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Creating the Canada/Quebec Pension Plans: An Historical and Political Analysis

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SEDAP Research Paper No. 223

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Abstract

Drawing on recent historical institutionalist scholarship, this paper explores the debates leading to the enactment of the Canada/Quebec Pension Plans (C/Q.P.P.) in 1965. More specifically, this analysis underlines the respective role of—and the interaction between—political institutions, business and labor power, and changing ideas about the role of public and private pensions in Canada. As argued, although the ideas that guided the enactment of C/Q.P.P. stressed the key role of private benefits, the enduring weight of Canadian-style federalism mitigated the impact of interest groups, especially business organizations, on the legislative process. Overall, the paper suggests that students of social policy should pay closer attention to the interaction between political institutions, interest group mobilization, and changing ideas about the relationship between public and private benefits.

Résumé

Adoptant une perspective néo-institutionnaliste, ce texte explore les débats qui menèrent à l'adoption du Régime de pensions du Canada et de la Régie des rentes du Québec (RPC/RRQ) en 1965. Plus spécifiquement, cette analyse souligne le rôle et l'interaction entre les institutions politiques, le pouvoir des employeurs et des syndicats ainsi que l'évolution des idées au sujet du rôle des pensions privées et publiques au Canada. Même si les idées qui guidèrent l'adoption du RPC/RRQ soulignaient le rôle central des pensions privées, le poids indéniable du fédéralisme à la canadienne réduisit l'impact des groupes d'intérêt, surtout celui des employeurs, sur le processus législatif. De façon plus générale, ce texte suggère que les spécialistes des politiques sociales devraient accorder plus d'attention à l'interaction entre les institutions politiques, la mobilisation des groupes d'intérêt et les idées des acteurs concernant les rapports entre les politiques privées et publiques.

Keywords: pensions, ideas, institutions, federalism, politics, social policy, business, labor, private benefits, Canada

JEL Classifications: I38, H77

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Introduction

Since the 1980s, historical institutionalism has emerged as one of the most prominent approaches to understanding policy development in advanced industrial societies (e.g. Immergut 1998; Orren and Skowronek, 2004; Skocpol, 1992; Steinmo, Thelen and Longstreth 1992; Thelen, 2004; Weaver, 2000; Weaver and Rockman, 1992). This influential approach is rooted in the assumption that historically constructed institutions create political opportunities and obstacles that strongly impact the behaviour of policy-makers and interest groups. In other words, historical institutionalism "understands political activities, whether carried by politicians or by social groups, as conditioned by institutional configurations of governments and political party systems" (Skocpol 1992: 41). Unlike organizational and rational choice institutionalisms, historical institutionalism focuses on formal political institutions and the impact of past decisions on policymaking (Campbell, 2004; Hall and Taylor, 1996).

Starting from these basic assumptions, a number of historical institutionalist scholars have improved our understanding of welfare state development (e.g. Amenta, 1998; Maioni, 1998; Orloff, 1993; Pierson, 1994; Skocpol, 1992). In recent years, new scholarship has further enriched this historical institutionalist literature (e.g. Campbell, 2004; Hacker, 2004; Pierson, 2004; Thelen, 2004). Within this scholarship, three streams of research are especially relevant for the present article. First, drawing on the widely-held historical institutionalist assumption that political institutions condition interest group mobilization, Jacob Hacker and Paul Pierson (2002) have revisited the issue of "business power." According to these scholars, in the United States, business influence fluctuates over time and public policies strongly impact the perceived interests of employers, who must adapt to key policy changes. This recent scholarship on business power supplements the existing historical institutionalist literature on the impact of political institutions and policy legacies on labour mobilization (Forbath, 1991; Hattam, 1993; Maioni, 1998; Tomlins, 1985).[1] Second, following authors like Christopher Howard (1997) and Jennifer Klein (2003),[2] Jacob Hacker (2002; 2004) has argued that feedback effects from *private* policies like occupational pensions can affect welfare state development alongside political institutions and previously enacted *public* policies. From this angle, public and private social policies are closely related, and their changing relationship creates major constraints and opportunities for policy-makers. Finally, a growing number of scholars have turned to ideas to enrich the explanatory power of historical institutionalism (e.g. Blyth, 2002; Campbell, 2004; Hall, 1993; Lieberman, 2002; Schmidt, 2002). For these authors, ideas and institutions interact with changing economic and political circumstances to shape policy outcomes through paradigm shifts and framing processes that help construct the "need to reform" (Cox, 2001). Moreover, for Daniel Béland and Jacob Hacker (2004), recognizing the central role of ideas in institutional and political processes sheds light on the above-mentioned relationship between public and private social policies. This is important because paradigmatic ideas about the proper balance between public and private benefits affect the social policy decisions that employers, labor officials, and policy-makers make.

Drawing on historical institutionalism and, more specifically, on the three above-mentioned streams of literature about business and labor power, the interaction between public and private benefits, and the role of ideas in policy-making, this paper provides a theoretically-informed account on the emergence of the Canada and the Quebec Pension Plans (C/Q.P.P.).

