

THE POLITICS OF PENSIONS IN CANADA,  
1960-1987

by

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## **ABSTRACT**

This thesis examines the evolution of Canadian pension politics over the last twenty-five years in order to understand why, after creating a public contributory plan in 1965, the state refused to extend its reach further in the 1980s and rather opted to regulate employer-sponsored pensions. This thesis develops an analytical framework which differs from previous studies. It postulates that pension politics can be best understood through the analysis of conflict within and between the non-governmental, intergovernmental and intragovernmental arenas.

The study reveals that the provision of replacement income through public arrangements interfered with profitable activities in the business community and led to major confrontations. It also explains why there has been much less resistance to state intervention which aims to protect the elderly from outright poverty

From 1960 to 1980 pension politics has evolved from a positive-sum game to a zero-sum game. While the creation of the CPP/QPP left ample room for private activities in this domain, a further extension of these arrangements in the 1980s would have seriously curtailed and transformed the role of business interests.

This thesis challenges the view that the process of intergovernmental negotiations was a prime determinant of the failure of business interests in the 1960s and their success in the 1980s. Rather it is the failure of the insurance industry to gain the support of the rest of the business community and its attempt to derail the process which led to its failure in the first instance and its capacity to draw support and make significant counter-proposals which allowed the private sector to play an important role in the second instance.

While the proposal for an expanded CPP drew business interests closer together, it pulled elements of the federal government apart. It is this deadlock, rather than intergovernmental bickering, which delayed the reform process.

Finally, the regulation of employer-sponsored pensions was not preceded by open intergovernmental confrontation but came as a result of an adjustment process and negotiations rapidly led to concrete results although they held a greater potential for failure. Federalism does not seem to have seriously biased the nature of the pension policy-making process.

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## CHAPTER 1

### UNDERSTANDING PENSION POLITICS: LITERATURE REVIEW AND ANALYTICAL FRAMEWORK

In 1986, after ten years of controversial and acrimonious debates over the fate of the Canadian retirement income system, Parliament enacted the Pensions Standard Benefits Act in order to improve and protect further retirement savings. Since then, the Act has been emulated in several provinces. These decisions stand in contrast to the initiatives taken twenty years earlier, when the Canada Pension Plan, the Régime des Rentes du Québec<sup>1</sup> and the Guaranteed Income Supplement (GIS) were created. While the pension reform process led to an expansion of public responsibilities in the mid-sixties, the latest improvements have been directed toward the network of employer-sponsored pensions. Improved income security for the elderly will not be the product of an expansion of public provisions as had been the case before. This deviation away from the continuous expansion of state oriented-policies launched in 1927, and towards an improvement of pensions sponsored by employers is the focus of this analysis. Our objective is to understand why the state rejected a significant expansion of public responsibilities for pensions in the 1980's and chose to mandate improvements of private pensions.

This endeavor reflects the author's preoccupation with the limited amount of research on aging in general and on the Canadian pension system in particular, the future prospects of the Canadian welfare state in the context of an aging society and limited resources as well as the impact of institutional features on social policies in Canada.

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1. In this thesis, the Régime des Rentes du Québec will be referred to as the Quebec Pension Plan. When referring to the two contributory plans, the abbreviation CPP/QPP will be used.

Although the interdisciplinary field of gerontology, the scientific study of aging and the problems of the aged, has greatly expanded over the last twenty-five years, political scientists are only beginning to assess the political ramifications of population aging and research on the matter remains in its infancy. For V.H. Marshall, "one of the greatest lacks in Canadian research on aging is in the general area of political science."<sup>2</sup> According to Kernaghan, the rare contributions of political scientists to the policy field of aging have been a by-product rather than a central concern of their research.<sup>3</sup>

As it stands today, the Canadian retirement income system constitutes one of the single largest public expenditure items.<sup>4</sup> In 1982, over \$13 billion dollars was redistributed through the Old Age Security, the Guaranteed Income Supplement and the Canada and Quebec Pension Plans. Moreover, such expenses will increase to constitute 7% of the Gross National Product in 2031.<sup>5</sup> Consequently, any political decision in this area has enormous social, financial and economic implications which beg for closer examination by the academic community. This thesis hopes to enhance our understanding of how our society and decision-makers are preparing themselves to meet this challenge.

The need to improve our understanding is all the more urgent considering the fact that the welfare state has come under intense pressure during the economic recession. In the aftermath of the Second World War, industrialized societies were both young and growing as well. This has been replaced by the aging of our population and slower economic growth. We must wonder how an overloaded and embedded state will harness the resources necessary in order to face the geriatric boom which will be

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2. V.H. Marshall, Aging in Canada: Social Perspectives (Don Mills: Fitzheroy and Whiteside, 1980), p.5.
  3. K. Kernaghan, "Politics, Public Administration and Canada's Aging Population", Analyse des Politiques VIII (1982): 69-79.
  4. Public expenditures on pensions represented 2.8% of the GDP in 1960 and 4.6% in 1981. See K.G. Banting, The Welfare State and Canadian Federalism (Montreal: McGill-Queen's University Press, 1982), p. 51.
  5. Economic Council of Canada, One in Three: Pensions for Canadians to 2030 (Ottawa: Canadian Government Publishing Center, 1979), p.27.

upon us in the first half of the next century. The decisions taken in the 1980's by federal and provincial governments will have an impact on the income security of future retirees.

These decisions are fundamentally political, since they imply decisions about the allocation of resources to meet present and future needs and they have been preceded by intense and acrimonious debate and difficult decisions. Our objective is to improve our knowledge and understanding of pension politics and how it has produced certain decisions. The following review of the literature can be used as a stepping stone to the elaboration of an analytical framework.

### 1.1      Literature Review

Canadian pension politics and policies have been the focus of only a handful of analyses. In fact, Bryden's Old-Age Pensions and Policy-Making in Canada<sup>6</sup> is the only book which focuses exclusively on the emergence of the retirement income system. It is a case study of the politics of redistribution in Canada. The book provides the most detailed description and interpretation of the forces and the nature of the process which have determined the nature, scope and evolution of pension policies in the 20th century. Bryden provides the reader with a detailed reconstruction of the events.

His analysis of the policy-making process leads him to emphasize the conditions under which the pension issue repeatedly made its way back on the political agenda and the ensuing decision-making process which led to policy reformulation and the continuous expansion of public arrangements. According to Bryden, whereas deep socio-economic transformations such as industrialization and

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6.      K. Bryden, Old-Age Pensions and Policy-Making in Canada (Montreal: McGill-Queens' University Press, 1974).

urbanization led to growing demands for increased state intervention,

Resistance to such income redistribution was grounded in a deep-rooted set of cultural values, the market ethos, which reinforced dominant economic interests. ... Public pension policy has been the product of this conflict between the emerging environmental want and the market ethos.<sup>7</sup>

Bryden puts heavy emphasis on the decision-making process per se. On each occasion, his research reveals, the issue pitted welfare-conscious and cost-conscious actors against each other and each decision has reflected the compromises reached between the two groups. The emergence of public provisions for the elderly came in two distinct phases. During the first phase, which lasted until 1936, the conflict centered on the legitimacy of state intervention in order to achieve enhanced income redistribution. This period represented a "transition from sacrilege to tradition". Since then, the opponents of income redistribution have attempted to limit its expansion by shifting the debate and making cost-control the focus and reason for their resistance.

Bryden reduces pension politics to a simple equation. It pits cost-conscious and welfare-conscious groups, inside and outside the state, against each other. They have confronted each other on many occasions through this century and while the scope of public intervention has been increased in methodical fashion, the extent of income redistribution has been successfully limited by conservative forces.

The federal government is seen by Bryden as the theatre of operations where battles are fought and decisions taken while provincial governments are reduced to the rank of proximate policy-makers. In contrast, the few other political scientists interested by pension politics have been captivated by the impact of federalism. In "Patterns of Policy Development: Social Security in Canada and the United States"<sup>8</sup>, Leman argues that federalism is central to an understanding of Canadian pension politics.

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7. Ibid., p.1.

8. C. Leman, "Patterns of Policy Development: Social Security in Canada and the United States",

According to Leman, the Canadian experience is paradoxical. The gradual development of the public pension system is more akin to the British and Swedish experiences than the American, while the social and economic structure as well as the political system of the latter resembles Canada's. Indeed, the United States created the Social Security System amidst a crisis atmosphere and few changes have been made to it since then. It has become entrenched and congealed going through limited and incremental changes. Canada, on the other hand, has developed the retirement income system gradually, the system undergoing constant redefinition and changes. Moreover, new policies have not led to the elimination of established programs; rather each program has been built on top of another.

But how, Leman asks, can we explain such a process in Canada if "centralized institutions that continuously give policy professionals unquestioned authority"<sup>9</sup> do not exist in Canada? The evolution of the retirement income system in Canada is paralleled in Britain and Sweden. But in these countries which have a unitary state, there is no division at the middle and bureaucrats have been allowed to take an activist role through a process called "political learning".<sup>10</sup>

Leman demonstrates that the party system and the division of powers between federal and provincial authorities have contributed to a steady development pattern. The party system is responsible for continuously bringing the issue back on the agenda because the federal party system is dominated by the Liberal Party which has been responsible for carrying reforms because it has remained under constant pressure from the Left. While the party system determines agenda-setting, federalism accounts for the nature of policies and types of programs. Although Canadian decision-makers can not enjoy the freedom that comes to their Swedish and British counterparts:

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Public Policy 25 (1977): 261-291.

9. Ibid., p.287.
10. H. Heclo, Modern Social Politics in Britain and Sweden: from Relief and Income Maintenance (New Haven: Yale University Press, 1974).

The very fissures within the Canadian political system create such obstacles to agreement that the public and most political actors concede to top elites special discretion in the quest for accommodation.<sup>11</sup>

Thus, according to Leman, the special barriers that federalism erects have forced decision-makers to look to alternatives to a contributory plan in 1927 and 1951, while the crisis atmosphere in which the decisions were taken forced the necessary compromises. Leman's analysis stresses the importance of the institutional framework relative to the structure of the Canadian retirement income system, while others have been more interested about its impact on the pension policy-making process.

Simeon's analysis of pension politics forms part of his landmark study on the impact of federalism on policy-making in Canada in the 1960's.<sup>12</sup> According to Simeon, the Canadian decision-making process was unequivocally transformed in the 1960s. Provincial political elites were seeking to increase their profile and occupy their areas of jurisdiction. Pensions constituted one such area and the focus of conflict and decision in the pension field shifted to the federal-provincial arena. The decisions taken resulted from the secret negotiations involving political and bureaucratic elites in Ottawa and the provinces.

Simeon has argued that provincial interests overshadow the policy process and the relations between society and state. The process of federal-provincial negotiations has seriously curtailed the capacity of interest-groups to influence the process. In the pension case, he argues that business interests were frozen out and even if their representatives formed part of the Ontario delegation, in the end their interests were sacrificed by the provincial governments. Thus, according to Simeon, federalism has had a tremendous impact on the policy-making process, by displacing the centre of decision away from Parliament, shutting out interest groups and complicating the process at the centre. Consequently,

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11. Ibid., p.281.

12. R. Simeon, Federal Provincial Diplomacy: the Making of Recent Policy in Canada (Toronto: University of Toronto Press, 1972).

politics itself is transformed and tilted to favor the interests of provincial governments.

Banting has examined pension reform in the 1980s, at a time when its outcome remained largely undetermined.<sup>13</sup> He attempts to demonstrate that the division of responsibilities between Ottawa and the provinces has slowed down the pace of change and created a major obstacle to change, "... federal-provincial relationships in the pensions field act as a brake on policy change, and as a potent conservative force in Canadian pension politics".<sup>14</sup>

This is a direct consequence of the rules over future changes that were included in the legislation creating the CPP/QPP, which provided a number of veto points. As far as the regulation of private pensions is concerned the decision rules differ but they also constitute a serious impediment to change. Although no specific veto exists, provincial paramountcy does not allow the federal government to exercise any real leadership.

