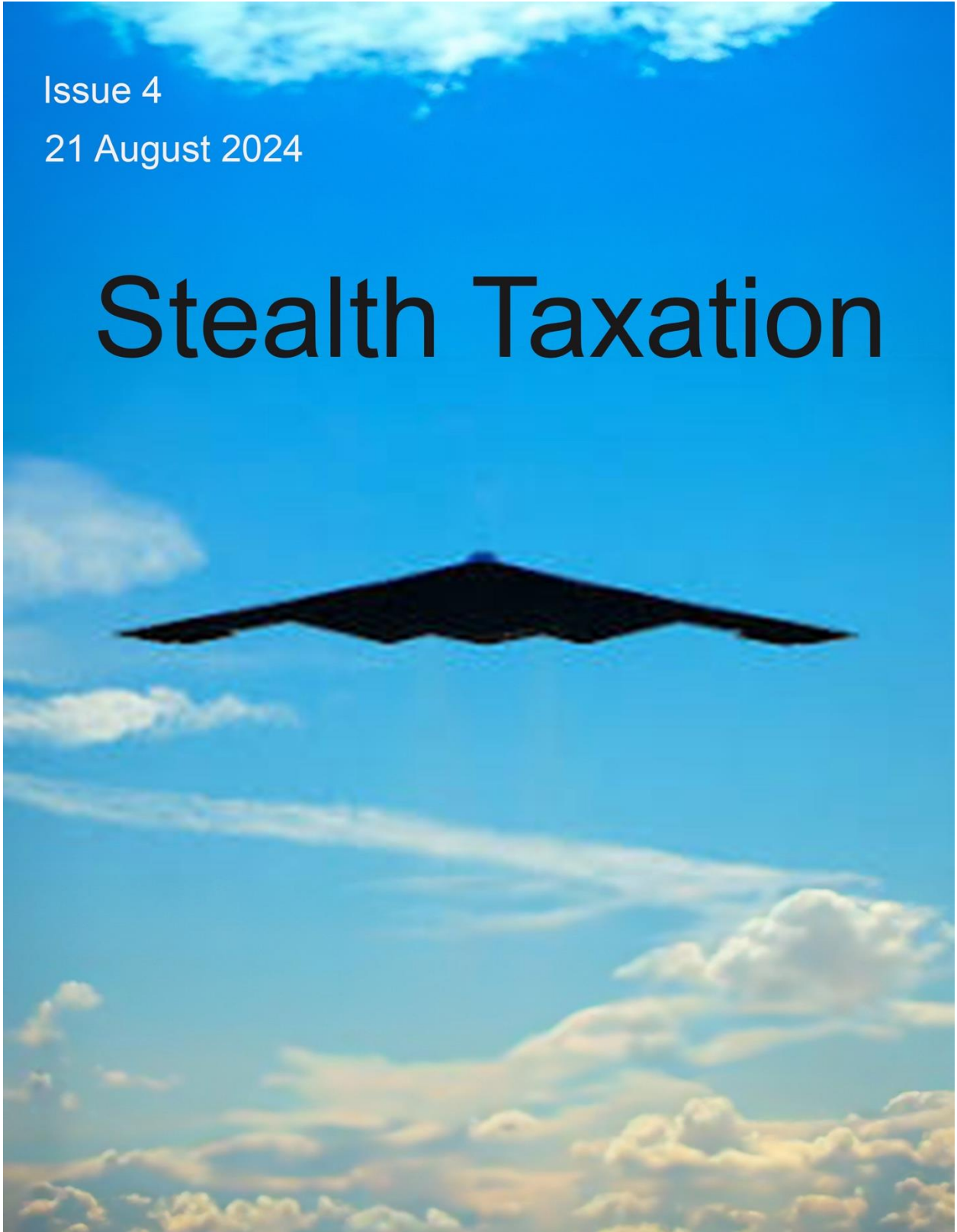


Issue 4

21 August 2024

# Stealth Taxation



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## Stealth Taxation

### THE SCENE

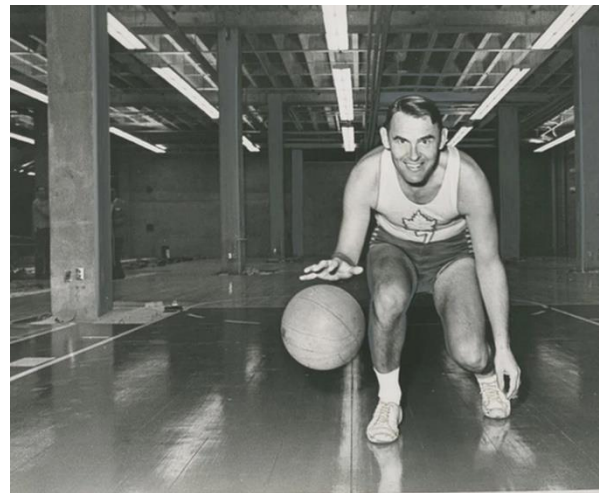
The year 1975 was an eventful one. The Vietnam War ended. The Lebanese Civil war began. Jaws and The Rocky Horror Picture Show were the hit movies of the year. In Canada, we struggled with the shift from imperial to metric measurement systems and fiddled with the scheduling features of our new Betamax and VHS recorders. Back East the last section of the CN Tower, at the time the world's highest free-standing structure, was put in place. Out here on the Left Coast Barrett's NDP government was on its way out, the Socreds were on their way back in.

### THE PLAYERS

The new Premier, Bill Bennett Jr. is portrayed by Bob Plecas<sup>1</sup>, in his book *Bill Bennett, A Mandarin's View*, as an intense, disciplined young man, anxious to prove that his father's gift of the Socred party leadership was well placed. He comes into the job as a successful businessman.

In the same book Plecas portrays the Barrett government, the first taste of NDP governance in the history of the Province, as a wildly undisciplined force. In the 1975 election campaign that sentiment, already held in many minds, was encouraged by the Socred campaign's message. Simply put: *the only option to the NDP wreaking further havoc inside the gates of the Provincial Treasury was electing Bill Jr and his business expertise.*

The new head of ICBC, Patrick Lucey McGeer, was born in Vancouver on 29 June 1927, into one of B.C.'s most prominent political families — his uncle Gerry was Vancouver's mayor for several years during the Great Depression. McGeer was a basketball star in his youth who was good enough to make the Canadian team in the 1948 Olympics.



(Image Source: Vancouver Sun 30 August 2022)

After obtaining a chemistry degree at UBC, he went to Princeton, where he got a doctorate in chemistry. He then went on to medical school at UBC. He and his wife Edith were internationally known for their research into Alzheimer's disease. He had a reputation of not suffering fools gladly. He had no insurance experience.