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[1] Traditionally, the power resource approach that describes labor mobilization as the locus of welfare state development (e.g. Myles, 1989; Quadagno, 1988) has been described as an alternative to historical institutionalism. Yet, recent scholarship has successfully bridged these approaches (e.g. Huber and Stephens, 2001; Myles and Quadagno, 2002; Maioni, 1998).

[2] Beyond historical institutionalism, students of social policy have long studied the interaction between public and private benefits (e.g. Berkowitz and McQuaid, 1980; Quadagno, 1988).

Created in 1965, these two closely coordinated programs provide earnings-related pensions to Canadian workers aged 65 and older. With a replacement rate of only 25 percent, the C/Q.P.P. is a modest public pension system that leaves much room for private savings and occupational pensions (e.g. Banting and Boychuk, 2007; Béland and Myles, 2005; Myles, 1988a). This paper analyzes the debates leading to the enactment of C/Q.P.P. in order to assess the respective role of—and the interaction between—political institutions, business and labor power, and changing ideas about the relationship between public and private pensions. As argued, although the ideas that guided the enactment of C/Q.P.P. stressed the key role of private benefits, the institutional logic of Canada's federalism mitigated the impact of interest groups, especially business organizations, on the legislative process. Overall, this paper suggests that not only should interest group mobilization be taken into account when studying social policy, but also that scholars should pay closer attention to the interaction between political institutions, interest group mobilization, and changing ideas about public and private benefits.

Three main sections comprise this article. The first section presents historical background about pension reform in Canada from the 1920s to the early 1950s. The next section offers a discussion of major debates and events leading to the enactment of the C/Q.P.P. in 1965. As for the brief final section, it discusses the role of two sets of forces that strongly impacted this enactment process: 1) federalism and its impact on business, labor, and provincial influence; and 2) ideas about the relationship between public and private pensions. Although other scholars have stressed the prominent role of federalism in Canadian welfare state development (e.g. Banting, 1987a; Banting, 1987b; Banting, 2005; Boychuk, 1998; Leman, 1977; Maioni, 1998; Orloff, 1993; Pal, 1988; Simeon, 1972; Théret, 1999), this paper is the first account that systematically explores the role of ideas and the public-private dichotomy in the emergence of

C\Q.P.P.[3] Empirically, the paper draws on the existing scholarly literature on welfare state development in Canada and, more importantly, on primary sources like the House of Commons Debates (Hansard), government reports, and articles published in *The Globe and Mail* newspaper.

From the Old Age Pension Act to Old Age Security (1927-1951)

Just like in the United States, institutional fragmentation stemming from federalism (Banting, 1987a) and the enduring weight of the free market paradigm (Bryden, 1974: 19) appeared as major obstacles to the development of federal social policy during the first three decades of the twentieth century in Canada (Guest, 2003). This is true despite the seemingly modest development of private pension benefits before, during, and even after World War I (Carmichael, 2005). As for the provinces, the British North America Act of 1867 (BNA Act) gave them jurisdiction over social policy, including old-age benefits. However, facing growing social needs, the provinces did not have the fiscal means to implement adequate social assistance programs for the aged (Bryden, 1974). Furthermore, federal policy-makers could not realistically contemplate the idea of a purely federal old-age assistance scheme. Considering the constitutional obstacles these policy-makers faced, the 1927 Old Age Pension Act created a federally-subsidized yet provincially administrated means-tested pension available only to needy British subjects[4] aged 70 and older with at least 20 years of residence in Canada. This decentralized system stayed in place without major changes until 1951. Interestingly, the fact that the federal government was already engaged in the financing of public pensions may explain

[3] For a discussion of the public-private dichotomy in Canada see Banting and Boychuk, 2007.
[4] Canadian citizenship was not established before 1947, following the enactment of the Canadian Citizenship Act a year before.

why the Great Depression did not trigger major pension reform initiatives in Canada. This situation contrasts with the one prevailing in the United States, where the absence of direct federal participation in old-age assistance exacerbated fiscal problems at the state level (Quadagno, 1988), while stimulating the emergence of the Townsend Plan and other pension proposals that pressured the federal government to boldly enter the field of old-age security (Amenta, 2006). In Canada, the legacy of the Old Age Pension Act mitigated the negative impact of the Great Depression on the aged and on provincial fiscal resources. This allowed federal officials to focus mainly on unemployment insurance, a federal measure first enacted in 1935 but that would not be implemented until 1941. Such a delay occurred because the Privy Council and the Supreme Court of Canada struck down the initial legislation, a situation that compelled the federal government to bargain with the provinces in order to secure a constitutional amendment that would make federal unemployment insurance possible under the BNA.[5] Consistent with the assumptions of historical institutionalism, the role of formal political institutions (i.e. federalism) and policy legacies (i.e. the Old Age Pension Act) played a major role in the politics of pension reform in Canada before, during, and after the Great Depression.

