SPEECH FOR SENATOR ROBERT MORGAN
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I am very happy to be able to join you at your thirty-fourth annual meeting. I feel comfortable, as a native North Carolinian where the license plates read "First in Freedom", to be among men and women who assert their independence with a capital "I", and run businesses that, while generally are considered small, compete successfully in the market with giants.

Your label, I know, is not just a declaration as "Independents". It is in fact, a declaration of competition. By rejecting rate-making by bureaus and by adopting, instead, the principle of rate-setting by the individual firm, your organization showed how price competition can work to benefit the consumer. I take my hat off to you. You are to be congratulated, not simply for surviving for 34 years as an organization, and growing to a membership of over 450 companies -- but for keeping vigorous the spirit, as well as the reality of free competitive enterprise.

In accepting this invitation to attend your meeting today, I knew I would be among friends, because your national chairman, Grant Whitney, is one of my good friends. The invitation however, did indicate that there's no more "free lunch". I was told I should be prepared to say a few words, and possibly to field a few questions.

I would like to talk today about three topics that are on the front burner in Washington, and are of vital concern to you: inflation, SALT and Federal involvement in the insurance industry. Let me begin with the interest in your own business first, before moving on to some comments about our national economic and world security problems.

It has been more than a decade since insurance has been so high in Washington's mind. More than half a dozen legislative proposals have already been introduced this year. There were hearings in the Senate yesterday. There will be hearings in the House next week. There will be more hearings on the subject before this Congress adjourns. While Washington may be an island in some respects, I don't think this particular interest is confined to the capitol.

A national consumer movement has grown up during the past decade and has persistently lobbied Congress for consumer protection legislation covering broader areas of our economic life. During the same period, a neighborhood movement also has grown up in our cities. This movement has led to a greater awareness of the crucial role that insurance plays in the life of our cities, and to greater demands that the industry respond to social objectives of insurance, in addition to carrying out its management functions. These are but two of the forces that have come together to pressure Congress to reexamine the way insurance is supplied and regulated in our country.

Last year, as you know, the President established a National Commission to review our anti-trust laws and procedures. I was privileged to serve on that Commission. One of the subjects which the Commission reviewed was the McCarran-Ferguson Act which exempts the business of insurance from anti-trust legislation. As you can imagine, this became the subject of considerable debate.

In the words of the final report (page 234) "The Commission found little, if any, evidence in favor of the present blanket immunity." In calling for reform, but not outright repeal of the McCarran Act, the Commission re-affirmed the need to maximize competition in the industry. At the same time, it recognized the need for continued regulation by the States. "It is important," the report states, "for public officials to attempt to reconcile the maintenance of competition while ensuring that social goals for insurance are also protected."

I personally favored a limited reform of the McCarran Act. I strongly opposed outright repeal and several proposals to replace state regulation by establishing broad Federal regulatory authority. The Commission also recommended further study of the industry in order to suggest, among other things, "the appropriate mix, if any of state and federal legislation".

The Department of Justice, the Federal Trade Commission and other organizations have carried out work related to this recommendation. Just yesterday the General Accounting Office, the investigative arm of the Congress, released a study of the effectiveness of State Regulation. I know this study is of considerable interest to you. Because you probably have not yet seen its findings, let me review them for you now.

After analyzing information it received from a survey of all State Insurance Departments, and from field studies carried out in 17 states, the GAO concluded as follows: "There are serious shortcomings in state laws and regulatory activities with respect to protecting the interests of insurance consumers in the United States... The protection of consumer interests in obtaining insurance needs improvement."

The GAO found:

(1) that although all states have laws prohibiting unfair trade practices, none appear to have standards, or to use them, in assessing trade practices in the insurance industry.

(2) that while most State Insurance Departments do answer consumer complaints, they have little authority to correct abuses. Few maintain any system for analyzing consumer complaints or for using them in the examination process.

(3) that few states have instituted the changes in financial reporting and regulation that were recommended by the National Association of Insurance Commissioners over five years ago.