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(Image Source: Vancouver Sun 30 August 2022)

Politically, one of the many things the very creative McGeer wanted to do was build a bridge to Vancouver Island. Fortunately (from an Islander's perspective) he was destined to perform other miracles instead.

The first occurred in 1973 when, as Leader of the Provincial Liberal Party, he led his caucus into the arms of Bill Bennett's Social Credit party. This united the right and led directly to the electoral defeat of Dave Barrett's NDP government two years later on 11 December 1975.

On 12 December 1975 the good news for McGeer was that he was rewarded with a seat at the cabinet table as Minister of Education, Universities, Science, Communication and International Trade. The bad news was he was also given responsibility for an ailing ICBC.

At the time of his ascension to the dual roles of President and Chairman of the Board at

ICBC, the Corporate vessel was in turbulent financial seas and listing heavily to the left. But unlike the Hesperus, the Titanic and the Edmund Fitzgerald, McGeer was there to 'right' the ship.

## A TALE OF TWO VISIONS

The 1973 iteration of the NDP saw ICBC as a social instrument. As such, they had always intended to meet the cost of automobile insurance through two different sources of funds, one individually centered and the other with a societal focus. The first was premium revenue collected directly from motorists by ICBC. The second was the redirection of a portion of the monies initially brought into General Revenues through the existing gas tax<sup>2</sup>.

To the socialist thinking business mind, individual premium rates set by ICBC brought vehicle owner responsibility into play through claims histories and driving records--- a nod to the Corporation's mandate of making roads safer. Gas tax transfers provided that those who were more active on public roads generally contributed more to accident frequency and should therefore also contribute through the gas taxes collected at the pump. During the '73 to '75 NDP tenure in BC, the Feds had just raised the wellhead price of Canadian crude by two dollars a barrel. That bumped up the amounts collected by the Province through the gas tax. Lots of cash to go around.