Consequently, the social conflict over pension reform is overlaid by an intergovernmental conflict, in which governments have interests of their own and will ally themselves with different groups as they see fit. The governmental consensus necessary to bring any significant change gives the advocates of the status quo more time to prepare themselves while social reformers are forced to persuade a majority of provincial governments. This leads Banting to conclude that federal-provincial relationships in the pension field complicates the process and makes expansionism unlikely.

Both Simeon and Banting endorse the orthodox view, which holds that the relations between citizens and the national government take a back seat to intergovernmental concerns. Public debate is replaced by secret discussions and Parliament loses its rightful role. The secret world of federal-

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13. K.G. Banting, "Institutional Conservatism: Federalism and Pension Reform", in Canadian Social Welfare Policy: Federalism and Provincial Dimensions, ed. J.S. Ismael (Montreal: McGill-Queens' University Press, 1985), pp. 48-74.

14. Ibid., p. 49.

provincial relations and negotiations supersedes everything and pension reform becomes intermingled among a host of unrelated and contradictory values and goals. The nature of the political game is thus biased. In these conditions, interest groups which advocate the status quo must fight their way in and must be able to find governmental allies and use the multiple veto points.<sup>15</sup>

In essence, Simeon and Banting show the two sides of the same coin. The former demonstrates the failure of interest groups, in the 1960s and the priority given to governmental goals. The latter indicates how much room there is for opponents of change to exploit the multiple veto points. Both agree on the primordial role of provincial governments which have self-defined goals and objectives. Leman looks at federalism in a slightly different perspective. He believes that federalism has had a dual impact. On the one hand, the division of powers has erected barriers which have delayed the introduction of a contributory plan. On the other hand, the need to avoid deadlocks has forced decision-makers to find original solutions.

The small body of pension literature focuses on different aspects of the same question and offers a variety of understandings of what pension politics is about. Collectively, this body of research indicates the potential for conflict over pensions at three levels, social or non-governmental, intragovernmental or within the federal government itself and intergovernmental.

## 1.2 Framework for the Analysis

This thesis attempts to explain the decisions taken after the Second World War about the scope of public intervention in the pension field and the means used to enforce these choices. The scope and

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15. Ibid., p. 56; R. Simeon, Ibid., p. 281.

means of policies are inextricably linked. A decision about the scope of intervention often entails specific means through which public policy objectives can be carried. Each expansionist phase in the pension field has led to decisions about the extent of public responsibility and the types of program which should be implemented. The Canadian retirement income system in Canada has evolved from one whose objective was to protect the elderly against poverty to one providing replacement income to soften the drop in revenue at retirement.

Different programs have been implemented in order to fulfill these goals. Protection against poverty was first awarded after the application of a means-test used to determine who should be protected. It was replaced by a demogrant<sup>16</sup> which did not discriminate between recipients to which was later added an income-test program. Clearly there have been important variations in the ways to fulfill similar objectives. Consequently it is necessary to understand both the goals and means at work.

In these respects, pension reform in the 1960s and 1980s stand in sharp contrast. In the 1960s, the state introduced the concept of public responsibility for replacement income thus extending the scope of public intervention through state-administered programs, the Canada Pension Plan and the Quebec Pension Plan. In the 1980s, the state decided not to increase further the scope of intervention and decided that to improve the lot of future retirees, employment pensions had to become more accessible and further protected through their regulation. The examination of pension politics from the 1960's onwards, must determine why the trend toward the expansion of public arrangements was brought to a halt and why the means chosen to bring improvements have differed.

To explain the scope of pension policies as well as the means used to enforce them, the nature of pension politics must be unravelled. While each research on the politics of the retirement income system has sought answers by focusing on one sphere of conflict - intragovernmental in the case of Bryden, intergovernmental in the case of Simeon and Leman - the aggregation of studies tends to demonstrate

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16. Technical terms are defined in the glossary; see appendix 1.

that pension policies are potentially the product of three interactive spheres of conflict. This thesis thus postulates the existence of three levels of conflict, non-governmental (social), intergovernmental and intragovernmental which are to be integrated in a single framework.

The choice of such a framework, it is hoped, will overcome some of the shortcomings of the analyses of decisions. It would be impossible to shed light on pension politics if any of these components was ignored. If only one realm of conflict was studied, at best a limited understanding of pension politics would be gained, at worst a biased view would emerge. As stressed by Banting,

It is impossible to assess the independent influence of any single factor ... by viewing it in isolation. To some extent, political science suffers from what has been labelled the curse of expertise in independent variables.<sup>17</sup>

During the post-war era, two coalitions have been confronting each other on the pension issue. On the one hand, orientation groups<sup>18</sup>, have consistently pressured for public intervention in order to guarantee retirement income for all Canadians. On the other hand, promotional groups have attempted to protect their profitable activities by resisting state invasion of the field.

The structure of coalitions, the means at their disposal and their strategy all impact on their capacity to influence public choices and must be understood. This is not to mean that we subscribe to the tenets of pluralist or group theories. The state is not conceived here as a neutral body simply responding to societal or group pressures, nor are pension policies to be understood as the simple and direct product of social conflicts. Rather we must evaluate in which manner and to what extent groups have contributed to pension policy decisions. In this respect, we will attempt to understand if the failure of promotional groups to stop the implementation of the CPP/QPP has been the result of the institutional framework in which they were forced to operate, as argued by Simeon, or if such factors as their structure

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17. K.G. Banting, The Welfare State and Canadian Federalism (Montreal: McGill-Queen's University Press, 1982), p. 180.

18. The typology is borrowed from: S.E. Finer, Anonymous Empire, (London: Pall Mall, 1958).

and strategy have also impacted on their failure.

The overarching concern about the impact of federalism on pension policy-making forms part of the wider body of literature focusing on the impact of the institutional infrastructures on public policy.<sup>19</sup> Federalism is generally viewed as having a conservative impact on social policies in Canada and in other federations.<sup>20</sup> The case is often made that federalism complicates the process and favors the forces opposed to expansionist public policies in the social field.

However, not every scholar shares this opinion and the anti-thesis which holds that federalism allows activist governments to implement policies that may then spread to other jurisdictions has also been proposed. Taylor has presented such a case in his analysis of the emergence of health insurance in Canada.<sup>21</sup> Banting has concluded that in the case of the Canadian welfare state both forces are at work at the same time, but that most often federalism has been an impediment to change.

What distinguishes provincial governments from interest groups is their capacity to invoke their powers to either stop or encourage change. In the pension field, the provincial governments possess undeniable authority which has come to be shared with the federal government. In Canada, the location of the provinces has complicated pension politics and the policy process. Among the provinces, Quebec and Ontario have been predominant actors.

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19. This important body of literature is reviewed by: F.J. Fletcher and D.C. Wallace, "Federal-Provincial Relations and the Making of Public Policy in Canada: A Review of Case Studies", in Division of Powers and Public Policy, ed. R. Simeon (Toronto: University of Toronto Press, 1985).
20. A.H. Birch: Federalism, Finance and Social Legislation in Canada, Australia and the United States (Oxford: Clarendon Press, 1955); A.J. Heidenheimer et al., Comparative Public Policy: The Politics of Social Choice in Europe and America (New York: St Martins Press, 1975).
21. M. Taylor, Health Insurance and Canadian Public Policy: The Seven Decisions that Created the Canadian Health Insurance System (Montreal: McGill-Queen's University Press, 1978).

The federal government remains the dominant force in the Canadian state. It maintains a special status among the eleven governments. On pension matters, it has repeatedly sought to enhance its role and increase its responsibilities. In determining the role of the federal government in matters relating to pensions, it can not be visualized as a monolith. On the contrary, we must attempt to identify the tensions and conflicts that have arisen in it over the proper role and extent of the public retirement income system. Bryden has hinged his analysis on the idea that it is in Ottawa that the most significant conflicts arose. This thesis does not attempt to tackle the intense debate between societal and statist<sup>22</sup> perspectives but postulates that the behavior of the state deserves as much attention as non-governmental actors do.

In dealing with the federal government three components must be considered. First, political parties which link society and state and which are the conduit through which social concerns reach the political agenda. According to Leman, they have played an important role as agenda setters. The second element is the bureaucracy which constitutes the life-support system of the state and which is involved in defining and implementing state decisions. Third, we must consider the members of government themselves, responsible for decisions and non-decisions.

It must be pointed out, from the outset, that this thesis does not purport to provide an in-depth analysis of the nature and dynamic of bureaucratic behavior and politics. Our goal is to identify the contribution of bureaucracies to pension politics and the conflicts which may have taken place within the federal government while making policies. There will not be any systematic attempt to differentiate bureaucracies from government decision-makers.

Intragovernmental conflicts also take place within provincial governments and may have impacted on the policy process. However it would have been impossible to gather evidence of such conflicts in the ten provinces given the scope of this research. Since Ontario and Quebec have been the

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22. E. Nordlinger, On the Autonomy of the Democratic State (Cambridge: Harvard University Press, 1981); S. Krasner, Defending the National Interest (Princeton: Princeton University Press, 1980).

predominant provincial actors in the pension field, it seemed appropriate to collect information to this effect from these two provinces.

The three linkages are highly integrated and the examination of the connections between them is just as important as an understanding of each single one. It is not sufficient to acknowledge the presence and study the individual impact of the three elements. It is also necessary to comprehend the impact of each element on others. To do so the policy process must be examined. Pension policy, its scope and the means used to bring it about are the product of politics. But to understand pension politics it is not sufficient to understand the context in which conflict takes place and the interests of the groups involved. Politics is also revealed through actions. Politics comes alive through a policy process. The process must be probed to reveal the interaction between the different levels of conflict under inquiry here.

In this respect, the study of public policy often seems to suffer from the fact that most inquiries seem limited to one level of understanding. The welfare state literature for example often provides us with analyses which deal with either the impact of socio-economic forces or conversely define decisions primarily as the product of actor interactions. Policies are too often understood either as a product of structural forces or as the result of a policy-making process in which actors interact. As Simeon argues:

What governments do cannot be fully explained either by focusing only on the actions and perceptions of the proximate policy-makers or by stressing only the impersonal forces of the environment, such as levels of economic development, urbanization and affluence ... . Policy emerges from the play of economic, social and political forces, as manifested in and through institutions and processes.<sup>23</sup>

The framework chosen here should counter the limitations which plague studies deriving major conclusions about outcomes from analyses centered on a single level of reality.

The policy process is conceived as the intersection or the bridge between politics and policy. The

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23. R. Simeon, "Studying Public Policy", Canadian Journal of Political Science XIX (1976): 550.

dynamic of confrontation and decision reflects the politics of pensions, the broad forces at work which attempt to influence others in pursuit of some design. It defines the boundaries within which conflicts take place and implies a set of written and unwritten rules through which confrontation leads to policy. The policy process is defined and focused upon in such a way as to avoid some of its shortcomings. The process is often the object of inquiry and does not shed much light on politics. Here, the process is analyzed in order to bring out the essence of politics.

For example to understand the impact of federalism on pension policies, it is not sufficient to construct it as a unidirectional and isolated relationship. The impact of federalism must be weighted in relation to the social and intra-state dynamic. Only then can we hope to make conclusions about the true impact of federalism.

### **1.3                  Organizational Structure of the Thesis**

As noted earlier, public programs were created in the 1960s to increase the scope of public intervention. But in the 1980s, the state was reluctant to enlarge further the scope of intervention and improvements were enforced through different means: the regulation of employment pensions. The two reform processes will thus be compared and contrasted in order to gain greater insight about the evolution of pension politics. It will allow us to demonstrate the extent to which the setting and content of the debates have changed, the nature of coalition formation has evolved, the balance of forces has been altered and the connections between societal and governmental actors have shifted.

Chapter 2 examines pension politics in the first half the twentieth century. It describes the impact of industrialization and urbanization on the economic position of the elderly and the demand overload

which fell upon the traditional welfare system. It then examines the emergence of public pensions as the federal government made to define an appropriate response and established different programs.