In 1951, at a time when the Keynesian paradigm legitimized the expansion of the federal welfare state (Guest, 2003), the federal government secured the support of the provinces for a new constitutional amendment that allowed Ottawa to develop a centralized public pension scheme. Following this amendment, the House of Commons adopted the Old Age Security

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[5] In 1935, Prime Minister Richard Bennett's Progressive Conservative government adopted the *Unemployment Insurance Act,* which would have created a federal unemployment insurance program, among other provisions. In 1937, however, the Supreme Court of Canada and the British Privy Council struck down the *Unemployment Insurance Act* on the ground that, according to the *British North America Act,* only the provinces could adopt this type of legislation. In the end, Bennett's successor, Liberal Prime Minister William Mackenzie King, convinced the nine provincial premiers to support a constitutional amendment that finally made possible the implementation of a federal unemployment insurance program (Campeau, 2005).

(O.A.S.) program, a purely federal, universal flat-rate pension covering Canadian citizens aged 70 and older with at least 20 years of permanent residence in the country. As for the elderly poor aged between 65 and 69, they were eligible for means-tested protection under the Old Age Assistance Act (Bryden, 1974). These two measures were grounded in the assumption that private savings and occupational pensions constituted the primary and most legitimate source of old-age security in Canada (Myles, 1988a). In order to leave room for private savings and occupational pensions, the amount of the monthly universal flat pension was set at the low rate of 40 dollars amidst protest from labor officials and federal politicians like Stanley Knowles of the pro-labor Co-operative Commonwealth Federation (C.C.F.) (House of Commons Debates [Hansard], October 25, 1951).

In order to finance O.A.S. benefits, the federal government opted for a separate tax scheme and trust fund because, according to a Liberal Member of Parliament (MP), these provisions emphasized the specific cost of public pensions and the idea that "Canadians should have a direct and conscious financial responsibility" (Douglas Abbott, House of Commons [Hansard], October 25, 1951: 387).[6] Overall, the advent of O.A.S. increased the role of the federal government in pension policy but did not challenge the prevailing view that personal savings and private pensions should dominate the field of old age security.

The Debate over and the Enactment of C/Q.P.P. (1951-1965)

[6] "The financing of the program, the '2-2-2 formula' was unique: revenues derived from an O.A.S. tax comprising 2 per cent on personal income, 2 per cent on corporate income, and 2 per cent from general budgetary revenue, all to be deposited in a special O.A.S. fund" (Rice and Prince, 2000: 74). Due to the absence of earnings records, a flat pension like O.A.S. is easier to administrate than an earnings-related plan. This situation facilitated the implementation of O.A.S. in the early 1950s. The authors thank John Myles for his insight about this issue.

Despite its limitations, the 1951 federal pension reform marked a significant turning point in the development of public pensions in Canada. As for private pensions, the 1950s was an era of expansion and optimism. A 1954 study printed a *Labour Gazette* supplement revealed that out of 411 firms with 500 plus employees, 176 had earnings-related pensions and 38 had non-contributory pensions (Department of Labour, 1956). Furthermore, a 1955 study published in the same issue of the *Labour Gazette* supplement stated that 69% of Canadian workers were employed by establishments operating a pension plan (ibid). However, these plans did not necessarily cover all employees, and they were restrictive with regard to portability and vesting rights. As a result, such plans both restricted labor mobility and offered limited security to workers. This is why labor officials pressured the federal government to step in to address these issues and improve the protection that covered workers received without restricting labor mobility. For example, the Canadian Congress of Labour (CCL) asked "the Federal Government to establish an 'Industrial Pension Plan' which would allow pension plan credits to accrue irrespective of the number of employers a worker had been with" (*Labour Gazette*, 1954: 1407). As for the pro-labor party, the C.C.F., it stressed the need for more generous O.A.S. benefits: "we believe that the amount of the old age pension should now be increased to not less than $60 a month, and we feel that the means test should be removed at age 65." (Stanley Knowles, House of Commons [Hansard], June 19, 1954: 6300)

Despite calls from the C.C.F. and the labor movement for greater income support for seniors, the pension issue remained relatively low on the federal policy agenda until 1956. That year, two trends helped move the issue of pension reform to the center of the federal policy agenda: rising inflation and growing electoral competition.

First, in the absence of automatic indexation, rising inflation helped left-leaning actors construct the "need to reform" the existing public pension system (Finkel, 2006).[7] Even federal Progressive Conservative leader John Diefenbaker recognized the negative impact of inflation on pensioners: "No one can deny that the level is such that many of our old age pensioners find themselves in an impossible position. The reason for it, of course, is simply this: While Canada has in circulation more and more dollars, those dollars buy less and less" (House of Commons [Hansard], June 27, 1956: 6536). In January 1957, anticipating the forthcoming federal election, Liberal Finance Minister Walter Harris announced that the federal government would increase the O.A.S. flat-rate pension by 15%: "Effective July 1, we propose to increase all payments under the Old Age Security Act by $6 a month, that is, from $40 a month to $46 a month" (House of Commons [Hansard], January 22, 1957: 2222). A few months later, the Liberal government adopted the registered retirement savings plan (RRSPs). RRSPs "allowed Canadians to invest, tax-free, a defined portion of their income each year in private retirement plans" (Finkel, 2006: 157). Believed to help both curb inflation and increase personal savings, this new federal program implicitly promoted the development of government subsidized private savings rather than any bold expansion of the existing Canadian public pension system.

