



GOVERNMENT and BUSINESS --
PARTNERS or ANTAGONISTS?

Address

delivered by

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When your President invited me to address you this afternoon, he left the choice of topic completely to me. Following Mr. Carter's address last week, perhaps he assumed that a brisk argument between us over the taxation of life insurance would be as inevitable as both death and taxes. Preceding Honest Ed next week, he may have intended me to appear as a flamboyant entrepreneur in contrast to that staid and conservative businessman.

Unfortunately, Mr. Chairman, I must disappoint you on both counts. When I began to examine my credentials for being accorded the honour of addressing the Canadian Club, I concluded that -- while relatively few -- they must relate to the fact that I have had the rather unusual experience of both supervising an important industry and running a large company within it.

These are times when one hears much about the "public sector" and the "private sector" -- about bumbling bureaucrats and politicians on the one hand, and greedy money-grubbers on the other -- as though Canadians in government and business were living in two different camps virtually at war with one another. My career has given me a foot in both camps and -- I trust -- an understanding of both points of view. For a few minutes this afternoon, I should like to share with you some thoughts about the relationship between government and business in Canada, particularly as this relationship is illustrated by the experience of the life insurance industry, and as changes in this most important relationship may affect the prospect for future economic growth.

Everyone concerned about the future of Canada has, I am sure, been pleased and heartened by recent signs that the two founding peoples of Canada seem to be ready to exchange their "two solitudes" for active -- and meaningful -- dialogue.

For the first time, deeply-held convictions are being expressed openly, and we are being given some idea of what is needed to hold this country together and build a solid partnership. Such a dialogue entails some risks. It requires frankness about one's own position and feelings, a willingness to attempt to understand the other person's point of view, and an acceptance of the need for accommodation and compromise. Without these attributes, any dialogue is almost certainly doomed to frustration and failure.

I believe that this same kind of dialogue is needed on the fundamental questions affecting the future of the Canadian economy. Government is now taking a very detailed interest in the private sector. It sees itself more and more completely as the guardian of the public interest, the counterweight to the powerful organizations in the private sector. The old principle of caveat emptor now seems to be regarded as inadequate. Developments regarding such questions as automobile safety, disclosure of corporate affairs to investors, packaging of consumer goods, and the ownership of Canadian business are all evidence of this trend. However, if the business community should come to feel itself harassed and stifled by a growing web of regulations and restrictions, we could drift into an atmosphere of frozen hostility between government and business which could only lead to a slowing of economic growth or even to economic stagnation. Yet I am sure that no one really wants to kill the goose that has been laying all the golden eggs. Theodore Roosevelt once expressed it this way:

" We demand that big business give people a square deal; in return we must insist that when anyone engaged in big business honestly endeavours to do right, he shall himself be given a square deal."

Vital to any dialogue is one ingredient -- mutual respect. I must say that I am distressed by the apparent lack of respect between the business community

and government at the present time. For their part, businessmen often look upon politicians and civil servants as stereotypes: people who will do anything for a vote, or to build their own empires. Similarly, government people -- too often -- regard businessmen as a breed conditioned by narrow self-interest who will do anything for a profit. My own view is that neither government nor business is nearly as bad as the other tends to paint it.

Not too long ago, I came upon a quotation from Walter Lippman, written during the crisis of 1932, which I believe is worth repeating:

"A demoralized people is one in which the individual has become isolated . . . He trusts nobody and nothing, not even himself. He believes nothing, except the worst of everybody and everything. He sees only confusion in himself and conspiracies in other men."

There is enough in this quotation, which seems to overstate only slightly, if at all, the present situation in Canada, to make us pause and think. It has frequently been said that a people gets the government it deserves. If there is confusion in Ottawa, it may well be that circumstances there reflect a fundamental malaise in the country, a widespread uncertainty about both ends and means. In this situation, it ill behoves us to blame everything on the politicians.

