

Mutually Beneficial: The Guardian and Life Insurance in America. By Robert E. Wright and George David Smith. New York: New York University Press, 2004. xxiii + 501 pp. Tables, figures, illustrations, bibliography, notes, index. Cloth, \$50.00. ISBN: 0-8147-9397-5.

Reviewed by Geoffrey Clark

The philosopher Josiah Royce once observed, “Of all the business relations and of all the practical communities yet devised, the insurance relations and the insurance communities most tend to bring peace on earth, and to aid us towards the community of mankind” (Stuart Gerry Brown, editor, *The Social Philosophy of Josiah Royce*, 1950). The same liberal idealism underlay the origin and development of the New York-based Germania (after 1917 the Guardian) Life Insurance Company, founded in 1860 by German “men of 1848.” In firmly adhering to mutual organization down to the present day, the company has cultivated an ethos of “doing well by doing good” (p. 383). Authors Robert E. Wright and George David Smith have done a superb job of relating this distinctive corporate culture to the fortunes of the Guardian as they trace the history of the firm and its guiding lights over the past 150 years.

Too many business histories miss the forest for the trees and lose the reader in a thicket of detail and number. Wright and Smith, by contrast, have written a remarkably lucid and elegantly organized history that keeps the major themes in view, even while discussing the minutiae of crafting and marketing various new insurance products or of managing the firm and its investment portfolio. As the authors themselves point out, the history of life insurance has not attracted much serious scholarship or inspired writing. Fortunately, *Mutually Beneficial* has both. It integrates the Guardian’s career into a wider account of the American life-insurance business and American economic history more generally, and it manages to do so with a light touch. Historical overviews and logical divisions make this a book eminently suitable for graduate courses on economic history or as a case study in astute business adaptation for MBA students (though all will be vexed by graphs that are poorly displayed and difficult to read). Specialists will find that *Mutually Beneficial* stakes out a large terrain and elevates the field, standing

alongside classics in the field of insurance history, such as Barry Supple's *The Royal Exchange Assurance* (1970) and Clive Trebilcock's *Phoenix Assurance* (1985).

Wright and Smith are centrally concerned with explaining Guardian's high profitability and success as a function of sustained cost containment in the midst of fluctuating economic, technological, and regulatory conditions. More often than not, Guardian found it advantageous "to strive for the middle ground" (p. 263), neither holding back with the laggards who tended to miss out on valuable innovations, nor yet keeping up with industry pacesetters, who were liable to absorb the losses associated with untried methods or strategies, particularly with the introduction of computational technology. Guardian, characteristically, grew only to moderate size, taking advantage of economies of scale but eschewing the inflexibilities of organization, action, and investment that afflicted the really large firms. Ironically, tending toward the golden mean resulted in exceptional profitability.

In certain ways, though, Guardian parted from the pack. Executive pay, for example, remained well below the industry average, serving to hold costs down but at the risk of compromising managerial efficiency. Guardian also retained its mutual organization despite the wave of demutualizations that swept the industry in the 1990s, and did so successfully because it "learned how to structure its business and corporate culture so as effectively to 'maximize' policyholder value" (p. 12). Finally, both in its individual and group insurance Guardian always catered to an upscale market, where it enjoyed good margins and less competition. The company was therefore less vulnerable to the general decline in demand for whole-life insurance as American investors increasingly shifted into other savings instruments in the late twentieth century.

Wright and Smith emphasize Guardian's cost containment as the key to its own success, because they assert more broadly that great reductions in the price of life insurance achieved in the nineteenth century as the result of institutional and technological efficiencies, combined with the effective use of a sales agency system that increased demand at all prices, were the critical factors underlying the prodigious expansion of life insurance in the modern era. In keeping with this firm-oriented perspective, the authors downplay the socioeconomic effects of "urbanization, industrialization, and democratization," insisting, for example, that the purchase of life

insurance is as rationally compelling for a peasant in a preindustrial society as it is for an urban employee with bond holdings (pp. 16, 17).

This argument fails on several counts. While it is true that the first extensive life-insurance market arose in early-eighteenth-century England *prior to* industrialization and the spread of democratic society, these pioneering policyholders were mainly urban professionals—clergymen, lawyers, medical practitioners—whose capital consisted of highly specialized training that evaporated upon their decease. By contrast, agriculturalists are virtually absent in the policy registers of early life-insurance firms, because they expected to leave the source of their wealth—land—to their kindred, who would continue to be supported by revenue streams (in the form of jointures or maintenance agreements), or would themselves undertake its management (not allowing it to fall into desuetude, as Wright and Smith imagine). Even if life insurance had been within the financial reach of many peasant households (and it was not), indemnifying against death in a world subject to widespread famine, flood, fire, and disease did not necessarily represent a rational response to life's manifold perils. Indeed, Guardian's own failure to cultivate a Latin American life-insurance market after 1867 indicates that socioeconomic factors play a far larger role in shaping insurance demand than Wright and Smith concede.

These reservations with respect to the macrohistory of insurance notwithstanding, *Mutually Beneficial* stands as an exemplary company history, one that deserves wide attention among scholars of economic history and a distinguished place in the small but growing literature on the history of insurance.

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