Second, intense electoral competition transformed pension reform into a major issue in federal politics. As a consequence of this growing electoral competition, the federal election of June 1957 marked the end of a twenty-two year Liberal Party reign. The Liberals suffered a defeat at the hands of Diefenbaker's Progressive Conservatives, who would form a minority government until their decisive victory in the 1958 federal election. Once in power, Progressive

[7] According to the Consumer Price index of 1957, since 1949 prices had gone up by 22.6 per cent, which is approximately 2.5 per cent a year (House of Commons [Hansard], November 4, 1957).

Conservatives, who had criticized the modest O.A.S. increase adopted by the Liberal government back in January 1957, boosted the value of the federal flat-rate pension by another $9 a month, raising the total monthly benefit to $55.[8]

In addition to inflation, the issues of vesting rights and pension portability in occupational pensions were increasingly debated. A growing number of political actors referred to the perceived limitations of these private pensions in order to legitimize the need to create a public contributory pension scheme in Canada. After discussing the limitations of private plans, for example, C.C.F. federal MP Herbert Herridge makes a case for the creation of such a public contributory scheme:

> …we really need some form of national contributory pension plan on a general basis so that from an early earning age until time of retirement people can look forward to a decent income during their retirement years…I think that is necessary if we are going to provide the people of Canada, particularly industrial workers in the first instance, with the security, stability and mobility of employment to which they are entitled at this time (Herbert Herridge, House of Commons [Hansard], November 1, 1957: 2161).

Counter arguments endorsing the domination of private social policy were made by the Liberals, who explicitly supported the growth of private pensions. For example, Liberal MP James Sinclair argued that the public pension provision was never meant to provide more than a subsistence level of support and that the private sector should take the lead in providing old age security to workers and their families:

[8] The Progressive Conservative decision to increase public pensions required adjustments to the financing scheme for O.A.S. and O.A.A. in 1958. The 2-2-2 formula was changed to a 3-3-3 formula, and the contribution ceiling on income was increased to $90 per year (Bryden, 1974).

> …over the years, of course, the government has urged people not to depend on the government in their old age and encouraged people to make provision for their retirement… Encouragement was given to company pension schemes by the making the contributions of both the employees and the employers tax deductible. Today the vast majority of company employees in Canada have this safeguard of contributing to company pension plans through which they and their employers are making provision for their own old age (House of Commons [Hansard], October 31, 1957: 636).

Once again, this quote illustrates the central role of the public-private dichotomy in the Canadian debates over pension reform during the post-war era.

The fierce political competition over pension reform had Prime Minister Diefenbaker worried about the added costs to the federal treasury that would result from further O.A.S. benefit hikes that political parties would endorse in order to gain more electoral support. Therefore, in 1959, he commissioned a study of the U.S. Social Security system, which relied exclusively on payroll tax financing. The task of putting this report together went to Dr. Robert Clark, an economist from the University of British Columbia. A year later, Dr. Clark's report was tabled in the House of Commons (House of Commons [Hansard], May 19, 1960). The Clark Report emphasized the following points: there were more people 65 and over in Canada than in the U.S., the average income in the U.S. was higher than in Canada, and the average public old age benefits available in the U.S were lower than in Canada. Although Dr. Clark did not make any explicit recommendations as to the course of action Canada should take, he argued that U.S.-style Social Security was not the best model for Canada. Instead, he suggested that the federal government should do more to promote the development private pension plans (Clark, 1960).

The calls for a national earnings-related pension scheme did not end with the publication of the Clark Report. By 1960, both the C.C.F. and the Liberal Party had presented proposals that made provision for such a scheme. The C.C.F. proposal received the support of labor officials who supported the idea of a national earnings-related pension scheme (House of Commons [Hansard], July 19, 1960).[9] In July 1960, the Liberals presented their own plan, which included an increase in O.A.S. benefits (to $75 per month), the development of survivor benefits as part of O.A.S., the regulation of private pension plans to guarantee vesting rights and pension portability, and a national earnings-related scheme that could be integrated with existing private pension plans (House of Commons [Hansard], July 19, 1960).