Chapters 3 and 4 deal with the conflicts which preceded the establishment of the public contributory plans in Canada. Chapter 3 examines the societal resistance coming from some promotional groups and the rationale which motivated the federal government to intervene. Chapter 4 analyses the nature and impact of provincial intervention in the 1960's. The last section of the chapter provides a reinterpretation of the nature of pension politics in the 1960's. It offers a new interpretation for the failure of promotional groups to stop the initiative and reassess the role played by Ontario and Quebec in the matter.

Chapters 5, 6 and 7 examine pension politics in the 1980's. Chapter 5 deals more specifically with the factors which made the retirement income system the object of serious concerns and led to the Great Pension Debate. It provides a summary of the status of the system at the time and the numerous reform proposals which were proposed as remedies to its numerous shortcomings.

Chapter 6 explains the resistance of the federal government to an expansion of the public contributory system, not in terms of the resistance from provincial governments, but as the product of serious and irreconcilable differences in Ottawa itself. As will be demonstrated, the federal government refused to endorse the proposal to expand significantly the role of the Canada Pension Plan because it would significantly alter the private pension market and the channels through which savings are reinvested in the economy.

Chapter 7 surveys the process through which Ottawa and the provinces redefined the rules governing the provision of employment pension plans benefits and assesses the modifications made to the retirement income system. It also examines the attempt of the Conservative government to de-index OAS benefits.

Finally, Chapter 8 highlights the evolution of pension politics from the 1960's to the 1980's and highlights the major differences in the policy-making process from one period to the other.

## CHAPTER 2

### THE EMERGENCE OF PUBLIC PENSIONS (1900-1951)

The purpose of this chapter is to explain the circumstances under which the state assumed increasing responsibilities as the guarantor of income security of elderly Canadians during the first half of the 20th century. On three occasions during this period the federal government enacted policies which were aimed at protecting elderly Canadians against outright poverty. The Government Annuities Act (1908) reflected the belief, still largely held, that citizens could shelter themselves against destitution in old age, if provided with the opportunity to do so. The Means-Test Pensions Act of 1927, constituted a significant departure from the earlier legislation, and signalled an acknowledgment by the state that it had to assume larger responsibilities. In 1951, the logical result of pension reform should have been the creation of a public contribution plan. Instead, the atmosphere of crisis in which the decision-makers found themselves, and the added obstacle that jurisdictional difficulties constituted, resulted in the introduction of the Old Age Security Act (1951), providing similar benefits to all citizens and financed out of special taxes.

This period constituted the prelude to the creation of a public contribution plan. Until 1936<sup>1</sup>, the politics of pensions opposed the advocates of traditional forms of state relief rooted in the practices of a colonial and rural society to those who challenged such practice and ideology in an industrializing society.

The introduction of the Means-Test Pensions was the product of a conflict which unfolded in

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1. New Brunswick and Quebec did not opt in the means-test pension plan until 1936.

Ottawa. Dominant economic interests were markedly absent from that debate. Representatives of the business community only entered the policy process and began to be a force to be reckoned with in the 40s, prior to the introduction of the Old Age Security Act. As will be shown, in this latter case, divergent interests among dominant economic interests arose for the first time.

The politics of pensions from 1900 to 1951, was significantly different from the politics of pensions of today. During the last 25 years, pension politics has forced decision-makers to decide the respective role that the private and public insurance networks should play. Since the creation of a public contributory scheme was not considered in 1927 and rejected in 1951, dominant economic interests did not significantly influence the policy process in the first half of the century, and the decision did little to disrupt social and economic structures.

This chapter explains the profound impact of industrialization and urbanization on the traditional sources of support of the elderly population, and on the forms and practices of welfare. It then examines the pressures which forced the state to intervene and relieve the elderly from poverty and the circumstances in which the pension issue came back onto the political agenda, and led to public interventions on three occasions.

## **2.1           The Elderly and the State in the Industrializing Society**

The existence of a class of citizens consisting of elderly unemployed people is a 20th century phenomenon, brought about by industrialization. Retirement, but for a privileged few, did not exist in agrarian economies. Until the 20th century, withdrawal from productive activity tended to be gradual and

continued support from the larger family was the norm.<sup>2</sup> Since the heir could be legally bound to provide for the elderly, artisans and businessmen could rely on the control over property to provide income in retirement.

Industrialization would slowly alter this pattern while urbanization would further undermine the capacity of the elderly to seek support from the family. As demonstrated by Graebner<sup>3</sup>, the older worker was ill-suited for the modern workplace, and his position in the workplace was undermined. However, industrialization did not bring about an automatic transition to retirement and some evidence suggests that elderly urban workers stayed in the workplace longer than rural workers<sup>4</sup>. Until the Second World War, a majority of the Canadian elderly would keep working in old age (Table 2.1).

Urbanization would transform further the life patterns of the elderly. While industrialization brought about the gradual withdrawal of the elderly from the workforce, urbanization meant the disappearance of the traditional source of support for the non-working elderly. The disappearance of the large rural family and its replacement by the urban nuclear family further weakened the security of the elderly (Table 2.2). The elderly were thus slowly squeezed out of a workforce which had little use for them, yet they were unable to seek support from their families.

These two phenomena would slowly build pressure on the traditional network of public relief and private charities and was further aggravated by the tremendous growth of the Canadian elderly population. The proportion of the total elderly population, per se, did not change dramatically between 1901 and 1941, only increasing from 5% to 6.7% of the total population, but the overall growth of the elderly population was very important (Table 2.3).

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2. J. Goody, "Aging in Non Industrial Societies", in Handbook of Aging and Social Sciences, ed. R. Binstock and E. Shanas (New-York: Van Nostrand Reinhold, 1976), pp. 117-129.
  3. W. Graebner, A History of Retirement, the Meaning and Function of an American Institution, 1885-1978 (New Haven: Yale University Press, 1980).
  4. P.N. Stearns, Old Age in European Society: the Case of France (New York: MacMillan, 1984).

Alternative means to provide income in old age such as pensions or savings were either non-existent or out of reach for the majority of the workforce. Annuities plans were a rarity. The first statutory Canadian pension plan was introduced in 1870 by the federal government for some of its employees, followed by the Quebec government the same year. No other governmental pension plan would be created before Ontario introduced its own, in 1920.<sup>5</sup>

Company pension plans were unavailable to most workers and the few which were in operation rarely produced enough revenues to guarantee an income at retirement. The number of pension plans offered by employers remained quite small until World War II.<sup>6</sup> The Grand Trunk Railway was the first corporate employer to introduce a formal pension plan, in 1874. By 1900, seven other plans had been introduced, following the enactment of the federal Pension Fund Societies Act of 1887. In 1909, fewer than 70 plans existed and by 1919 there were only 231 plans.<sup>7</sup> Some plans sponsored by voluntary associations, set up by craft unions for their own members, also existed but their numbers remained limited.

Industrialization and urbanization brought fundamental changes which had significant implications for the fragile Canadian poor relief network. Slowly but unrelentingly squeezed out of the workforce, unable to contribute to a pension plan or save enough to buy annuities, incapable of getting relief from the extended family, the last resort available for many elderly was to seek relief among public, private or religious relief institutions. Although Canada was on the path to rapid industrialization and urbanization, it still relied on a traditional welfare network inherited from the 19th century. The nature of public responsibility varied from one region to another, reflecting the mixed cultural heritage of the country.

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5. H.D. Clark. Task Force on Retirement Income Policy. The Development of the Retirement Income System in Canada. 1980. Pp. 10-14.
  6. L.E. Coward, "Pensions and Welfare Plans in Canada: History and Trends". Transaction X (1958): 174-201.
  7. Canada, Dominion Bureau of Statistics. Survey of Pension and Welfare Plans in Industry, 1947. 1950.

The Maritime provinces provided relief through a regime of Poor Laws.<sup>8</sup> Public responsibility for the relief of the dependant poor and its administration through the local parish made it the Canadian equivalent of the Elizabethan Poor Laws.<sup>9</sup> Although public responsibility was acknowledged, it was extremely difficult for a small and dispersed population to support such a system. It even led some New-Brunswick parishes to subcontract to the lowest bidder, for the care of the elderly. The Maritime parishes were ill-equipped to meet the need of the poor, including the elderly poor, in an industrializing society.

In Ontario, the provincial government refused to take such public responsibilities.<sup>10</sup> Municipalities and private philanthropies had enormous difficulties in meeting such a challenge. The provincial government could not escape all responsibilities and even had to resort to using the penitentiary system partly to fill the gaps. Jails designed to put criminals and vagrants behind bars were used to house indigent and old people. In 1891, the Ontario Royal Commission on the Prison and the Reformatory System publicized and denounced the presence of the large number of harmless elderly citizens who had no alternative but to seek refuge in local jails on charges of vagrancy.<sup>11</sup>

In the province of Quebec, the provision of relief differed significantly. The Catholic Church was responsible for education, health and welfare. Care was more readily available. As illustrated in Table 2.4 Quebec institutions could shelter 3,721 people, while in Ontario only 3,434 could be accommodated. Yet at a time when the population of 70 years or more numbered more than 345,000, the institutions had serious shortcomings.

The diversified nature of welfare in Canada was partly a product of the British North America Act.

8. R. Williams, "Poor Relief and Medicine in N.S., 1749-1783", Collections of the Nova Scotia Historical Society 24 (1938): 33-56.; James M. Whalen. "Social Welfare in New-Brunswick, 1784-1900", Acadiensis 2 (1972): 55-56.
9. M. Bruce. The Coming of the Welfare State. (London: T Batsford, 1961).
10. R. Splane, Social Welfare in Ontario, 1791-1893 (Toronto: University of Toronto Press, 1965).
11. D. Guest, Ibid., p. 34

Section 92 of the Act established the responsibility of local and provincial authorities in the social welfare area. The provinces kept exclusive powers over hospitals, asylums and charities. Yet by limiting the sources of revenue to the provinces and giving the lion's share of revenue raising powers to the federal government, the Fathers of Confederation would render more difficult the task of those, inside and outside the state, who would attempt to establish a modern welfare state. Although pensions were under provincial control, Ottawa would have to assume a leadership role.

Thus, industrialization had a number of serious consequences for the majority of the elderly population. It signaled the advent of a slowly evolving process which would ultimately make retirement from the workforce the norm, rather than the exception. From the turn of the century, a diminishing proportion of the population over 65 remained in the workforce. For the majority of them the outlook was bleak. The disappearance of family support was further compounded by the virtual non-existence of occupational pension plans and alternative sources of revenue. It left only one option open, relief from public institutions or private charities. Ill-equipped to cope with a rapidly growing elderly population, which in fact constituted only a fraction of those needing help, the system could not answer the demand. The federal government thus came under increased pressure to intervene.

## 2.2           **Government Annuities Act (1908)**

The growing number of unemployed elderly poor first drew the attention of legislators around the world and in Canada by the turn of the century. In 1889, Bismark created a national public contributory plan.<sup>12</sup> Other countries created similar programmes in the early 20th century. Austria (1907), France

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12.       G.V. Rimlinger, Welfare Policy and Industrialization in Europe, America and Russia. (New-York: Wiley, 1971).

(1910), Luxembourg (1911), Rumania (1912) and Sweden (1913) had all implemented public pension plans before the outbreak of the First World War. While countries from continental Europe showed a preference for contributory plans, means-tested pensions were the norm in Commonwealth countries. New-Zealand (1898), Australia (1908), Britain (1908) and Newfoundland (1911) all introduced means-test pensions, financed out of general revenues and providing benefit to the elderly poor.

Whether they were based on the contributory principle or granted under a means-test, these public plans provided only minimal benefits.<sup>13</sup> In Germany, a pension provided only 70% of the prevailing public assistance benefits, while in England (1920) the pensions did not even provide half of what was considered the subsistence level.<sup>14</sup> The benefits were a first step toward the creation of comprehensive public provision for the income security of the elderly, but the amounts of benefits made them timid steps at best.