(4) that few states have carried out studies to determine the extend to which insurance availability, or

"redlining", is a serious problem.

(5) that few states examine systematically the reasons why insurance applicants are rejected and are classified as assigned risks.

(6) that few states grant consumers the right to know why their applications for insurance are turned down.

As you can see, the report by the General Accounting Office is not exactly filled with praise for state efforts to regulate your industry. You can be sure that those who support shifting regulatory authority to the federal government will cite these findings for months to come.

Frankly, the GAO report does not sustain the position of those who hold that state regulation is doing the job effectively. But neither does it deny the position of those of us who contend that we should continue to rely on the states in this field.

While I find the GAO report somewhat unsettling, it seems to me that what the investigators have really said is that: "We cannot tell how effectively the states are regulating the insurance industry because they do not collect the information that is needed to make a judgment."

The GAO Report, it seems to me, does document the need for additional information and study - which was the recommendation of the National Commission. At the same time, it also clearly indicates certain changes are needed, if states are to succeed in strengthening competition in the industry and in achieving the social objectives of insurance.

I have indicated to you my very strong belief that state regulation of insurance is our best assurance for maintaining a strong and competitive industry that will continue to serve social objectives. Continued reliance on the states will, I am convinced, preserve Federalism, and all of the traditional values embodied in that concept; will assure continued innovation in the manner that Justice Brandeis predicted; will provide greater responsiveness to local needs; and will provide the best product at the lowest price.

The GAO, by the way, found evidence to affirm these beliefs, as well as some evidence to contradict them. They noted, as contradiction, that some insurance problems are national in scope and could benefit from economies of scale if dealt with on a national basis. GAO also had particular reservations about the fact that approximately one-half of the State Insurance regulators were previously employed by the insurance industry, and roughly the same proportion joined the industry after leaving office. It clearly was critical of state regulation for not fostering an arms-length relationship between regulators and the regulated.

In declaring my support for continued reliance on state regulation, I do not want to ignore the fact that there is, already, an important federal presence in insurance. And to be realistic, I don't see that presence disappearing soon. The federal government is probably the largest single insuror in the world. It insures federal property as well as several million military and civilian employees. It provides certain insurance coverages to eligible participants, for example, social security to workers, flood insurance to property owners, crop insurance to farmers.

The federal government also regulates insurance in certain ways: the Internal Revenue Service requires certain financial reports; the Department of Labor regulates certain matters affecting employees of the industry; the Securities and Exchange Commission regulates certain financial transactions; the Flood Insurance Administration oversees certain programs administered by private insurors. A recent survey indicates there are some forty different federal initiatives in the insurance field. The role of the federal government in insurance, moreover, is subject to rulings by the courts, and some recent decisions indicate that the courts now view the federal role more broadly than in the past. The McCarran Act, as well, is viewed by many as conferring oversight responsibilities at the federal level.

Some of the discussion in Washington and elsewhere, it seems to me, overlooks these facts. Frankly, I think we often spend too much of our time debating the wrong question. It seems to me that the current debate should be focused, not on the question of whether the federal government should be involved, or whether it shouldn't, but rather on the objective outlined by the National

Commission in its recommendation for further inquiry: what should be "the appropriate mix of state and federal legislation, and what aspects should be covered. In the recently-published words of an insurance company official: "It is fair to say that the insurance industry is already subject to dual regulation...by federal and state governments over different aspects of the business. The present state or regulation...indicates a need for careful industry evaluation of existing regulatory structure". It seems to me that such re-evaluation is needed to assure that essential insurance needs are met and that competition is freed to do what it can do best.

The insurance industry, including some 3,000 companies with assets of at least $500 billion, is clearly one of the most important industries in the nation. It is A competitive industry, as well as a complex one. Its activities affect, in very fundamental ways, our lives as individuals, as well as the life of our cities. You can be sure that the Congress, in the disucssions it will be holding in the months ahead, will constantly be reminded of this.