Like in 1956 and 1957, changes in the electoral landscape shaped pension policy-making in the early 1960s. By 1962, the Progressive Conservatives were once again reduced to minority government status. That year, Parliament increased the O.A.S. pension to $65 (*Globe and Mail*, February 6, 1962). Yet, the Liberals felt that pension reforms should be more expansive and comprehensive. For example, Liberal MP Hubert Badanai argued that adding a contributory scheme, extending benefits to unmarried women and widows, and lowering the qualifying age for O.A.S. would create a well-rounded federal pension system (House of Commons [Hansard], February 6, 1961: 1776-77). Meanwhile, Prime Minister Diefenbaker began asking the provinces for a constitutional amendment that would allow them to add survivor benefits to O.A.S. (House of Commons [Hansard], January 22, 1962: 74).

The idea of a national earnings-related scheme remained on the agenda but there were many things that policy-makers had to consider when building such a scheme such as the payroll

[9] Like its U.S. counterpart, the Canadian labor movement had long been divided over the idea of earnings-related pensions. For example, the CCL did not officially support this idea before 1953 (Bryden 1974; Myles, 1988b).

tax level and the nature of the trust fund (i.e. pay-as-you-go or partial advance funding). One of the most central issues they needed to take into account was the fate of existing private pension schemes.

> We believe, Mr. Speaker, as other speakers have mentioned before, that the plan should provide a basic security pension for our industrial workers, farmers, self employed persons, those in the public service, in fact all Canadians. This is going to mean considerable integration of private and public pension plans in an over-all national pension scheme… First, it should be financed by a measure of taxation which has to be determined by the circumstances of the time. Second, it should be financed by contributions from the employer, from the employed and from the self-employed. Third, we stress that under present circumstances pension funds are largely invested by insurance companies in certain companies and private investment schemes across the country (Herbert Herridge, House of Commons [Hansard], 6 February 1960: 608).

As evidenced by the above statement from C.C.F. MP Herbert Herridge, even the C.C.F. recognized that a national earnings-related scheme would require the problematic integration of public and private pensions, as well as careful fiscal planning. As Jacob Hacker (2002) suggested in his work about the U.S., previously-enacted private policies affect the development of public benefits. In Canada, the fate of private benefits clearly impacted the debate over earnings-related pensions as political actors had to contend with how to integrate public and private pensions.

The final major turning point in the emergence of public earnings-related pensions in Canada came in the form of the 1962 and 1963 federal elections. These two consecutive elections kick started the development of what would become C/Q.P.P. by further increasing the profile of pension reform as a major political issue in Canada. Liberals started an intense policy debate when they outlined their plan for a national earnings-related pension as part of their 1962 electoral platform. “It would start with a 1% contribution [slowly increasing to provide a 30-35% replacement rate], [and] a national minimum of $75 for those over 70” (*Globe and Mail*, January 10, 1962: 01). Progressive Conservatives argued that an earnings-related plan would place an unnecessary burden on private industry and that an earnings-related plan on top of a private industry pension would over pay pension benefits (House of Commons [Hansard], February 6, 1962). Liberals retorted that a national earnings-related pension would leave ample room for private savings and pensions: “Our plan is a supplement to private saving…while many companies now have good pension schemes, the majority of the working population is not covered by them” (House of Commons [Hansard], February 6, 1962: 588). They also argued that a national earnings-related plan would help to solve problems such as the lack of private pension portability. Throughout all this debate over the efficacy of a national earnings-related pension, Progressive Conservatives argued that the O.A.S. increase should be implemented as soon as possible, leaving the proposed national earnings-related pension plan for further debate (*Globe and Mail*, February 6, 1962). This shows their preference for flat-rate pensions and their reluctance to promote the creation of a public earnings-related pension scheme in Canada. Because the Liberals were planning on using the revenues collected for this plan to pay for the O.A.S. increase, the early boost to monthly flat-rate pensions held potentially negative fiscal consequences for the proposal.

While, at the federal level, Liberals and Progressive Conservatives debated the issue of earnings-related pensions, the two largest provinces, Quebec and Ontario, launched their own pension-related studies. On the one hand, Ontario set up a provincial committee to study pensions, and favoured regulating private plans rather than creating a provincial earnings-related pension plan. On the other hand, in 1962, Quebec established its own legislative committee to study pensions. The committee paid close attention to the new Ontario regulatory pension legislation but, in the end, decided that the Ontario approach was not right for Quebec. Instead, it was decided that a provincial earnings-related pension plan would be the best solution. In addition to serving as a source of income security for elderly Quebecers, this new plan would serve as a tool of provincial economic development. Consequently, the plan would have "a financing system which would build up a large fund to help channel Quebecers' savings into provincial economic development" (Simeon, 1972: 45). This vision of pension reform as an economic development tool was a typical product of the so-called "Quiet Revolution" launched in Quebec during the early 1960s, an era that witnessed the development of "a positive nationalism [that] saw the people of Quebec taking control of their own destiny through the instrumentality of the state" (Bryden, 1974: 163). Pension reform became a major policy tool in the hands of the provincial government. This active government aimed at modernizing Quebec's economy while improving the socio-economic status of French-Canadians, who were poorer and less educated on average than their English-speaking counterparts living in the province.