In Canada, the first intervention of the federal government was not to create a public plan, but rather to encourage workers to build up savings for their own retirement. Given such an orientation, two avenues were opened to the government. One would be to encourage the development of private sector annuities. Still, as Guest has pointed out, the government would have been hard pressed to do so, following the publication of the "Royal Commission on Life Insurance" (1906) which condemned the dubious and unethical practices of insurance companies.<sup>15</sup>

Under such conditions, Richard Cartwright, the federal minister of labour, piloted a draft annuities bill through Parliament which, after a short debate, was enacted in 1908. It authorized the government to

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13. C. Conrad, "Aging with a Minimum of Property: The Lower-Middle class and Working-Class of Cologne, 1830-1930", Paper prepared for the annual meeting of the American Historical Association, December 1982.

14. H. Heclo, Modern Social Politics in Britain and Sweden (New Haven: Yale University Press, 1974), p. 199.

15 D. Guest, *Ibid.*, p. 35.

sell annuities under conditions that were more advantageous than those offered on the private market, because no profit was sought and the administrative costs of the plan would be covered through general revenues. During the Senate debates, Cartwright<sup>16</sup> indicated that the government wanted to encourage savings. The difficulties that individuals were facing in this respect would be eased by offering annuities which were clearly superior to those available through private markets.

The Government Annuities Act was created at a time when pressures for state intervention were not yet felt. It was initiated by Cartwright and was not designed to quiet pressure from any lobby either inside or outside government, as was the case in England.<sup>17</sup> It is conceivable that the Annuities Act originated from a desire to undercut socialistic experiments<sup>18</sup>, an opinion voiced by Cartwright himself.<sup>19</sup>

The decision not to create a state-administered plan reflected the persistent belief in the capacity of individuals to fend for themselves. By the turn of the century, the traditional value system attributing poverty to weakness of character and viewing relief as a local responsibility was still dominant among a large cross-section of the population. This value system had its roots in "frontier conditions (which) placed a premium on self reliance which was a tenable doctrine when a family or community produced and consumed most of the goods which it needed".<sup>20</sup> Such values were beginning to be questioned by then, as shall be shown in the next section, but social reformers had not been able to mount any serious challenge yet. This early effort to come to grips with poverty in old age confirms Rimlinger's statement to the effect that "where the liberal concept of society triumphed, social protection was slow to develop."<sup>21</sup>

16. Senate debates 1906-1907, pp. 331-336, 520-522, 669-672, 701-714, 786-799, quoted in K. Bryden, *Ibid.*, p. 51.

17. H. Heclio, *Ibid.*

18. K. Bryden, *Ibid.*, p. 49; D. Guest, *Ibid.*, p. 34; both voice such an opinion.

19. Senate debates 1906-1907, pp. 331-332, quoted in K. Bryden, *Ibid.*, p. 49.

20. E. Wallace, "The Origin of the Social Welfare State in Canada, 1867-1900", The Canadian Journal of Economics and Political Science XVI (1950): 383-393..

21. G.V Rimlinger, *Ibid.*, pp. 8-9.

Government sponsored annuities were still in their infancy and not perceived as a threat. Such dissatisfaction would only be felt in the 1930s as the annuities business grew significantly.

The Government Annuities Act failed miserably as far as encouraging Canadians, particularly low wage-earners, to save. Those who had opposed the bill attempted to demonstrate that it was not enough and that the regular wage-earner could not afford to participate in this type of plan. A 1915 survey of purchasers proved them right. It showed that the majority of them were found among the lower paid professions while laborers formed only 4% of the buyers.<sup>22</sup> According to Laycock, "the whole act insofar as it was intended to serve the needs of working men was based on a misconception of their way of life."<sup>23</sup> Canadians would have to wait until 1927 before the introduction of a public pension plan, a measure which met heavy resistance and to which we now turn our attention.

### 2.3           Old Age Pensions Act (1927)

The introduction of the Annuities Act coincided with and was partly the product of significant social and political pressures for forceful public action, whose impact was not yet felt in 1908. The social reform and trade-union movements both applied the necessary pressure on the state by pleading for public intervention and undermining the ethos of individualism and self-reliance, which permeated even the views of those on the frontlines of relief provision. For it must be pointed out that private philanthropies and charitable organizations still upheld the notion that the roots of poverty were unrelated to the profound social transformations that the industrialization and urbanization processes had brought

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22.       F.A. Carman, "Canadian Government Annuities: A study of their Relation to Poverty in Old Age", Political Science Quarterly 30 (1915): 417-425.

23.       Joseph A. Laycock. "The Canadian System of Old Age Pensions". PH.D. Thesis, University of Chicago, 1952, p. 31.

about. A classic example of such attitude was expressed in 1912 by the Associated Charities of Winnipeg:

If material assistance was needed (...) the work of this department would be easy. Unfortunately, the large majority of applications for relief are caused by thriftlessness, mismanagement, unemployment due to incompetence, immorality, desertion of the family and domestic quarrels. In such cases the mere giving of relief tends rather to induce pauperism than to reduce poverty.<sup>24</sup>

However, the ideological and structural foundations of the Canadian relief system were inexorably subjected to the scrutinies and criticisms of social reformers whose most distinguished representative was Herbert Brown Ames. He produced an extensive survey of social conditions in Montreal<sup>25</sup> modeled on the work of Charles Booth in Britain<sup>26</sup> and identified the prime source of poverty as insufficient employment, and low wages. The plight of the poor, and the need for action were further publicized by the Urban Reform Movement<sup>27</sup> and the Social Gospel Movement<sup>28</sup>. They both contributed to cast a large measure of doubt about prevailing theories on the roots of poverty and the best means to break its dreadful and seemingly inescapable consequences.

The trade-union movement also attempted to get the pension issue on the political agenda. The Trades and Labor Congress (TLC) endorsed the creation of public pensions at its annual convention of 1905, and the National Trades and Labour Congress followed suit at the 1907 meeting. Until World War I, the unions made repeated representations in Ottawa. However, federal politicians were not responsive,

- 24. A.F.J. Artibise, Winnipeg: a Social History of Urban Growth (Montreal: McGill-Queens' University Press, 1975), p. 188.
- 25. H.B. Ames, The City Below the Hill (Montreal: Bishop Engraving and Printing Co., 1897; reprint ed., Toronto: University of Toronto Press, 1972).
- 26. C. Booth, Life and Labour of the people of London (London: MacMillan, 1904).
- 27. P. Rutherford, ed., Saving the Canadian City: The First Phase 1880-1920 (Toronto: University of Toronto Press, 1974).
- 28. R. Allen, The Social Passion, Religion and Social Reform in Canada, 1914-1928 (Toronto, University of Toronto Press, 1971).

and the outbreak of the war eliminated any thought of rapid action on the matter.

The first breakthrough came in another area. The Workmen's Compensation Act of Ontario (1914) was the first piece of modern social legislation reflecting the inroads of such work in Canada. It provided compulsory income protection against work-related sickness, disability or death. According to Guest:

The introduction of the Ontario Workmen's Compensation Act with its modern focus, conferring rights to benefits, resulted in a hair-line crack appearing in the residual mold of the Canadian Social Security Provision.<sup>29</sup>

The creation of Mother's Allowances by provincial governments during and after the war represented another major victory for the partisans of state intervention. Between 1916 and 1920, the governments of British Columbia, Alberta, Manitoba and Ontario created programmes to help single mothers with dependent children, followed later by Nova Scotia and New Brunswick in 1930, Quebec in 1937 and finally in 1949, Prince Edward Island. It further eroded the earlier consensus that local authorities and private charities should remain in charge, but the fact that private charities attacked the plan highlights the persistent resistance to the notion of non local responsibilities.

During the war, prominent members of the Liberal Party, preparing for Laurier's departure and the return of the Liberals to power, considered the creation of public pensions. Joseph E. Atkinson, publisher of the Toronto Star, chaired the subcommittee on welfare and in conjunction with W.L. Mackenzie King concluded as early as July 1916 that old age and widows' pensions could be easily implemented in Canada.<sup>30</sup> In 1919, the Liberal Party of Canada became the first party to endorse a resolution in favor of "a national system of insurance against dependence in old age".<sup>31</sup>

29. D. Guest, *Ibid.*, p. 47.

30. W.L. Mackenzie King, Industry and Humanity: A Study of the Principles underlying Industrial Reconstruction (Toronto: Thomas Allen, 1918), pp. 347-348.

31. National Liberal Convention, Ottawa, August 5-7, 1919, The Story of the Convention and the

The endorsement may have been in reaction to the volatile social and political climate at the end of the war. The latent tensions between employers and workers, exacerbated in the West by the radicalism of the trade-union movement, were released at the end of the war and led to the violent clashes of 1919 and the Winnipeg General Strike. The political response, not dissimilar to the actions taken to deal with the 1837 Rebellion, was first to quash the strike and then to inquire. The "Royal Commission on Industrial Relations" was asked to report rapidly and submit its recommendations. The creation of "state insurance against unemployment, sickness, disability and old age"<sup>32</sup> was included among its long list of remedies.

The widespread discontent was also expressed by the electorate. Beginning in 1919, new parties challenged the dominant provincial parties. The federal election of 1921 led the Liberals back to power but they could not gain a majority of seats while a significant number of Progressive M.P.'s were elected.

Until 1925, King was prevented from presenting a pension bill.<sup>33</sup> He knew that it would be opposed by the Conservative opposition and his own Quebec caucus. But the pressure did not wither away. A number of provincial legislatures adopted motions asking the federal government to act on the issue, British Columbia being the most insistent of them.<sup>34</sup> The Trades and Labor Congress also kept up the pressure. Although no legislation was prepared, a committee formed in 1924 proposed the creation of a public means-tested pension plan.<sup>35</sup> In 1925 a second committee sought provincial reactions. Quebec and the Maritime provinces indicated that they could not contemplate the expenditures that such

Report of Its Proceedings (Ottawa: National Liberal Federation, 1920), pp. 126-127, quoted in K. Bryden, *Ibid.*, p. 66.

- 32. K. Bryden, *Ibid.*, p. 65.
- 33. The following events have been described at length elsewhere and only summarized here; K. Bryden, *Ibid.*, pp. 66-74.
- 34. Motions on old age pension were passed in Nova Scotia (March 1921), Ontario (April 1921), British Columbia (December 1921) and New Brunswick (April 1922).
- 35. Canada, Parliament, Special Committee on Old Age Pension System for Canada, An Old Age Pension System for Canada: Final Report (1924).

a plan entailed.

The 1925 elections further weakened the Liberal Party but the new alignment of forces in Parliament allowed MacKenzie King to go ahead. Two Labour M.P.'s, J.S. Woodsworth and A.A. Heaps, offered their support to whichever party would agree to present a bill pertaining to public pensions. Meighen, the Conservative leader, refused, but King agreed to present a bill and his Quebec caucus had to give in. Although the Conservatives disapproved, they were even more afraid of the potential backlash that a negative vote could produce, and believed that the provinces would refuse to become partners of this federal scheme, which could be construed as an invasion into provincial jurisdiction. The House of Commons voted for the bill. But a majority of Senators, who could not be subjected to popular wrath, rejected it.

Soon afterwards, the King-Byng crisis led to another election during which widespread support for the creation of public pensions was expressed.<sup>36</sup> With the Liberals now controlling a majority of seats in the House of Commons, the pension bill was reintroduced in Parliament and passed in 1927, the Senators not daring to oppose it a second time.

Unable to take direct responsibility for the administration of a plan which would operate in a provincial area of jurisdiction, the federal government was authorized by the Old Age Pensions Act of 1927 to enter into an agreement with any province and reimburse it for half of the cost of pensions paid under provincial legislation which met the federal requirements. The criteria for giving a pension were that the beneficiaries had to be 70 years or older, British subjects, residents in Canada for 20 years and in the same province for the last five years. Native people were excluded. The maximum amount of the pension was \$240 a year paid through monthly installments. An elderly citizen with income of \$125 per year or less could qualify for the full pension. Somebody earning more than \$365 was not eligible. For any dollar earned over \$125 and below \$365, the value of the pension would be reduced by an equivalent

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36. K. Bryden, *Ibid.*, pp. 71-72.

dollar. The regulations indicated clearly how the assets of a recipient should be dealt with after his or her death. In some cases, the provinces were allowed to recover those assets up to a value which corresponded to the support given to that individual plus 5% interest.