So let us start here, since respect begins with perspective and fairmindedness. The standards of public service in Canada are much above those in many other countries. As members of the business community, we must appreciate this. We have a highly-qualified cadre of senior civil servants, who are honest, hard-working, deeply patriotic and yet sensitive to the needs of society. Far too often, our parliamentarians are not given enough credit for the work they do. Elective office is a tough league involving sacrifice of normal livelihood, absence from family,

pressure from all sides, and a very uncertain future! In my opinion, even that much maligned institution, the Senate of Canada, has performed a very worthwhile function, making a thorough and conscientious study of most legislation -- sometimes more carefully than the Commons. I doubt whether anyone appeared before Parliamentary committees more than I did during my last fifteen years in government service and I can vouch for the value of the work done by the committees of the Senate -- especially the Banking and Commerce Committee.

Of course, we also have the right to expect that people in government will realize that most businessmen in this country are just as concerned as they are about the stability and prosperity of the nation, that businessmen are prepared to work toward the solution of social problems, and that businessmen are more likely to be for something than against something, if it is presented in the right way. After all, business people must constantly be thinking ahead, exploring the possibilities for change and growth -- otherwise, they would not be in business in the first place. Government should attempt to mobilize this optimism and forward-thinking attitude, rather than clash head-on against it.

Whatever the attitudes of government and business may be in the future, one thing is certain. The actions of one group are bound to affect the other. The area between the public and the so-called "private" sector is becoming more blurred all the time -- and nowhere is this more evident than in the area of operations of the life insurance industry. In fact, this industry provides an interesting case study of how relationships with government have shaped its development in the past and how they may affect its future.

Direct interaction between government and the life insurance business has occurred at three levels. First, life insurance companies have been given certain special powers by government. These powers are contained in the legislative and constitutional framework in which we must operate. Such powers were granted, and have been maintained, because successive Canadian governments have believed that life insurance, by providing a means of building personal financial security on a very broad base throughout the population, as well as a stable source of long-term savings for investment in a growing economy, is both socially and economically desirable. It was these views -- not merely administrative difficulties as the Carter Commission implied -- that led to the present system of taxation of the life insurance process.

The second level of interaction has been in the field of supervision. Because of its very long-term nature, and its importance to the financial security of so many Canadians, life insurance was one of the first businesses where government felt the need for supervision to protect the public interest. Government action in this respect has greatly influenced the character of the industry today.

The third level of interaction -- and the one which is most likely to be of concern in the future -- is direct government competition with or take-over of services provided by the life insurance industry.

Let me comment on each of these levels of interaction in turn: the constitutional and legislative framework; the supervision of the industry; and the shifting boundary between public and private effort in this area of personal financial security.

Federal insurance legislation in Canada has always consisted mainly of an enunciation of principles rather than a detailed code as in the United States. On the

whole, our system seems best, but it does leave more room for differences of opinion and administrative discretion, and it also presupposes the existence of a capable staff charged with its administration. In my own experience, when questions were raised, what the companies seemed to appreciate most was a willingness to discuss them on their merits, and prompt and definite answers -- even if negative, provided that reasons were given.

Over the years, the major legislative problems with respect to the insurance business have been in the area of conflicting jurisdiction between the federal government and the provinces. Prime Minister Bennett indicated the severity of the conflict when he used these words in the House of Commons in 1935:

" There is no subject that has been so much discussed from time to time in the courts of this country as has the jurisdiction of the provinces and the Dominion with respect to insurance legislation."

Even the Privy Council in London, to which many of the disputes were referred, grew tired of the conflict, as indicated by this passage from a judgement in 1931:

" This case is, it may be hoped, the last of the series of litigations between the Dominion and the provinces with regard to insurance."

Banking was specifically mentioned in the B. N. A. Act and was assigned to the federal Parliament with the result that jurisdictional disputes in this field have been virtually unknown. Insurance was likewise assigned to the federal Parliament in an early draft of the B. N. A. Act but was omitted altogether from the Act as passed. The cost of this omission has been high in terms of legal disputes and it has only been since the Second World War, eighty years after the Act was passed, that a modus vivendi evolved which has proved generally satisfactory to all concerned. I mention this mainly to illustrate the great advantage of

certainty and precision in any division of powers in the constitution. Those who may be drafting amendments to the constitution during the next few years should keep this in mind. Where business is involved, it is essential that the law be clear in form and intent.