Politically, the less visible gas tax transfer would enable the NDP to deliver on their

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otherwise unrealistic election promise of lower car insurance rates. At the same time, it allowed them to introduce socially oriented adjustments to ICBC rate collection. These adjustments included reducing the purely actuarially derived premium rates for northern residents and for young drivers. While the political and social advantages were obvious, the problem was that the NDP lost the election before the gas tax transfers were executed. This put ICBC in a deficit position at the time of Bill Bennett Jr.'s electoral victory.

Bennett and his party on the other hand, saw ICBC as much more a business and much less a social instrument. They justified not using the gas tax transfer as originally intended by characterizing it as a subsidy to a Crown corporation. That left hiking individual premiums as the only way to stabilize ICBC financially.

## THE PREMIUM PROBLEM

The premium problem of course is the public backlash that significant increases in the cost of car insurance inevitably create. Fresh on everyone's mind was how that sort of thing had led to the recent demise of the private sector insurance business.

## THE TAX PROBLEM

Every government loves getting more money. Money is power to execute their agenda. However, no government likes to be seen as raising taxes.

## THE SOLUTION

Bennett was a strategic thinker. In fact, some historians have marked the beginning of complex governmental administrations heavy on careful messaging in BC with his ascendance to power<sup>3</sup>. The ICBC solution he and his cabinet came up with started right out of the gate within days of taking power.

*Rather than using the gas tax to stabilize ICBC financially as was originally intended, they decided to jack up automobile insurance premiums. The rate raise was framed as a way to counteract poor NDP management and bad drivers. Implementing a premium increase preserved the gas tax cash pool for other projects. This effectively increased government revenue without calling it a tax increase. As a bonus it brought ICBC more into line with the Sacred business perspective.*

This became the first incidence of what I call *Stealth Taxation*. Unfortunately, almost every subsequent government would develop other versions of this raise-and-blame device to the detriment of both ICBC and the motoring public.

Where the Socreds got into trouble on this first go 'round was on how much of a windfall they would attempt to create for themselves.

## HOW IT WENT

The Socreds officially took power on 22 December 1975. The very next day an article appeared in the Sun headlined *ICBC Appears*

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*To Be Broke*. In it McGeer is reported as saying that ICBC has no cash, no reserves and more than \$125 million worth of unpaid claims. He guessed at losses of up to \$150 million. Consistent with the Social Credit perspective on the management of ICBC, McGeer tells reporters that if ICBC were a private firm it would be in receivership.

By Christmas Eve, Byron Straight, a Vancouver insurance executive,<sup>4</sup> had been hired as a consulting actuary to report by 29 December (i.e. within 4 days!) on premium rates past and projected for the beginning of the next fiscal year (just 2 months away on 1 March 1976). Meanwhile the government accentuated the cash flow issue by authorizing ICBC to arrange for \$40 million in short term loans to tide them over to the next renewal period. Remember that at this time ICBC collected most of its premium revenue on a one-time annual renewal date basis--- by the last day of February of each year.

Mr. Straight met his deadline and offered a range of options on rate increases from the more measured to the drastic (see reference tab, article *1976A06-10 Sun Byron Straight Report ICBC alternatives page 10 NJD* for the full text of the report).

To counter the argument that the loan could have been avoided by using the gas tax cash earmarked by the NDP for that very purpose and already sitting in General Revenues account, McGeer pointed out that the NDP set premiums on a political rather than actuarial basis. General Revenues he went on to say, are to be used for the benefit of all

citizens of the Province and not just for the direct benefit of those who operate motor vehicles, and particularly not for those that cause accidents. A public letter from Deputy Premier Grace McCarthy buttressed this sentiment noting that the amount that would be required to 'subsidize' ICBC would exceed the total expenditure for Mincome, Phamacare and day-care services.

McGeer went on to promise a transparent ICBC free of political interference. He expressed confidence in ICBC's current management. He pointed out that ICBC's administrative costs were lower than that of the private sector and that senior management knew precisely the financial position of the Corporation. He kept Norman Bortnick on as Executive Vice President and General Manager. He fired all the NDP appointed members on the board of directors. McGeer's old riding mate, Garde Gardom, now Attorney General, was appointed as a director. McGeer promised more board members with insurance skills would be coming<sup>5</sup>. McGeer supported ICBC's management policy of not letting Socred MLA's advocate directly for constituents in their disputes with ICBC.

## **TWO BIRDS WITH ONE STONE BY THE MINISTER OF EDUCATION**

On 2 January 1976 a mild earthquake rocked parts of southern Puget Sound but caused no damage. On the same day, a different kind of tremor with a different result was felt to the north in BC.