The ball was now in the provincial court. The federal government had planned to hold a federal-provincial meeting to discuss the matter, but the British Columbia government, which had passed enabling legislation even before Ottawa had passed the Act, would not wait. In August 1927, British Columbia implemented the means-test pension. Saskatchewan (June 1928), Manitoba (September 1928), Alberta (August 1929) and Ontario (November 1929) followed suit with different degrees of enthusiasm. But it would take seven more years for means-test pensions to become operational nationwide.

The Maritimes were in a difficult position. In these provinces, the proportion of older people was substantially higher than the national average, while provincial revenues were lower. It was particularly difficult to collect additional taxes, yet the sums collected by Ottawa to pay for the program would not be coming back to the provinces as long as they did not opt into the plan. The provinces were hard put to resist the plan, once Ottawa decided to cover 75% of the costs of means-test in 1931. Ottawa's generosity was the fulfillment of a promise to this effect made by the Conservatives before the 1930 election. It was quite a turnaround for a party which had only reluctantly voted for the measure. Prince Edward Island joined the plan in 1933, followed by Nova Scotia in 1934 and New Brunswick in 1936. In the last two cases, the adoption of the plan, came after elections in which the issue of pensions was prominent.<sup>37</sup>

Quebec also took a very long time to pass the enabling legislation. Although financial difficulties were invoked, it is clear that opposition on ideological grounds persisted among Quebec's elite. Quebec relied on religious institutions to provide relief, and its institutional network was better developed than

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37. K.Bryden, *Ibid.*, pp.85-86.

anywhere else in the country. In fact, the Public Charities Act of 1921 ensured that the government would help these institutions financially so they could keep providing welfare services. While in English Canada the union movement had played a significant role as advocate of public pensions, unions in Quebec did not advocate government intervention until 1926, only after the Vatican encyclical declared that the state had to take such responsibilities.

Ultimately electoral politics would allow Quebecers to enjoy the same privileges as their compatriots. The Liberals who had dominated the provincial political scene in the 1920s came under pressure from the Conservatives and the Action Libérale Nationale in the thirties. In this new competitive context, all the political formations saw fit to endorse and promise the implementation of public pensions in the province. Following the 1936 election, both parties made sure that the enabling legislation was passed and both claimed responsibility for it.

The 1930s witnessed the gradual implementation of means-test pensions across the country. Although, the Prime Minister R.B. Bennett considered the creation of a contributory plan, he never proceeded to draft legislation.<sup>38</sup> Yet one development would have a direct impact on the decision to provide pensions on a universal basis in 1951.

When, in 1931, the federal government fulfilled a promise to cover 75% of the costs of pensions, the amending act specified that the provinces would let Ottawa oversee the administration of provincial plans and the conditions under which senior citizens could get a pension were made much more stringent by 1937. First, a thorough investigation was conducted before granting a pension, thus making legitimate claimants feel the full indignity of the means-test. Secondly, contributions that children could be reasonably expected to make were considered as income whether or not such contributions were in fact made. Finally, Ottawa pressured the provinces to make full use of the regulations allowing them to recover part of the pensioners' estate after his death. These administrative objectives and their uneven

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38. Bennett Papers. V.540, pp. 334686-690 , quoted in K. Bryden, *Ibid.*, p. 106.

application would slowly undermine the means-test.

During the Depression, a growing proportion of the elderly population came under the protective umbrella of public pensions and were sheltered against the full blow of the economic recession as the provinces, one by one, implemented the means-test program. In comparison, poor families and the unemployed experienced the full impact of the economic downturn. The Bennett government attempted to rectify the situation by legislating the Employment and Social Insurance Act, in 1935. But the measure, an invasion of provincial jurisdiction, was rebuffed in Court. Thus, during the Depression years, activity in the pension field was limited to the nation-wide implementation of the means-test program.

However, if political activity in the social welfare field was circumscribed, the Depression spurred intense intellectual activity aimed at unravelling the roots of the perpetual economic boom and bust cycles. This led to a new understanding of the nature of economic cycles and a redefinition of the role of the state in economic and social affairs. In order to understand the evolution of the politics of pensions in the 1940s, it is necessary to examine this phenomenon.

#### **2.4            Old Age Security Act (1951)**

The Public Pensions Act had been crafted at a time when economic theory still prescribed fiscal caution on the part of governments. Classical economic theory which could be traced back to Adam Smith's Wealth of Nation remained the economic paradigm until the Great Depression. It viewed the market as a self-correcting mechanism and argued against corrective measures.

Although the theory had been upheld until the 20th century, its tenets were being repeatedly

questioned as the industrialization process accelerated. The publication of The General Theory by J.M. Keynes (1936) signalled the displacement of classical macro-economic thought. As Mishra has indicated, the rise of Keynesian thinking and its rapid acceptance among political elites was a precondition to the advent of the modern welfare state,

Keynesianism stood for state intervention from the demand side of the economy to ensure a high level of economic activity and full employment. We might call this the economic component of the welfare state.<sup>39</sup>

In Canada, the absorption of this new set of ideas and its growing legitimacy were facilitated by the movement of intellectuals into the federal bureaucracy.<sup>40</sup> The Canadian intellectual community was a small but tightly-knit group, whose most brilliant elements had been educated in England and been exposed to the ideas of Keynes. Beginning in the 30s, many of its members were recruited by the federal government and by the Second World War they dominated a rejuvenated bureaucracy.

Although Keynesianism rapidly gained legitimacy among the Canadian intelligentsia which penetrated the federal government in the 1930s, its impact was not felt in government policies before the Second World War. The United States government reacted rapidly and forcefully, while in Canada federalism obstructed attempts to correct the situation. However, the fear that the Second World War would inevitably be followed by another economic recession, allowed the new breed of experts who straddled the boundary between state and society to construct a post-war agenda. They were even allowed to venture into areas where the federal government did not hold any significant powers. This exercise was legitimated by the firm conclusions of the Rowell-Sirois Report which advocated that Ottawa should take responsibility for matters such as public pensions, health insurance and unemployment

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39. R. Mishra, The Welfare State in Crisis (Sussex: Harvester Press, 1981), p. 7.

40. On this topic, see D. Owram, The Government Generation: Canadian Intellectuals and the State 1900-1945 (Toronto: University of Toronto Press, 1986); J.L. Granatstein, The Ottawa Men: the Civil Service Mandarins 1935-57 (Toronto: University of Toronto Press, 1982).

insurance.<sup>41</sup>

In 1941, F. Cyril James, principal of McGill University was named Chairman of the Committee on Post-War Reconstruction and Leonard Marsh its research director.<sup>42</sup> This led to the publication of a number of reports.<sup>43</sup> The Report on Social Security for Canada, also known as the Marsh Report<sup>44</sup>, has often been designated as the Canadian equivalent of the Beveridge Report, but the intense intellectual activity was also reflected in a number of other publications.

The Health Insurance Report, also labelled the Heagerty Report, was published in 1943. It made specific proposals for the creation of a medical insurance plan. The same year, a colleague and close friend of L. Marsh, Henry Cassidy from the University of Toronto, published Social Security for Canada, and called for a major overhaul of social services. In 1944, the Curtis Report was released; it examined the situation in the areas of housing and community planning. Nonetheless, the Marsh Report remains the most important of these, and part of it dealt with the issue of pensions.

The Marsh Report denounced the ineffectiveness and insufficiencies of the existing assistance and relief programs, documented the basic needs of Canadian individuals and families and proposed an agenda of reform. An integrated social security system constituted the cornerstone of Marsh's proposals. It would relieve poverty and human misery and provide benefits that Canadian citizens would be entitled to.

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- 41. Canada, Royal Commission on Dominion-Provincial Relations, Recommendations (1940).
  - 42. On Leonard Marsh's career and achievements see the special issue of the Journal of Canadian Studies; "Leonard Marsh: Social Welfare Pioneer", Journal of Canadian Studies 21 (1986).
  - 43. The Committee produced 20 contributory reports, 6 sub-committee reports and a final report.
  - 44. L.C. Marsh, Report on Social Security for Canada (Ottawa: King's Printer, 1943; reprint ed., Toronto: University of Toronto Press, 1975).

The rationale underlying the Marsh Report was that a public insurance system would protect individuals against a number of risks which could destroy a household. Its basic soundness, according to the author, was that it would be "underwritten by the community as a whole". D. Guest summarizes the content of the report in the following fashion:

The Marsh Report pinpointed for the first time in Canada, in clear and unequivocal fashion, the role that a social security system, buttressed by a comprehensive employment policy, could play in lifting people out of poverty and securing for them a defensible social minimum.<sup>45</sup>

Not only did Marsh describe the risks that can affect individuals and families as sickness, accidents, unemployment, old age and others, but he also defined what a proper minimum level of assistance would be. That definition of a minimum was in itself very important. Marsh was trying to establish the notion that need should be at the source of the establishment of any program.

It is in this context that Marsh came to evaluate the performance of the means-test pensions. His became one of the voices condemning the inadequacy of the system. He considered the maximum monthly pension of \$20 a month as insufficient and not offering a 'tolerable minimum'. The guilty parties were the provinces which did not offer the maximum benefits, were too restrictive in their interpretation and use of requirements, and used a legalistic approach with the potential beneficiaries rather than a social administration approach. As Table 2.5 shows, the percentage of people receiving a pension varied widely from one province to another as did the proportion of elderly citizens allowed to receive the full benefits.

Marsh believed that the real solution was the adoption of a contributory plan. Using the New Zealand contributory pension plan as a model, he described the basic mechanisms of such a system as well as its advantages. His final evaluation is representative of his approach and general philosophy:

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45. D. Guest, *Ibid.*, p. 112.

The fact that all persons stand together in an overall state plan - each contributing what he can to the needs of the future, both for himself and for his fellows - enhances a concept of community solidarity which can be a strong feature in democratic civilization.<sup>46</sup>

The Report did not receive unanimous praise. Opposition was voiced even among welfare professionals. Charlotte Whitton rejected the concept of social insurance and argued that social assistance remained preferable.<sup>47</sup> The Marsh Report did not constitute the government agenda either. By March 1943, the James Committee was on the periphery of power, while the Economic Advisory Committee came to assume the prominent role of conduit through which post-war social and macro-economic policy proposals for the after war would be defined.

The top ministers surrounding King and a small group of young bureaucrats from the Bank of Canada and the Finance Department began to prepare an agenda of reform for the post-war period of which social reforms formed an integral part. According to Bryden "they were a major channel through which Keynesian economics was brought to bear on public policy-making in Canada."<sup>48</sup> The Dominion-Provincial Conference on Reconstruction of 1945 would allow Ottawa to submit its proposals for widespread reforms including changes in retirement income policies. A series of studies and proposals were prepared by Ottawa and integrated in the Proposals of the Government of Canada, the so-called Green Books.<sup>49</sup>

Four objectives were presented: to encourage industrial growth, to set up public enterprises when needed, to create employment through public investment in time of recessions and to provide "small

46. L.C. Marsh, *Ibid.*, p. 172.

47. C. Whitton, The Dawn of Ampler Life (Toronto: MacMillan, 1943).

48. K. Bryden, *Ibid.*, p. 114.; T. Cole, The Canadian Bureaucracy; A Study of Canadian Civil Servants and Other Public Employees, 1939-1947 (Durham: Duke University Press, 1949), pp. 268-271.

49. Canada, Dominion-Provincial Conference on Reconstruction, Proposals of the Government of Canada (1945).

regular payments against large and uncertain individual risks, for such hazards and disabilities as unemployment, sickness and old age".<sup>50</sup> By presenting these proposals, Ottawa openly embraced aggressive public intervention in the social field and the conciliation of humanitarian/social actions with economic/financial considerations,

We have come to realize that broad social security legislation justifies itself not only in humanitarian terms but in the contribution it can make to economic stability through the maintenance of production, income and employment, and the equitable distribution of purchasing power.<sup>51</sup>

Although a contributory pension system would have been the logical proposition for Ottawa to make to the provinces, the recommendations were only for a flat rate universal pension of \$30 a month for those over 70 and the means-test pensions for those between 65 and 70. Ottawa had its doubts as to the willingness of the provinces to accept anything else, since any proposal for a contributory plan would have entailed provincial participation. However, the provinces were not ready to endorse the ambitious federal proposals and the package was rejected. Pension reform had been halted momentarily.