Having been intimately involved in supervision of the industry over many years, I can possibly throw some light on the way in which, through accident and design, government action has shaped the Canadian life insurance industry. For example, one of the major concerns of Canadian economic policy today is the problem of foreign control of Canadian businesses. Almost from the beginning, only ten years after Confederation, a pattern was set which resulted in domination of domestic life insurance by Canadian firms. Interestingly enough, this result was not intentional. At that time, when roughly three-quarters of Canadian life insurance was in British and foreign companies, new legislation provided that any new insurance business in Canada had to be covered by assets in this country at least equal to a company's liabilities in Canada, including its actuarial reserves. This requirement was unacceptable to many British and foreign insurers then writing life business here, and about half of them discontinued new business. Although most of these companies re-entered the field years later, when the justice of this requirement was more widely accepted, their withdrawal for a long period induced the formation of many Canadian companies and enabled them to gain the strength and momentum which they have maintained to this day. As a result, Canadian firms now have 71% of the life business in this country. In more recent years, further legislation has ensured that control of Canadian life insurance companies will remain in Canada.

In the early free-wheeling era, government supervision was designed mainly to restrain and control in order to protect policyholders who had placed their savings

in life insurance. In that era, there were undoubtedly many abuses but none which led to a loss by policyholders of a Canadian company. The present pattern of regulation was established after a searching Royal Commission investigation in 1906. From the lessons of those days came the present strength and reliability of the Canadian life insurance business and its world-wide reputation. This achievement was an outgrowth of three forces: a reasonably flexible legislative framework; the development of a high standard of supervision; and the breakthrough of highly skilled, competent and responsible management on the part of the companies themselves. The interplay of these forces provides evidence that it is possible for government and business to combine their points of view and responsibilities creatively for the public good.

I cannot speak too highly of the standards of integrity and competence shown by the men in the Department of Insurance under whom I was trained. These men enjoyed the confidence of successive Ministers of Finance. At the same time, they clearly commanded the respect of the companies supervised, notwithstanding many sharp differences of opinion and the clash of dissimilar personalities. What impressed me, as a young man in the government service, was the strenuous search by Departmental officials for right principles and strict adherence to them. For them, and for the Department, absolute independence and integrity were the only acceptable way of life. No instructions or rules were necessary; the examples of those in charge were overwhelming. I mention these matters merely to indicate my own experience in government service. I have no reason to think that the standards in other branches were any lower than those in the Department of Insurance. This was the atmosphere in which I grew up -- one of honest effort by government officials to assist private enterprise in achieving its full and proper purpose without strangling it by regulations.

The attitude of the government toward the management of most life insurance companies gradually changed from one of condemnation and suspicion at the beginning of the century to one of increasing confidence and respect. This trend became particularly evident in the 'thirties and 'forties when the companies and their officers co-operated with the government to get the N. H. A. Act into effective operation, during the Second World War when they lent ready assistance in financing the War effort, and at the beginning of the 'fifties when the universal Old Age Security system was implemented. More recently, the companies have endeavoured to co-operate with the government in determining their investment policies -- especially in the provision of mortgage money for housing -- and it is disappointing that a few individual critics in government have seemingly expected the companies to do the impossible, as indicated by their exhortations to lend or invest more funds than are available to the companies for investment.

The important point I wish to make is that government supervision of life insurance has been successful, and has contributed to the industry's growth and strength because the respective roles of the industry and of the Department of Insurance were well-known and clearly understood by both parties. Each was an essential partner in providing sound, stable life insurance for Canadians, and for the clients of Canadian companies abroad.