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*“Autoplan Premiums Nearly Tripled”.*

Under this front page banner, the Vancouver Sun announced that motorists will be expected to pay the cost of insuring their vehicles, solely as premiums on individual vehicles, in a lump sum, by the end of the following month. In all respects, the Socreds had picked the third, ‘drastic’ option outlined by Mr. Straight.

Going back to how private sector insurers operate McGeer announced that territorial and recreational vehicle discounts would be discontinued. Surcharges would be applied to blameworthy motorists. The existing points system under which premiums increase according to drivers’ records are adjusted upward would be continued. The new premium rates were set to not only accommodate realistic projected claims payments but also to recoup the entire, current, accumulated deficit (officially set at \$181 million).

On the heels of tripling car insurance rates with less than two months’ notice McGeer is quoted as follows: *“I can say quite bluntly that if you can afford a car, you can afford insurance for it. If you can't afford insurance for it, sell it. ... These are the facts of life”*<sup>6</sup>

Dennis Cocke, former NDP Health Minister and a former director on ICBC’s board, termed the increases as “monstrous and uncalled for”. He pointed out that the Government could have maintained previous rate levels by picking up money from the gas tax.

Barrett put it this way: *“No longer are they going to transfer \$150 million that people have already paid in [gas] taxes and are going to pay [every time they fuel up], they are going to have a double taxation system.”*

From Jim Dawson of the Vancouver Taxi Owners Association to James Methven President of Johnston Terminals and Jack Robinson President of the Canadian Insurance Agents Association to George May, CEO of the BC Central Credit Union, everyone was shocked. Suddenly tripling the cost of insuring what many consider a necessity would force people to finance companies at interest rates of 21.5 to 24 percent.” This was especially onerous on lower income people needing to get to their minimum wage job at McDonalds et al.

Aida Brown, President of the BC Branch of the Consumers Association of Canada put it this way: *“It’s a cold-hearted, cruel move by the Socreds to just focus on balancing the books without considering the tremendous hardships the increase will place on the consumer.”*

Gordon Gibson, the lone Liberal MLA described it as a *“vindictive assault”* on BC Motorists.

Scott Wallace, the lone Conservative MLA and actually a supporter of ICBC operating on a business basis said *“... it’s the old attitude of we know what’s best for you. I can see a dictatorial patronizing Liberal influence in this government.”*

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Christopher DaFoe in his editorial appearing in the Vancouver Sun on 5 January 1976 penned the following:

*It now seems perfectly clear that the new government plans to use the new wallet ripping premiums as a means of teaching us all a lesson --- which explains in part the participation of the Minister of Education. The lesson has not been spelled out, but the implications are clear: Back in 1972 the electorate made the grave mistake of turning out a Social Credit government. The day of reckoning has arrived.*

*People used to say that the NDP government began its brief term of office in a spirit of revenge. The more things change the more they remain the same. The new Social Credit government clearly intends to launch its term of office by giving everybody a swift kick in the pants.*

Pat McGeer blamed the widespread anger on poor reporting. He demanded his position be published which it was in an article on 2 February 1976. You can find the full article in the reference section (*1976B03-15 article Sun McGeer's side of the story page 15.pdf*) but here's the Reader's Digest version:

- Even if the NDP had doubled premiums a year ago ICBC would still have lost money

- The gasoline tax would have to be raised by 28 cents a gallon (36 cents per litre in today's money) if ICBC were to be fully subsidized this way, which in turn would increase the cost of food and other consumer items
- If the gas tax and premium costs weren't increased then the cost would come out of other areas of government spending such as hospitals, education, etc.
- He equated the cost of a significant expansion of health care treatment facilities to the cost of subsidizing ICBC
- No one group of drivers is being asked to subsidize another (I think he's referring to the significant increase in premiums especially for young drivers and those in northern BC).

It did little to lessen the anger caused largely by the suddenness and size of the increases.

On Sunday, 1 February 1976: *"10,000 indignant motorists jammed the Agrodome and spilled out its doors ... police estimated that 200 cars drove the length of Hastings as drivers blasted their horns, waved placards and shouted to applauding onlookers."*<sup>7</sup>

### **THE GOVERNMENT HAND IN THE MOTORIST POCKET WITHDRAWS SLIGHTLY**

Less than a week later Bennett, accompanied by Finance Minister Evan Wolfe and Pat McGeer announced that, in order to reduce premiums a bit, the government would

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borrow for the first time since 1958 to “pay off the NDP debt”. Specifically, to provide \$181 million dollars to eliminate accumulated ICBC shortfalls.