The federal bureaucrats were not the only ones concerned by pension policy. The dissatisfaction with the means-test was expressed by those advocating greater state intervention and others usually preoccupied by greater government control. The responsibilities of the state in this field were not questioned any longer, but the means-test pensions remained under strain. During the 1920s, the trade-union movement had lobbied the government to create some form of public pension system, and in the early 1940s, they were among the leading advocates of reform.

The Trades and Labor Congress remained the dominant voice of the union movement during the war, even if some of its elements had broken away from it. It had long argued for universal old age pensions. But in 1941, it proposed the adoption of the contributory principle to be financed on a tripartite

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50. Ibid., p. 3.

51. Ibid., p. 27.

basis: state, employer and employee. The Canadian Congress of Labour, which was created in 1940, grouped the former elements of the TLC and the All Canadian Congress of Labour. Its social philosophy was much more radical, and it called for sweeping reforms on the part of the state. As far as old age pensions were concerned, it advocated the replacement of means-tests by the universality principle, and the expansion of industrial pensions<sup>52</sup>. The Confédération des Travailleurs Catholiques du Canada (CTCC), which in the 1930s had not shown much enthusiasm for pensions was ready to approve increased state responsibilities, as long as the provinces would not be bypassed in the process. It favored the contributory principle.<sup>53</sup>

Political parties as well showed growing interest in the pension issue. The Conservative Party, relegated to the opposition in 1935, did not seem to be able to capture the electorate's favour.<sup>54</sup> In order to bolster its standing, it reviewed the party platform. It embraced the concept of a contributory retirement system. Aware of the discontent with means-tests as well as the long phase-in period needed to bring a contributory plan to fruition, it proposed better pensions and a lowering of the age of eligibility in the meantime. It constituted an element of the party platform in 1945 and 1949.<sup>55</sup>

The Cooperative Commonwealth Federation, on the other hand, was riding on a wave of popularity, as a public opinion poll revealed in 1943.<sup>56</sup> The social cornerstone of the socialist program was the creation of an integrated social security system. It proposed the replacement of means-test pensions by universal pensions, that would be financed through a mix of progressive taxes on revenue and from other federal revenues. The amount of such a pension would be of the order of \$55.

- 52. Convention Proceedings, 1944, p. 71, quoted in K. Bryden, *Ibid.*, p. 112.
- 53. Process-verbal, 1943, p. 111, quoted in K. Bryden, *Ibid.*, p.
- 54. J.L. Granatstein, The Politics of Survival: The Conservative Party of Canada, 1935-45 (Toronto: University of Toronto's Press, 1967).
- 55. P.C. Association of Canada, National Convention, 1948, pp. 211-212.
- 56. K. Bryden, *Ibid.*, p. 112.

Unions and parties alike all endorsed a reform of the pension system. The more radical elements, the TCL and the CCF argued for universality. Their goal was the disappearance of the evils of means-tests and showed little concern with the need to tie closely costs and benefits. More moderate elements believed that a contributory system was more appropriate.

The Reconstruction proposals had been rejected by the provinces and for a while, the federal government refused to take any initiative, even if pensions were a matter of tripartite agreement. As in 1925, the parliamentary dynamic would provide the needed spark.

The 1949 election returned the Liberal government to power under the leadership of Louis St-Laurent. Following the Throne Speech, the CCF introduced a motion focussing on the means-test pensions. An embarrassed Prime Minister, not ready to present a bill, formed a Joint Committee of the Senate and the House of Commons to deal with the matter. From April to June 1950, public hearings were held.<sup>57</sup> Business organizations, labour unions and welfare specialists, all presented briefs. The unanimity on the need to eliminate the means-tested pensions was confirmed.<sup>58</sup>

Business organizations which had not been involved in the policy process in the mid-twenties, presented their opinion in 1950. If no one rejected the urgent need for action, for the first time differences arose between different elements of the business community.

The Canadian Manufacturers' Association (CMA) indicated its clear preference for a contributory system, which would entail equal contributions from employees and employers. Such an opinion had

- 57. Canada, Parliament, Special Joint Committee of the Senate and the House of Commons on Old Age Security, Report (1950).
- 58. Charlotte Whitton, an independent welfare specialist, and the Union Catholique des Cultivateurs du Quebec presented the only brief supporting the continuous use of the means-test pensions.

been held by the CMA for a considerable time already.<sup>59</sup> The CMA had always held the position that the contributory principle was preferable to any other form of pensions. Although absent from the debates surrounding the introduction of means-test legislation, it had condemned the governmental initiative, but only after its introduction. In 1950, it still believed that the costs of the program had to be clearly linked to the benefits. A system such as public contributory pensions would surely limit any chance of incessant demands that a demigrant would entail.

The insurance industry and small employers, represented during the hearings by the Canadian Life Insurance Officers Association and the Canadian Chamber of Commerce, saw the contributory principle as a threat. For the former, it meant an attack on its market, for the latter, direct payroll costs. They both rallied around the concept of a universal pension.

Within the government itself, the departments of Welfare and Finance found themselves at odds. G. Davidson, Deputy Minister of Welfare, believed that a contributory plan was a cumbersome instrument to overcome the deficiencies of means-tests and he argued for universal pensions. On the other hand, Mitchell F. Sharp, Director of the Finance Department's Economic Policy Division still believed that a contributory system was the only one which would allow them to control costs. Since the M.P.s sitting on the committee wanted to find a rapid and simple solution to the problem they chose the position advocated by the Department of Welfare.

Intent on establishing a clear link between costs and benefits, the government decided to finance the program through special taxes rather than from general revenues.<sup>60</sup> St-Laurent and his minister of

59. H. Mitchell, "What Will Old Age Pensions Cost Canada?", Industrial Canada (1928):41-43.

60. There is some debate about the progressivity of the contribution structure. While Deutsch has argued that the program was progressive, Bryden has pointed out the limits of redistribution. See; A. Deutsch, "Income Redistribution through Canadian Federal Family Allowances and Old Age Benefits", Queen's University Press Papers on Taxation and Finance, (Toronto: Canadian Tax Foundation, 1968), chap.5. and Bryden, *Ibid.* p.206-211.

Finance agreed that this was the best way to remind the taxpayers of the costs of such a program. Consequently a 2% tax on personal income, corporation revenues and sales would be used. The new plan was to be composed of two elements, the Old Age Assistance and the Old Age Security programs. The latter would provide a pension of \$40 a month to any Canadian citizen of 70 years of age or more, having resided in Canada for twenty years. Support under the Old Age Assistance Act would go to people between 65 and 69 years old, who could demonstrate the need for support. Ottawa would share the cost of this latter program with the provinces, on a 50-50 basis.

But the creation of special taxes to finance the plan raised a constitutional issue. A constitutional amendment was necessary, because a clear disjunction between contributions and benefits was not evident. The Deputy Minister of Justice had indicated during the Joint Committee Hearings that:

Unless it were clearly evident that the taxes would not be borne directly and solely by those who would ultimately be pensioned, the necessary disjunction would not be complete and there would always be the possibility of the courts holding the plan to be a compulsory insurance act and, hence, invalid.<sup>61</sup>

St-Laurent was not ready to meet the same fate as Bennett had in 1935. In 1951, he secured the agreement of the provinces. The constitution was amended and pensions were included in Section 94a of the B.N.A. Act. It allowed the government to make laws in relation to old age pensions, while asserting continued provincial paramountcy in this area.

It is hereby declared that the Parliament of Canada may from time to time make laws in relation to Old Age Pensions in Canada, but no law made by the Parliament of Canada in relation to old age pensions shall affect the operation of any law, present or future, of a provincial legislature in relation to old age pensions.<sup>62</sup>

The Plan became operational on January 1st, 1952.

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61. Ibid., p. 93.

62. Canada. House of Commons debates, Feb. 1951, p. 44, quoted in K. Bryden, Ibid., p. 238.

## 2.5 Pension Politics (1900-1950)

At the turn of the century, the type and extent of public support from the federal government to the growing number of elderly poor became the object of political conflict. By 1951 the responsibilities of the central government in this matter were undisputed. However the ideological, social and political support did not emerge overnight and active resistance had to be overcome.

The appearance of a class of unemployed elderly poor in Canada was the product of industrialization and urbanization, which slowly squeezed out older workers from the workforce, while large rural families disappeared. Unable to build savings and with no opportunity to participate in private pension plans, the last resort of many elderly was to seek support from private charities or public institutions, which had never been able to provide much and were now literally overloaded, because of the vast increase in the elderly population. The Means-Test pensions were essentially created to relieve the traditional welfare network.

The ideological underpinnings of the traditional welfare system in Canada constituted the greatest barrier to reform. Social reformers and the union movement both contributed to undermine the individualistic ethos which underlined traditional welfare support. At the social level, many of those responsible for social services opposed the measure, while at the political level M.P.s from Quebec and the Senate delayed the creation of public pensions.

The task of federal legislators was further complicated by the fact that welfare came under provincial authority. This has led Leman to argue that "the prospect of constitutional conflict foreclosed consideration of contributory insurance program in 1927".<sup>63</sup> Yet, in fact, in this pre-Keynesian era, federal legislators were gearing their efforts providing relief to the poor and not a program to force

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63. C. Leman, *Ibid.*, p.283.

individuals to save. This was still considered an individual responsibility, however most workers would still have been unable to accumulate savings. A means-test structure, already in operation in Commonwealth countries, was the obvious choice. Federalism had no relevance to the design of the plan, but did in regard to its implementation. British Columbia ensured its survivability by moving rapidly to implement it, but it took nearly ten years before the Plan was implemented throughout Eastern Canada.

In sharp contrast to the events which led to the creation of the Public Pensions Act (1927), the introduction of the OAS met little resistance. The uneven administration of the means-tests, which led to the exclusion of potential beneficiaries in dire need of support, undermined the social and political support of the program. The widespread dissatisfaction coupled with the growing legitimacy of Keynesianism and Beveridgeanism in Ottawa led to the proposal for a demogrant.

The introduction of the plan was delayed by the provinces' unwillingness to endorse the Reconstruction package prepared in Ottawa. It is impossible to determine if the creation of the demogrant, *per se*, was opposed by provincial premiers. Because it was felt that the crisis had to be dealt with swiftly a contributory pension plan would have been inappropriate, as indicated in the Report of the Joint Committee,

Even under an insurance system universal in scope, there would still be need for old age assistance on a large scale for many years (...) this fact is clearly brought out in the experience of all countries where an insurance program is in effect.<sup>64</sup>

In the decades to come, the politics of pensions would be radically different. The introduction of the contributory principle in the 1960s, and proposals to increase its scope in the 1980s changed the basic political equation. While the business community and provincial governments remained in the periphery until 1951, they would enter the policy process in the second half of the century. For businessmen and provincial political elites, the stakes would be raised, as Ottawa was pressured to

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64. Canada, Parliament, Special Joint Committee of the Senate and the House of Commons on Old Age Security, *Ibid.*, p.105.

increase the scope of intervention.

TABLE 2.1

Labour Force Participation Rate of Population 65 and Over,  
Canada, Census Years, 1921-1961

	Total	Male	Female
1921	32.5	59.6	6.6
1931	31.9	56.5	6.2
1941	27.2	47.9	5.8
1951	22.3	39.5	4.5
1961	18.0	30.6	6.1

Source: F.T. Denton, and S. Ostry, Historical Estimates of the Canadian Labour Force, 1961 Census Monograph (Ottawa: Quenn's Printer, 1967), table 3-7.

Note : Labour force participation rate is the percentage of the total population of the age group formed by the segment in the labour force.  
Newfoundland excluded throughout.