At the Federal level, Liberals returned to power with a minority government in April 1963. Much like in 1956 and 1957, intense political competition over social policy issues, including pension reform, re-emerged. During the 1963 electoral campaign, Liberals had promised to produce a proposal to "tackle the nation's problems with vigour" within sixty days of election (Bryden, 1974: 144). After their electoral victory, Liberals began building a proposal for a national earnings-related pension scheme. They envisioned a scheme that could be stacked on top of a universal monthly O.A.S. benefit of $75. By June 19, the Liberal's proposal was complete (Simeon, 1972). The proposal, labelled a House of Commons White Paper, outlined the resolution that was tabled in the House of Commons on July 18, 1963 (House of Commons [Hansard], July 18, 1963). This plan proposed a pay-as-you-go system with a payroll tax rate of only 1% and made provision for a ten year transition period, after which 30% of average earnings would be paid out to eligible workers (Bryden, 1974).

Shortly after the Liberals tabled their proposal for the Canada Pension Plan (C.P.P.), a series of federal-provincial conferences was held during which pension reform, among other topics, was discussed (Simeon, 1972). The first conference in July 1963 was mostly a fact-finding exercise for the provinces. At the November 1963 federal-provincial conference, the C.P.P. proposal was discussed in detail. By that time, Quebec had begun to use its leverage on the constitutional issue regarding survivor benefits to bargain for a provincial opt-out clause. Overall, the provinces asked for three major changes to the federal proposal: 1) separating the O.A.S. increase from the proposed C.P.P.; 2) partially funding C.P.P. with general revenues; and 3) increasing the combined payroll tax rate to 4%. This increase would mean pension funds would accumulate faster (*Globe and Mail*, September 10, 1963). At the federal-provincial conference, Prime Minister Pearson stated that the provinces would be allowed to use half of the pension fund for provincial investment. Such an alteration to the fund was meant to generate provincial support for the federal proposal, especially that of Quebec (Simeon, 1972). Furthermore, a higher payroll tax would allow Quebec Premier Jean Lesage to channel more money into Quebec's economy through the provincial investment board he wanted to create (i.e. what would become the *Caisse de dépôt et placement du Québec*).

During the federal-provincial conferences, large scale opposition from the private sector began to emerge (Banting, 1987a). Private insurance representatives attacked the foundations of C.P.P., especially the financial structure of the plan. Most of the criticism centered on the funding scheme; they accused the plan of not being actuarially sound (*Globe and Mail,* October 2, 1963). The federal government, however, had the support of the labor unions, although they were not particularly vocal (Simeon, 1972).

In the spring of 1964, the federal government introduced Bill C-75. The Minister of Health and Welfare, Judy LaMarsh, outlined the plan to the House of Commons on March 17, 1964 (House of Commons [Hansard], March 17, 1964: 1162). From the White Paper proposal to Bill C-75, the Canada Pension Plan endured many changes. First, the replacement rate went from 30% to 20%. According to Stanley Knowles of the C.C.F., the proposed decrease in the replacement rate was evidence that the federal government was giving into pressure from private business interests (House of Commons [Hansard], March 17, 1964: 1183). Second, the initial proposal established a pay-as-you-go financing scheme with no significant advance funding. Meanwhile, in Bill C-75 there was "an estimated fund of $2.5 billion at the end of the transition period; half to be available for investment in provincial securities" (Bryden, 1974: 156).

LaMarsh insisted that the proposed plan was not an attempt to replace private pension benefits.

> [T]hese pensions are not intended to be the sole provision for an individual's retirement. There is ample scope, over and above a plan of this scale, for private pension schemes and personal savings and investment. Indeed the effect of such legislation has been in other countries to encourage individuals, who

> could afford it, to make additional provision for their own future (House of Commons [Hansard], March 17, 1964: 1163).

LaMarsh tried to reassure banks, insurance companies, and employers that they would not lose business or capital due to the introduction of public earnings-related pensions.

After the federal government introduced Bill C-75, provincial opting-out became an important issue, especially in Quebec and Ontario. It was also after the release of Bill C-75 that Premier Lesage revealed Quebec's pension proposal. This so-called Quebec Pension Plan (Q.P.P.) was quite different from the federally proposed Canada Pension Plan. For example, the payroll tax rate was at 4%, the replacement rate was higher [25%] than in Bill C-75, and the Quebec plan had a larger reserve fund. Moreover, Q.P.P. covered a larger portion of the workforce than C.P.P. and had a higher income ceiling ($6000 instead of $4000 for C.P.P.). Furthermore, the transition period was set at 20 years compared to ten years under the federal plan, and, finally, benefit adjustments were based on a cost of living index rather than an earnings index as in Bill C-75 (Bryden, 1974). Combined with Ontario's insistence that there be an opt-out clause in the federal legislation, Q.P.P. posed a major political threat to the future of C.P.P. (Simeon, 1972).