Bennett walked out of the press conference when pressed by reporters on what that actually meant in terms of premiums for the coming year. It was later reported that this made a difference of twenty to thirty dollars on average and came nowhere close to a significant retreat from their initial rate structure. It was however consistent with the Sacred narrative that the NDP were poor financial managers.

As stated, they resiled from their original position by not including in the current premium adjustment the amount necessary to pay off the \$181 million they claimed was a debt providing ICBC with a one-time grant in that amount.

They facilitated the financing of the premiums so that people didn't have to pay it all at once.

They removed the requirement for all vehicles built in 1967 and newer to carry collision coverage.

Overall, the net effect left many people paying more for less coverage.

## **WHEN A DEFICIT IS NOT A DEBT**

Jes Odam<sup>8</sup>, on the editorial board of the Vancouver Sun, penned an article on the

same day as Bennett's walk-out. It is worth quoting here for its clarity:

*Any competent businessman can tell you there is a difference between a deficit --- a book balancing term used by accountants --- and a debt, which is something owed to another.*

*But when that businessman becomes a successful politician the difference appears to blur and he starts to use the words as if they have the same meaning, which they do not.*

*You can perhaps forgive a brain researcher for making a similar mistake although if he does he probably has no business being president of the largest insurance company in Canada.*

*The reason premier Bill Bennett, Finance Minister Evan Wolfe and Education Minister Pat McGeer keep referring Thursday to the Insurance Corporation of BC having a debt of \$181 million is obvious: they have a political interest in painting the former NDP government as a bunch of financial incompetents who just about wrecked B.C.*

*We're going to be hearing a lot about them having to pay off “the political debts of the NDP” and not only in auto insurance.*



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*In politics, almost everything is fair. Misrepresentation and confusing the voter are the stock and trade of all parties.*

*But in this case political zeal can hurt everyone in BC.*

*What our new business-like government is planning to do, apparently, is to borrow [from] itself to pay off this so-called ICBC debt of \$181 million. Or is it \$182 million as McGeer persisted in saying?*

*As Bennett and company talked about it, you could hear the spades digging what is meant to be a grave for the NDP.*

*Bennett and Wolfe, as successful businessmen rather than politicians, could tell you that ICBC does not have a debt of \$181 million. Or \$182 million. There is a projection that by February 29, its books will show a deficit of this amount. That does not mean that on that date it will have bills of \$181 million and no money left to meet them.*

*Quite a chunk of that \$181 million is made-up of reserves which should be set aside to pay claims which have been reported but not yet settled. Another chunk is for claims which have not even been reported but, by the law of averages, can be expected. By the*

*time the actual bills come in, ICBC will have fresh funds from new premiums.*

*A few million more is a book figure, representing amortization of capital ICBC has already spent out of its first year's premium take.*

*The amount actually due to be paid between now and February 29 without revenue to cover it is probably something under \$30 million.*

*And ICBC has already arranged to get this from the bank.*

*So there is no financial need for the government to transfer that \$181 million on March 1, as Bennett had said it will do. And therefore no financial need for the government to borrow for this purpose.*

*The only need, if it can be described as that, is a political one.*

*The cost, to be shared by everyone in B.C., will be the interest payments on that \$181 million borrowed by the province. And its effect on B.C.'s credit rating, which could be to increase the interest on all government-backed borrowing, such as that by B.C. Hydro, municipalities and school districts.*

*It seems an unnecessary price to pay. Particularly as, by itself, it will save most motorists directly only \$9 to \$20 in 1976 and probably less in the following years.<sup>9</sup>*

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## BEYOND POLITICS

Odam followed up a week later with several suggestions about how to remedy the ICBC mess created by the confluence of the NDP's past, self-serving deflation of premium rates and the Socred's current, self-serving inflation of premium rates<sup>10</sup>.