Let me turn to the subject of inflation and the national economy for a few moments. I recently spent a recess period traveling in my home state. I learned, what I believe most other Senators learned during that period, that inflation is the major problem concerning Americans today. And I read this weekend that world bank officials meeting in Yugoslavia this past week reported the same from other developed nations of the world.

It is clear to me, as well as many others in Washington, that if we want stable prices, we are going to have to pay a price. We are going to have to, as a nation, control government spending. During the past decade, federal budget deficits increased steadily, with a peak deficit of an astonishing $66 billion in 1976. In 1974, the Congress passed the Congressional Budget Act in order to increase its control over federal spending. With the help of that Act, Congress this year limited the spending deficit to less than one-half the 1976 figure, and we expect to cut that further next year as we move to a balanced budget. I supported reductions in federal spending, and will continue to do so, so long as our fiscal policies stimulate further inflation.

Federal spending policies are not, however, the only inflationary stimulant. Too many dollars may be chasing too few goods because we are producing less. And that is exactly what has been happening. U.S. productivity has declined steadily in recent years. Some attribute the decline to lack of business investment in capital goods; others focus on lagging research and technological innovation; still others worry about the alienation of workers from their jobs, or contend that government regulation is strangling business enterprise.

We are going to have to examine each of these possibilities and others as well, and make changes that are necessary to increase productivity. It's clear we need to increase capital investment and this may require increased tax incentives. It's clear that we need to reduce unnecessary government regulation, and I have consistently supported efforts to curb required paperwork which produces nothing. We must, however, be careful that we do not, unthinkingly, sacrifice the health and well-being of our labor force and our population. We have to remember that the Wealth of the Nation, as Adam Smith pointed out, is its people.

It is evident that we must, as a nation, learn to conserve if we are going to lick inflation. Conserving resources means more than just conserving energy. But energy, since we have to pay others for so much of it, must be our first conservation priority. And that means that all of us, in our cars, in our homes, and in our businesses, must learn to do with less. We must as a nation learn to spend less for government. We must as individuals do more, if we are going to achieve high levels of production and employment, and more stable prices.

Finally, let me turn briefly to SALT. As you know, the President has negotiated and the Senate will soon consider ratification of the SALT Treaty. The debate over SALT will be one of the most significant ever held in the Senate. It could possibly be the most important legacy that you and I will leave to our children, since it could crucially influence future prospects for war or peace, and the nature of that war or peace.

I fear that the coming SALT debate might generate more heat than light. The issues concerning the U.S. and USSR military capabilities are very technical. There are may different positions being staked out, and there are qualified experts to support each of them. Emotions will, undoubtedly, run high. All of us, directly or indirectly, will play a part in this critical national debate. It is important that this debate be carried on rationally, without resort to jingoism or great emotionalism. We must decide the issue on the basis of what is in our real national interest.

The basic questions involved in SALT do not lend themselves to simple answers. If we are to determine whether the treaty is in our national interest we must, I believe, ask the right questions.

One question is not "Can we trust the Russians?" The real question is "Can we verify whether the Russians are complying?" Our intelligence should be able to tell, and tell us quickly, when essential elements of the agreement are being violated. If they determine that there is any degree of doubt, then we should not ratify the treaty.

A second question is not "Will the U.S. military position be frozen at a disadvantage to us?" The real question is "Will SALT increase or decrease the stability of military positions, and so increase or decrease the risk of nuclear war?" We must determine whether the treaty will significantly alter existing capabilities and permit a decisive superiority to be gained. If the evidence strongly indicates that a decisive superiority will result, we should reject the treaty.

There are other questions that also should be answered. But there is one above all that must be asked, and answered. "What will be the result if the U.S. rejects the treaty?" This is the most difficult of all the questions we must answer. It is the one that I believe each of us must consider most carefully.

I have tried in these past minutes to share with you some thoughts about three topics now on the front burner in Washington. They deal with your business, the national economy, and world peace. As you can see, they are the same concerns you have.