The C.P.P. proposal was in such dire straits that in April 1964, Prime Minister Pearson allowed two delegates from the federal government to secretly go to Quebec City and work on aligning both the Ottawa and the Quebec plans. The intention was to prevent the provinces from rejecting C.P.P. and the only way to ensure the plan's future was to reach some kind of compromise between C.P.P. and the Q.P.P. (Simeon, 1972). Through these secret meetings, Ottawa and Quebec were able to come to an agreement by the middle of April, and Quebec gave its consent for a constitutional amendment that would allow C.P.P. to include survivor benefits.

On July 31, 1964, section 94(A) of the BNA Act was amended (House of Commons [Hansard], June 18, 1964: 4467).

Criticism and opposition continued to come from the private sector, especially the private insurance industry, and the Progressive Conservative Party, whose members expressed concerns about the expanding role of the federal government in pension policy. Progressive Conservative MP Frederick J. Bigg expressed his worry about the federal government's expanding role: "I do not think complete control of our industry, our pensions and everything else will work as well as properly organized free enterprise. I do not think that a compulsory system of making our young people save is half as good as encouraging them to get out and earn, and then save in a sensible plan of their own choosing. At least they should have the choice of opting out." (House of Commons [Hansard], November 17, 1964: 10182) The main concern here was that the private insurance industry would lose a lot of its clients as a result of the creation of the new public pension scheme. The suggestion of adding an opt-out clause for employers with pre-existing private pension plans, similar in nature to the "Clark Amendment" debated in the U.S. Congress in 1935 (Hacker, 2002), would have meant less generous pension benefits to account for lower workforce participation. In the end, the idea of an opt-out clause for existing private pension plans would not be seriously considered, which would make C/Q.P.P. a compulsory scheme similar to U.S. Social Security.

In November 1964, the federal government replaced Bill C-75 with Bill C-136 (House of Common Debates [Hansard], November 9, 1964: 9918). Although not that different from Bill C-75, Bill C-136 did contain some major changes. Many of these changes reflected the above-mentioned impact of the proposed Quebec plan on C.P.P. proposal. First, Bill C-136 made provision for a larger C.P.P. trust fund, from $2.5 billion to $4.5 billion by the end of the transition period. Moreover, 100% of the fund would be available to the provinces for investment in provincial securities. Second, the payroll tax rate nearly doubled: employers and employees each contributed 1.8% for a total of 3.6%, up from the original 2%. Third, the replacement rate also increased by 5% for a total of 25% of average adjusted earnings. Fourth, the qualifying age of C.P.P. was set to decline over a period of 5 years (from age 70 to 65 by 1970). Fifth, the plan covered more workers. Although it exempted workers earning less than $600 a year, participation was compulsory for most workers and self-employed workers earning more than $800 per year (Bryden, 1974). Most importantly, C.P.P. would now provide benefits to non-elderly survivors. Due to Quebec's agreement to the constitutional amendment, survivor benefits could now be offered as part of C.P.P. Bill C-136 not only introduced a new set of benefits, but also required Ontario to move beyond its traditional reluctance to support the idea of a national earnings-related pension plan. After federal consultation with Ontario, a clause was added that gave the provinces veto power over future changes to C.P.P. (Simeon, 1972).[10] In the end, the provinces supported the compromises made by Ottawa as the Premiers felt the new federal plan was broader and gave them some institutional control over the future of the plan.

After securing the support of the provinces for Bill C-136, in 1965, the federal government decided to open a venue for further discussion of C.P.P. through the creation of the *Special Joint Committee of the Senate and the House of Commons on the Bill C-136*. This committee gave private business and labor organizations the opportunity to present their concerns and objections about C.P.P. (House of Commons, March 25, 1965). The majority of those who presented to the committee represented major business organizations like the Canadian Life Insurance Officers Association and the Canadian Chamber of Commerce. These

[10] In order for the federal government to enact changes to C.P.P., it required the support of two-thirds of the provinces with two-thirds of the population (Simeon, 1972).

organizations criticized almost every major aspect of C.P.P., arguing that earnings-related pensions were not fair (since only those who contribute would benefit) and favoured high income workers (Special Joint Senate and House of Commons Committee, 1965). The most salient argument made against C.P.P. was that it overly expanded the role of government, which would, according to private business leaders, hinder their ability to provide income security to their workers and families. In their submission to the joint committee, the Canadian Chamber of Commerce outlined what it felt the role of government should be: "…one of the roles for Government is to foster an equitable and a favourable climate for the private sector enabling it to utilize its resources, both human and material with the utmost efficiency; the greater the efficiency in such utilization the better able is this sector of the economy to contribute to the improvement of the nation's social environment." (Special Joint Senate and House of Commons Committee, 1965: 1295) Although these interest groups were able to voice their concerns, no foundational changes could be made to Bill C-136 due to the precarious arrangement with Quebec, upon which the future of C.P.P depended. In examining the compromises made during the development of C/Q.P.P., one must recognize the process of balancing the political goals of one government against the goals of another. Stemming from the institutional logic of Canadian federalism, this federal-provincial bargaining process became a key aspect of pension policy-making during the first half of the 1960s.