*He pointed out that ICBC is the most financially efficient option if politicians started making decisions about the Crown Corporation based on what was good for the public rather than for the politicians. In 1974, ICBC's total expenses for operating Autoplan were 22.8% of premiums. That percentage figure would have been even lower if adequate premiums had been charged. By contrast, private sector overhead ran 30% even after elimination of premium taxes. He tells us he got these figures from Byron Straight.*

Beyond that he echoed what I've already reported in previous issues on this web site. In Odam's words:

*"The biggest benefit is that ICBC, through Autoplan, can get down to its real job, which is protection of the public. That protection is not only paying some compensation for individual costs of death, injury and dented fenders, but going as far as reasonably possible in preventing those accidents happening in the first place."*

Sadly, this is the first instance of accident prevention that I could find coming up in the public discussion. Ironically, as we see from

the figures presented in previous paragraphs, at this time accidents determined 77.2% of the cost of insurance, administration only 22.8% and yet the focus is on administration.

In the ICBC annual report of 1976, out of 22 pages, there is one third of one page entitled "Accident Prevention". In it are outlined a series of Traffic Safety Workshops attended by over 300 individuals that actually took place --- the population of BC at the time exceeded 2.5 million. The Driver Education Incentive Program reached over 10,000 drivers out of well over 1.5 million licensed to drive. Also in this report, 2 years after inception, ICBC reported that it was still organizing the Road Safety Coordinating Council. This was a recommendation made in the Wootton Royal Commission Report delivered back in 1968 and endorsed by politicians of all stripes in the years following.

I'm still waiting on an FOI request to ICBC about the annual budgets for the Traffic Safety Department.

## THE MANDATE

The NDP's suppression of the true cost of auto insurance followed by the Socred's deliberate hyper-inflation of same 2 years later created the first whipsawing of ICBC. This benefitted the politicians but was to the detriment of ICBC, motorists, and the general public.

These political decisions required ICBC to rush through major administrative changes in less than two months, which in turn led to obviously predictable glitches, which in turn

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led to damaging ICBC's public image. The significant expense item suddenly appearing on most household budgets was also an obviously predictable hardship. The increases in the cost of many consumer goods borne of the added transportation costs (see page 4 of Issue 1 – Introduction) was a bit more subtle but just as damaging.

The politicians would weather the storm but each subsequent year it was ICBC that had to collect the money from the motorists. The image promoted by the NDP of ICBC as "the people's insurance company" was underlined and supported by the initial construction of eighteen neighbourhood drive-in claims centres in the major cities, nine Branch Offices in smaller communities like Campbell River, and 15 Resident Adjusters in more remote locations like Port Hardy and Smithers. Just two years in the Corporation had suffered its first, politically delivered blow.

Returning to the mandate as outlined in the initial text of this web site then:

- ICBC's ability to live up to the mandate of fair and efficient collection of funds to pay losses was negatively and significantly impacted by self-serving, political decision making
- The politicians, the so-called leadership of our Province, chose to focus on a bogus premium issue to the detriment of prioritizing getting us all home safely.

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<sup>1</sup> Bob Plecas was a senior official in the bill Bennett government. During his civil service career, he served 6 premiers and worked under 25 ministers as a deputy minister running 10 ministries. He later represented the BC forest industry in the softwood lumber wars with the United states, and today he works for clients selectively on files that have proven exceptionally difficult to solve.

<sup>2</sup> The vernacular ‘gas tax’ is actually a reference to what is currently titled the Motor Fuel Tax Act

<sup>3</sup> For instance: David J. Mitchell pages 456 and 457 *W.A.C. Bennett and the Rise of British Columbia*

<sup>4</sup> see reference tab - document *1976A07-35 article Sun Byron Straight bio* for more information

<sup>5</sup> Norman Manning on 16 February 1976, William Tennant 4 March 1976, Ralph Gillen 8 March 1976 and Donald Watson 30 March 1976 as per 1976 Orders in Council 84, 526,758, 829 and 1060 respectively in the Reference tab. Also in the

reference tab is the Fourth Annual Report for ICBC (file *1977B28 ICBC 4th Annual Report.pdf*) which provides a very brief backgrounder on each

<sup>6</sup> See reference tab - 1976A03-01 article *Sun Let them sell their cars says McGeer page 1.pdf*

<sup>7</sup> See reference tab - documents *1976B02-01 article Sun angry drivers.pdf* and *1976B02-02 article Sun angry drivers.pdf*

<sup>8</sup> Through my reading I’ve come to respect Jes Odam as a journalist. If you want to know more about him check out this web page: <https://vancouversun.com/news/metro/reporter-jes-odam-a-legend-in-the-suns-newsroom>

<sup>9</sup> See reference tab - *1976A09-10 Sun Jes Odam article.pdf*

<sup>10</sup> See reference tab - *1976A15-06 Odam article Sun Now see here McGeer page 6.pdf*