TABLE 2.2

Urban Population as Percentage of Total Population, Canada and Provinces,  
Census Years, 1871-1961

	1871	1881	1891	1901	1911	1921	1931	1941	1951	1961
Canada	18.3	23.3	29.8	34.9	41.8	47.4	52.5	55.7	62.4	69.7
Newfoundland	-	-	-	-	-	-	-	-	43.3	50.7
Prince Edward Island	9.4	10.5	13.1	14.5	16.0	18.8	19.5	22.1	25.1	32.4
Nova Scotia	8.3	14.7	19.4	27.7	36.7	44.8	46.6	52.0	54.5	54.3
New Brunswick	17.6	17.6	19.9	23.1	26.7	35.2	35.4	38.7	42.8	46.5
Quebec	19.9	23.8	28.6	36.1	44.5	51.8	59.5	61.2	66.8	74.3
Ontario	20.6	27.1	35.0	40.3	49.5	58.8	63.1	67.5	72.5	77.3
Manitoba	-	14.9	23.3	24.9	39.3	41.5	45.2	45.7	56.0	63.9
Saskatchewan	-	-	-	6.1	16.1	16.8	20.3	21.3	30.4	43.0
Alberta	-	-	-	16.2	29.4	30.7	31.8	31.9	47.6	63.3
British Columbia	9.0	18.3	42.6	46.4	50.9	50.9	62.3	64.0	68.6	72.6

Source: Leroy O. Stone, Urban Development in Canada: An Introduction to the Demographic Aspects, 1961 Census Monograph (Ottawa: Queen's Printer, 1967), table 2.2, p.29, quoted in Bryden, *Ibid.* P. 26.

TABLE 2.3  
Canadian Demographic Change and Projected Growth

Year	Number of Aged	Percentage of Aged
1901	271,201	5.0%
1911	335,201	4.7%
1921	420,244	4.8%
1931	576,076	5.6%
1941	767,815	6.7%
1951	1,086,273	7.8%
1961	1,391,154	7.6%
1971	1,744,405	8.1%
1981	2,360,975	9.7%
1991	2,985,900	11.1%
2001	3,504,000	12.0%
2011	4,074,100	13.1%
2021	5,379,200	16.4%
2031	6,644,400	19.6%
2041	6,539,400	18.2%
2051	6,338,200	18.9%

Source: National Council of Welfare, Sixty-Five and Older (Ottawa: NCW, 1984), p. 4.

TABLE 2.4

Homes for Adults and  
All Charitable and Benevolent Institutions,  
Canada and Provinces, 1931

	No. of Homes	Homes for Adults		All Institutions	
		No. of Inmates 61-70	Over 70	No. of Insts.**	No. of Inmates 61-70
Canada	118	1,817	4,505	456	2,492
Prince Edward Island	1	0	62	5	0
Nova Scotia	9	64	158	43	80
New Brunswick	8	26	115	30	124
Quebec	28	610	1,554	128	976
Ontario*	63	983	2,215	180	1,078
Manitoba*	4	38	189	28	132
Saskatchewan*	0	0	0	10	0
Alberta*	0	0	0	9	6
British Columbia*	5	96	212	23	96

Source: 1931 Census of Canada, vo. 9, pt. 3, Institutions, Tables 6,9 and 10.

\* : Old Age Pensions Act, 1927, in force.

\*\* : This column includes many institutions for children only, as well as institutions accepting adults and children, and adults only.

TABLE 2.5

## Means-Test Pensions by Province

Province	Number of Pensioners March 1950	Average Monthly Pension March 1950 (Maximum \$40)	Per cent Receiving Maximum Pension	Per cent Population Age 70 and Over on Pension March 1950 <sup>1</sup>	Personal Income per Capita, 1948 <sup>2</sup>
Newfoundland	10,296	\$29.473	94.43	76.3	-
Prince Edward Island	2,976	34.36	35.5	45.1	\$548
Nova Scotia	19,966	35.41	46.5	57.4	682
New Brunswick	16,231	36.22	58.3	71.5	636
Quebec	69,017	37.73	82.5	49.3	784
Ontario	85,100	38.06	77.7	34.1	1,075
Manitoba	16,868	38.44	81.1	43.4	946
Saskatchewan	16,566	37.30	53.4	42.0	932
Alberta	16,445	37.90	77.9	43.5	998
British Columbia	28,988	37.17	69.9	40.0	1,024
Northwest Territories	23	39.71	91.3	12.6	4
Yukon	108	38.65	88.9	32.9	4
Canada	282,584	37.21	73.7	43.1	922

Source: Canada, Joint Committee of the Senate and the House of Commons on Old Age Security, Report (1950), p. 10.

(1) : Based on estimated population age 70 and over for June, 1950.

(2) : The latest date for which provincial data are available; no data for Newfoundland.

(3) : Maximum pension of \$30 payable.

(4) : Northwest Territories and Yukon included in data for British Columbia.

## CHAPTER 3

### THE INTRODUCTION OF THE CONTRIBUTORY PRINCIPLE

The creation of the Canada Pension Plan and the Quebec Pension Plan changed the nature of pension politics since it led some business interests to oppose the measure and it corresponded with the rise of provincial activism. Chapter 3 describes the context in which the three federal parties endorsed the contributory principle. The impact of employer-sponsored pensions on the debate surrounding the contributory plan as well Ontario's resistance and Quebec's challenge will be put in perspective. Chapter 4 will probe the policy process in view of the opposition of the insurance industry and the involvement of the provinces and reassess the traditional views on the matter.

'In 1951, the virtual unanimity about the evils of means-tested pensions coupled with the desire to relieve many retirees from poverty had both contributed to the endorsement of a demogrant. But it did not take long for the inherent weaknesses of the policy to appear and lead many to argue that the long-term solution to the problem was the creation of a public contributory plan.'

For those concerned by the impact of the program on public finances, the demogrant had serious shortcomings. Since no mechanism for the systematic review of costs and benefits had been legislated, the program was vulnerable to interest-group pressure and politically motivated manipulation. The OAS constituted an open and easy target for welfare advocates and pensioners organizations and nothing could stop expansionist forces from always asking for improved benefits. The fact that legislated

increases in benefits was left to politicians was even more dangerous from that point of view. What could stop politicians from promising increased benefits and engage in bidding contests for the purpose of gathering political support? Those fears were confirmed when John Diefenbaker exploited the situation to his advantage. When shortly before the federal elections of 1958 the Liberal government augmented the benefits from \$40 to \$46,<sup>7</sup> Diefenbaker countered by promising a further increase of benefits to \$55.1 The benefits were increased further to \$65 a month on the eve of the 1962 federal elections. Benefits for the elderly poor aged 65 to 69 were also increased and the maximum allowable income as well.<sup>2</sup>

Those who had hoped that the earmarked taxes used to finance universal pensions would restrain politicians from making promises, and citizens from demanding more were disappointed. Even some welfare specialists expressed the opinion that "the elderly were draining an unwarranted portion of the resources going to welfare."<sup>3</sup> Thus, the cost of the program increased rapidly through the 1950s. The escalating expenditures were not only a function of increased benefits, but of the rising number of retirees over 70. In the first 6 years of its existence, the number of retirees covered by OAS increased by about 200,000 (Table 3.1).

But the advocates of restraint were not the only disgruntled party. The lack of systematic review mechanisms meant that there was no guarantee that benefits would reflect inflation and enrichment trends. What would happen if the state engaged in restrictionist policies? Moreover, the means-tests

1. After the election, the benefits were increased by \$9.00, and residence requirements reduced from 20 to 10 years. The 2% tax on personal and corporation revenue and sales was changed to 3%, to finance these benefits. This system was abandoned in 1972 and since then the benefits are financed out of general revenues.
2. The situation in 1962 compared to 1951 was the following:
 

(\$)	1951	1962
single	720	1140
couple	1200	1980
3. Canadian Welfare Council, Social Security for Canada: a Policy Statement Adopted at the Annual Meeting of the CWC (Ottawa: CWC, 1958), p. 5.

were still applied to those between 65 and 69 years of age and the program still excluded those who had earned too much to qualify for a pension but not enough to invest in a private pension fund. If, for the time being, the political and economic context seemed to ensure the expansion of OAS benefits, the program did nothing to prevent sharp drops in incomes. The OAS remained a safety net, and employer-sponsored pensions were not able to fill the gap. Private pensions only covered a limited portion of the workforce and even then many employees lost their rights because they moved from one employer to another.

Consequently, those designated by Bryden as cost-conscious and welfare-conscious groups remained dissatisfied and both elements began to search for a permanent and more appropriate solution to the problems which plagued the retirement income system.

### **3.1           The Redefinition of the Parties' Pension Policy**

During the 1958 election, Diefenbaker had promised to commission a study of the American pension system and its applicability to Canada. He believed that the United States had a cost-effective system providing better benefits, including those to survivors and disabled persons. Robert M. Clark, a University of British Columbia professor, was asked to examine the American system.<sup>4</sup>

The two systems turned out to be very difficult to compare. Some of Clark's findings indicated the important and basic differences between the two systems. One of the great advantages of the American system was that it provided survivors' and disability benefits. It was also possible for the Americans to claim their benefits at an earlier age: at 65 for men after a retirement test and at 62 for women on an

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4.       R.M. Clark, Economic Security for the Aged in the United States and Canada (1959).

actuarially reduced basis. In Canada everybody over 70 years of age was covered, and 20% of those between 65 and 69. In the United States, not all those over 70 were covered but 2/3 of the elderly population between 65 and 69 was (Figure 3.1).

In term of benefits, the Canadian system provided \$55 a month which corresponded to 45% of the average personal income. In the United States, the minimum average was 20% (\$33), the maximum average was 63%, and the overall average 38% (see Figure 3.2). Finally an overall comparison showed that the average Old Age Assistance paid in Canada and the United States, taking into account the differences in per capita income, favored the former (Figure 3.3). Since Clark was fully aware that the government would not contemplate the elimination of the OAS or even consider the reduction of the \$55 benefits, and because he was not really allowed to make recommendations, he did not come out in categoric terms for or against the implementation of a contributory system modeled on the American program.

Diefenbaker had believed that the adoption of an American-type system could provide better benefits to a larger proportion of the population and at an earlier age. But the Clark report tempered the enthusiasm of the administration. Not only did the American system not prove itself to be a far superior program, but it would have few immediate political benefits. As R.B. Bryce, the Clerk of the Privy Council, indicated to Diefenbaker, the scheme was "a pie in a rather distant sky as far as the man in the street is concerned."<sup>5</sup>

A full year after the publication of the Clark Report, serious consideration was given to pension reform and Diefenbaker sought to secure an agreement from the provinces to provide for survivors and disability benefits. But the Premier of Quebec, Jean Lesage, refused and that seems to have eliminated the appetite of the Conservative government for pension reform.

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5. J.L Granatstein, *Ibid.*, p. 261.

The CCF also paid close attention to the problems of the pension system during the 1950s and redefined their position. Inspired by the British Labour Party approach to the problem, some work was done by the party's research director. While the CCF had long been satisfied with universal flat-rate benefits and kept advocating a raise of the benefits under the existing program, it moved to the position that a contributory plan might be a better answer. The party proposed a two-level system. The universal pension would provide a monthly pension of \$75 a month, financed out of the general revenues, rather than from a special tax. The second level would be a state sponsored contributory scheme. Employees and employers would both contribute to the system which would contain a progressive benefit formula favoring low-income groups. It became an element of the party platform for the 1958 election.<sup>6</sup>

The Liberals who had implemented the 1927 and 1951 programs were to become the party responsible for the implementation of the Canada Pension Plan. The electoral defeats of 1957 and 1958 induced a renewal of leadership as well as a reevaluation of the party platform. Through a series of meetings and conventions, the basic philosophy of the party was reexamined, revamped and it led the party to advocate the introduction of a public contributory plan.

In 1960, a group of 200 university professors, writers, politicians, as well as labour leaders and businessmen met for five days in Kingston.<sup>7</sup> The need and desire to extend state intervention in social and economic affairs was clearly expressed. Tom Kent, who would become a special advisor to the Prime Minister and be directly involved in the creation of the CPP, called for renewed interest in social welfare and new forms of intervention. He firmly believed in the capacities of the state as an agent of growth, as expressed in his presentation to the Kingston conference:

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6. CCF, Convention Report, 1958, p. 26, quoted in K. Bryden, *Ibid.*, p. 140.