The Canada Pension Plan was passed in the House of Commons on March 29, 1965 and given royal ascent on April 3, 1965. Meanwhile, the Quebec Pension Plan passed through the provincial legislature on June 23, 1965. In 1966, another layer was added to the Canadian public pension system: the Guaranteed Income Supplement (G.I.S.). The G.I.S. is an income-tested pension that exists on the top of O.A.S., which has remained in place since the enactment of

C/Q.P.P. At first, the G.I.S. was intended to be a temporary measure, meant to expire in 1976 after the C\Q.P.P. transition period passed. However, the popularity of the G.I.S. and its effectiveness in fighting poverty among the elderly would help ensure its permanency (Finkel, 2006).

As a result, the modern Canadian pension system is comprised of a relatively modest flat-rate pension (O.A.S.), an income-tested benefit for poorer seniors (G.I.S.), an earnings-related pension plan (C/Q.P.P.) and, finally, personal savings and occupational pensions. This basic system has remained in place since the mid-1960s.

Conclusion

The story told above provides insight about the theoretical issues raised in the Introduction. First, as far as the relationship between political institutions and group mobilization is concerned, the analysis stresses the impact of Canada's federal system on the politics of business and labor mobilization surrounding the emergence of C/Q.P.P. Although the labor movement played a significant role in the agenda-setting process that lead to the enactment of the program, neither labor nor business had a decisive influence on the final stages of the program's genesis. In the context of Canadian federalism where negotiations between Ottawa and the provinces are a frequent and constitutionally necessary occurrence, the bargaining process between Ottawa and the provinces trumped the politics of labor and business mobilization.[11] The high concentration of federal and provincial power stemming from the

[11] In his book on unemployment insurance, Leslie Pal (1988) makes a similar remark about the effect of federalism on labor and business influence in Canada.

Canadian parliamentary system as well as the need to preserve the agreement between Ottawa and Quebec helped shield federal politicians from interest groups during the final episodes of the enactment process. Largely because of such key institutional factors, the influence of the provinces of Quebec and Ontario on the enactment of C/Q.P.P. proved far more decisive than the influence of labor and business organizations, especially private insurance companies who strongly opposed Bill C-136. Consistent with the tenets of historical institutionalism, political institutions play a structuring role in policy-making and have a large impact on interest group and territorial mobilizations.

Second, the above analysis points to the prominence of ideas about the public-private dichotomy in the debates and events leading to the enactment of C/Q.P.P. On the one hand, in the 1950s and the early 1960s, the belief that that private savings and occupational pensions should play a major role in old age security constituted an obstacle to the enactment of a national earnings-related pension scheme in Canada. On the other hand, even when factors like inflation and the increasingly apparent flaws of private pensions helped reformers construct the need to enact such a scheme, federal policy-makers explicitly recognized the need to leave room for private savings and pension benefits. This and the existence of the previously enacted flat-rate pension largely explain why Canadian policy-makers found it appropriate to set the replacement rate of C/Q.P.P. at a comparatively low 25 percent. Overall, existing public and private policies shaped the perception of policy-makers, who struggled to strike a proper balance between these two types of policy. Starting in 1956, changing ideas about the impact of inflation and the adequacy of existing public and private benefits in a context of increased electoral competition helped to justify the push for public earnings-related pensions in Canada. This further backs the claim of authors like Béland and Hacker that ideas that policy-makers have about the public-private dichotomy can durably impact welfare state development. More generally, the above analysis makes it clear that, in Canada like in the United States, it is impossible to understand welfare state development without paying close attention to the development of private benefits and the ideological debate surrounding it (e.g. Hacker, 2002; Howard, 1997; Klein, 2003).

The goal of this discussion has been to stimulate more historical and comparative research about the relationship between ideas, institutions, group mobilization, and the development of public and private social policy in North America. One avenue future scholarship could explore is the apparent contrast between the politics of health care and the politics of pension reform. In his book *The Divided Welfare State*, for example, Jacob Hacker (2002) stresses major institutional and political differences between these two policy areas in the United States. Interestingly, in Canada, the available scholarship emphasizes a similar contrast between the two areas. For example, Keith Banting and Gerard Boychuk (2007) argue that, in the field of health care, Canadian policy-makers successfully created a strong public system that considerably reduced the role of private provisions, which was hardly the case in the field of pension reform. Exploring major differences between the fields of health care and pension reform in both Canada and the United States could enrich the historical institutionalist scholarship on welfare state development, especially the literature on the public-private dichotomy.

Overall, the above analysis of the emergence of C/Q.P.P. has shown that institutional forces structuring interest group mobilization and changing ideas about the relationship between public and private social policy can strongly impact welfare state development. In future research about welfare state development in North America, scholars should keep these findings in mind.

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