan," *Business Week*, 12 November 1960, 146; Gerdes, "Review of 1959," 2.