

THE WALL STREET JOURNAL

REVIEW & OUTLOOK EDITORIAL

Massachusetts Miracle

May 6, 2008: Page A22

Remarkable news from Massachusetts, of all places. Car insurance premiums are going down. For three decades a Bay State regulator has set the price of car insurance, leading to an annual tussle between insurers and consumer groups over the size of the increase. This led to some of the highest insurance rates in the country.

Because there was no price competition, some of the biggest insurers wouldn't do business in the state. During this exercise in central planning, the number of insurers dropped to 18 last year, from more than 70 three decades ago. But as of April 1, the state government decided to try a little experiment in the free market. We do mean little – proposed premiums must still be filed with the regulator, who can approve them or not. And many factors used to set rates in other states – such as credit history – are barred.

Even so, this modest experiment in price competition is already working to reduce costs for consumers. Progressive, the third-largest insurer in the country, entered the market May 1 with rates that are on average 18% below the old price-controlled rates. Overall, premiums in the state are due to fall nearly 8% this year as insurers adjust to a world in which they need to compete to attract customers instead of bargaining with their regulator for price hikes. Imagine: When you remove price controls, supply increases and prices fall.

Massachusetts calls this new regime "managed competition" and the early returns already suggest that it beats central planning by a mile. A little less management and a little more competition would produce even more dramatic results. But this is still Massachusetts we're talking about.