It might be argued that the industry would have grown faster and in a more venturesome and aggressive way without the legislative and supervisory controls. Perhaps this is true, but in institutions so intimately involved with the savings of Canadians, some relatively conservative balance must be struck between risk and stability. My own view is that the combination of effective supervision and intense competition among the companies within a stable legislative framework, has given

the industry a strength -- and enabled it to make a contribution to Canada's growth and welfare -- which an unregulated business would not have achieved.

One of the most depressing moments of my career in government occurred when I appeared before the Royal Commission on Banking and Finance and was asked whether I thought supervision was really necessary in view of the long record of no failures with loss to policyholders, depositors or creditors of any of the hundreds of companies under the Department's jurisdiction -- a unique record unequalled in any other country. It is probably human nature to want to save on the fire department when there have been no fires in town for some time. The problem is that when something does go wrong, the pendulum is apt to swing too far in the opposite direction with demands for a multitude of unnecessary new regulations.

I hope that anything I have said will not be misunderstood. I am not advocating government regulation of business in general nor am I suggesting that the type of regulation appropriate for a long-term business like life insurance would be required for other types of business. Far from it. Notwithstanding my years in government, I am -- and always have been -- a firm believer that the less governmental intervention there is in business the better and that governments should refrain from entering fields that are already adequately served by private enterprise. I make no apology for these views which I also expressed while in government service.

Nevertheless, for those businessmen who may now be faced with government supervision for the first time, I believe the experience of the life insurance industry provides considerable encouragement. As I have already indicated, so much depends on attitudes: recognition by business that there is a public interest to be protected;

mutual respect; and a desire on the part of the supervising officials to help business to do its job better, and not to act as if business were a wild horse to be roped and broken.

Finally, with regard to the life insurance business, we come to the third level of interaction -- and one that is likely to be ill-defined and debatable for some years to come. It concerns the ever-changing demarcation line between government and private enterprise where both are providing the same or similar services. This question ranges over such diverse fields as transportation, broadcasting, housing, and the marketing of farm products. In no area, however, is the shifting line less easy to define than in services already provided by the life insurance companies. If there has been conflict and a deterioration in relations between the industry and government since the mid-'fifties, it has been the result of growing uncertainty and confusion of roles arising from interactions at this level involving continual expansion by government into fields pioneered and occupied by the industry. Essentially, the argument centers around the best method of supplying the means of personal financial security to the individual.

In the years ahead, it is not going to be easy to define the criteria by which the necessary judgements can be made. Up to a certain point, broad government coverage for the low-income and needy is probably essential, since it would be inappropriate for private enterprise to undertake the redistribution of income involved. Above certain income levels, however, universal state plans have diminishing returns whereby the cost of providing the service exceeds the utility of this form of benefit to the individual. As average income levels rise, the increasing numbers of people with discretionary income who will want to plan and tailor their own financial security programs for their own special needs should,

in all fairness in our society, be given the opportunity to do so. In order to arrive at any kind of effective demarcation line -- as one recent study has pointed out -- the entire question of welfare and financial security will have to be removed from the "realm of ideology" and looked at much more closely from the viewpoint of the relative costs and benefits to the individual.

Here again, so much will depend on attitudes. Future economic growth is contingent on the willingness of businessmen -- who are the major employers and investors -- to do new things, and to do old things better and more efficiently. If government in future interprets its role as giving it priority to push into areas which can be adequately served by the private sector, the confidence and attitudes of businessmen are bound to be affected adversely. On the other hand, entrepreneurial attitudes can be affected favourably if the atmosphere is one in which governments themselves encourage private enterprise to develop new activities and the whole legislative, regulatory, and taxation system is designed to bring this about. Briefly, the argument comes down to this: Will the private enterprise goose be cooked and eaten or will it be fed the right mash to increase its production of golden eggs?

For Canadian governments and business, the choice is clear. Are they to be partners or antagonists? On the answer to this question, not only for the life insurance industry but for the whole economy, the future economic growth of Canada depends. Surely, there can be only one sane answer.

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