7. A detailed account of the conference preparation and objectives is provided by one of its sponsors, see: T. Kent, A Public Purpose (Montreal: McGill-Queen's University Press, 1988), chap.9.

In the short run, we can live with attitudes that are critical of social security and yet do not lead to its diminution but merely to a grudging mood. In the larger run, that is clearly unstable. Either some sort of reaction will be implemented - and of that there are no signs - or we need a new philosophy which will serve us in the 1960s; which will provide renewed sense of purpose in sustaining or extending social security; which will articulate its role today and maybe suggest broader horizons for tomorrow.<sup>8</sup>

Kent did not list pension reform as a priority. He proposed that medical and sickness insurance, rising unemployment benefits, employment training, urban renewal and public housing programs be dealt with. His paper, as well as Maurice Lamontagne's<sup>9</sup>, argued for the enhancement of state activism that the Mackenzie King government had launched. As Denis Smith has indicated, "the dominating influence in the approach of these two papers was that of J.K. Galbraith, The Affluent Society."<sup>10</sup>

Walter Gordon, who would become Minister of Finance, sent a similar message as far as the role of the state in economic affairs was concerned:

(...) governments (must) accept responsibility for maintaining high levels of activity and employment without inflation (...) the government should not hesitate to step in with positive programs of a stimulating character.<sup>11</sup>

Gordon argued for pension reform. A contributory pension plan, he believed, "had the double advantages of providing a sound financing formula, and the enhancement of the welfare philosophy that Beveridge and Marsh had proposed by making pensions a right."<sup>12</sup> Walter Gordon asked Geoff Conway, David Stanley and Martin O'Connell who had been working on policy issues for the Ontario Liberals to

- 8. T. Kent, Social Policy for Canada (Ottawa: Policy Press, 1962), p. 14.
- 9. M. Lamontagne, "Growth and Stability and the Problem of Unemployment", in Study Conference on National Problems, ed. National Liberal Federation (Kingston: NLF, 1960).
- 10. D. Smith, Gentle Patriot: a Political Biography of Walter Gordon (Edmonton: Hurtig Publishers, 1973) p. 76.
- 11. W. Gordon, Troubled Canada: the Need for New Domestic Policies (Toronto: McClelland and Stewart, 1961) p. 13.
- 12. Ibid., p. 17.

devise a permanent federal-provincial scheme, "that would remove pensions from the political auction block."<sup>13</sup>

The idea of an earnings-related plan gained support within the party. In January 1958, a party resolution called for consideration of an earnings-related plan. At a national rally in 1961, the issue was discussed. Then a policy committee was formed to look more closely into the question. It itself sponsored a more detailed study setting forth a more detailed proposal. When the Liberal Party entered the 1963 electoral campaign pension reform occupied a prominent place in its political platform. It would become one of the pieces of legislation that the Liberals intended to implement in their first two months in power. When the Liberals formed a minority government in 1963, all federal parties agreed with the reform of the pension system.

The common position of the Liberal Party, the Conservative Party and the New Democratic Party on the pension question was a reflection of the wider consensus about the welfare state among intellectuals and activists of liberal, conservative and socialist affiliation. As pointed out by Mishra, the welfare state was riding "the high tide of legitimacy".<sup>14</sup> The social measures and programs created could be portrayed as counter-cyclical macro-economic measures to sustain the growth of capitalism. Keynesianism and Beveridgeanism were the twin foundations on which the state could keep erecting social policies.

These developments would spur the formulation of social theories which explained the nature of advanced industrial society and justified the role of the welfare apparatus. Functionalism, as it was elaborated by Parsons,<sup>15</sup> viewed post-war society as a set of parts properly integrated, and where

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13. P.C. Newman, The Distemper of Our Times: Canadian Politics in Transition 1963-1968 (Toronto: McClelland & Stewart, 1968), p. 307.

14. R. Mishra, *Ibid.*, p. 1.

15. T. Parsons, The Social System (London: Routledge, 1951).

dysfunctions were anachronisms to be dealt with by modern societies. This vision mirrored other notions about the "modern industrial society"<sup>16</sup> and the "end of ideology".<sup>17</sup> Ideology and culture were taking a back-seat to science and it was hoped that in the near future, economics and other disciplines such as sociology and psychology would become full-fledged sciences. Even socialists could find comfort in the welfare state and consider it as an instrument which could lead to greater egalitarianism.<sup>18</sup>

The tripartite agreement on the need for pension reform in Canada not only reflected a common understanding of the weaknesses of the demogrant and the necessary remedy, it also buttressed the continued confidence in state-sponsored social and economic intervention among intellectuals and federal politicians.

Pension reform was included among the policies that would be enacted in the first "sixty days of decisions" following a Liberal victory. Whether or not this electoral gimmick got the Liberals more votes, the Liberal government had to deliver. But once the Liberals gained power in 1963, it soon became clear to Judy LaMarsh, the new Minister of Health and Welfare, that it would be impossible to present to the House of Commons legislation of such magnitude and complexity so rapidly. Consequently, the government presented in earnest the broad contours of the reform in June 1963, while still preparing the legislation.

A number of bureaucrats from Finance, National Revenue, Labour, Justice and National Health and Welfare were brought together to prepare legislation and were able to use some of the groundwork done by the latter department which had anticipated the Liberals desire to implement a contributory program.<sup>19</sup>

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16. C. Kerr et al., Industrialism and Industrial Man (Harmondsworth: Penguin, 1973).

17. D. Bell, The End of Ideology (Glencoe, Ill.: Free Press, 1960).

18. C.A.R. Crossland, The Future of Socialism (London: Cape, 1956).

19. J. LaMarsh, Memoirs of a Bird in a Gilded Cage (Toronto: McClelland & Stewart, 1969), p. 82.

On July 18, a detailed proposal was presented to the House of Commons for the first time. The contributory system would be compulsory for salaried employees and voluntary for the self-employed. The contributions would be shared equally by employees and employers and would be equivalent to 1% of a worker's salary. A ceiling of \$4,000 a year would be established for the calculation of benefits and contributions (Table 3.2). The full benefits would be payable after a period of ten years, while reduced benefits would be paid after one year to allow those near retirement to get partial benefits. Financing would be done on a pay-as-you-go basis, so that only a minimum fund would be built. Survivors and disabled people would also be covered by the plan.

Another element of the reform, announced before securing any prior agreement from the provinces, would be to raise the universal pension benefits from \$65 to \$75. It would be financed out of the contributions from the earnings-related plan. In this manner, compensation was offered to those already retired who would not be eligible for benefits from the new plan.

But such promises were made without the approval of the provinces. The caution toward welfare reform which had been characteristic of the MacKenzie King and Diefenbaker governments, a by-product of Bennett's disastrous attempt to create unemployment insurance in 1935, was seemingly ignored by the Pearson government. The lack of foresight became evident at the federal-provincial meeting of July 26-27, when the provinces expressed their coolness vis-a-vis the government initiative, and any hopes of rushing the legislation that the federal government may have entertained, were dashed. The CPP proposal was in jeopardy, while the promise of increased OAS benefits financed out of the plan revenues could not be kept, since Quebec intended to set up its own plan, and Ontario refused to act rapidly.

Thus, the keen and overzealous government had put itself in a difficult position. By promising the expeditious implementation of the plan and increased OAS benefits, the party brought upon itself a large measure of self-inflicted embarrassment when the provinces did not readily volunteer their cooperation. Walter Gordon worried that the whole initiative might have to be dropped altogether. He considered that

it would be a serious setback for the young government which had already been shaken following the presentation of the first Liberal budget and the total failure of a policy initiative which he personally endorsed. He wrote to the Prime Minister:

what troubles me is what we do if we have to drop our present pension scheme without putting up a fight. I do not see how the government can be successful if it has no objectives or philosophy apart from sound administration.<sup>20</sup>

But resistance was not going to come exclusively from provincial governments. The private insurance industry would also attempt to stop the initiative.

### **3.2           The Insurance Industry and Pension Reform**

The government proposal was perceived as a serious threat by private insurers. The selling and management of private pensions had increased at a record pace since the Second World War.<sup>21</sup> Between 1936 and 1951, there had been a ten fold increase in the number of pension plans. The sharp increase in the number of pension plans can be attributed to a number of factors. Manpower shortage led employers to use the promise of a retirement pension to lure employees since such fringe benefits did not come under the policy of wage controls. The union movement also encouraged the increase of retirement plans which, more and more, were being viewed as deferred wages rather than gratuities on the part of employers.

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20.     Gordon Papers, Memo to Mr. Pearson, August 8, 1963.

21.     The most thorough analysis of private pensions in Canada is unpublished. See L.G. Asch, "A Statistical History of Private Pension Plans in Canada", (Sherbrooke: Universite de Sherbrooke, 1975) (Mimeo); About the early history of private plans developments, see, L.E. Coward, *Ibid.*

While the great majority of companies set up trustee plans, insurance companies began to offer their services in the 1930s. Many smaller employers, reluctant to set up their own pension funds because of the administrative burden and the risk which accompanied such commitment began to provide coverage because insurance companies guaranteed the payment of pension benefits in accordance with the terms of the plan.

Only scant data is available on the number and types of pension plans in place before the war. In 1936, the National Employment Commission revealed that out of 7,725 firms surveyed, employing 1,028,750 employees, 615 plans existed covering 356,254 (34%) employees.<sup>22</sup> Less than 10 years later, another survey was administered this time by the Dominion Bureau of Statistics.<sup>23</sup> Of the 14,452 firms reached 3,425 or 23% indicated that they provided a plan to 1,109,501 or 55.7% of those interviewed. Table 3.3 reveals that between 1936 and 1957, the number of firms with a pension plan increased 10 times, while the number of employees covered in industrial firms quadrupled.<sup>24</sup>

R.M. Clark concluded that between 1,750,000 and 2,000,000 persons were participants in a pension plan in 1957. This constituted between 29% and 30% of the civilian labour force or between 33% and 37%, if farmers and the Armed Forces personnel were excluded.<sup>25</sup> It was further estimated by Clark that the development of private pensions in Canada closely paralleled the growth of similar plans in the United States, which in 1956 covered approximately 31.4% of the labour force.

The insurance industry had not shown any interest in the creation of the means-test pensions and

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- 22. The data must be read carefully. It indicated the maximum number of workers who could potentially be covered by the 615 plans and not the actual number of workers covered. Canada, Department of Labour, Survey of Working Conditions in Canadian Industry (1937), pp. 280-281.
  - 23. Canada, Dominion Bureau of Statistics, *Ibid.*
  - 24. Any interpretation of the data must be careful. An uneven number of firms were contacted. It was never specified how many employees in each firm were covered by pension plans.
  - 25. R.M. Clark, *Ibid.*, p. 84.

had urged the federal government to create universal pensions to replace the means-test pensions in 1951, while the Canadian Manufacturers Association had been a supporter of the contributory principle. As long as the state was designing programs aimed at the elderly poor and did not intend to implement a contributory plan or any other plan which threatened to curtail the growth of private pension plans, the insurance industry had remained little concerned.

Nonetheless the contributory plan proposal was not the first type of government intervention to meet the opposition of insurers. The 1908 Government Annuities Act was severely criticized by the industry from the 1930s onward.<sup>26</sup> The federal government was accused of subsidizing annuities which were bought by well-to-do citizens who could easily afford to buy private annuities. While the program had been designed as a saving vehicle for the poor, the taxpayers were subsidizing the middle-class, it was argued. Under pressure, the Bennett government reduced the total amount of annuities which could be purchased from \$5,000 to \$1,200.

Repeated attacks were conducted in the late 30s. In 1948, the interest rate of 4%, which insurance companies could not offer, was reduced to 3%, which led to an inevitable decline in sales of annuities from 43,585 (1946-47) down to 17,038 in 1951-52. The strict actuarial methods used, the limits on the amount of annuities which could be bought and the low interest rates undermined the program, in the long run. The Glassco Commission (1962) and the Porter Commission (1964) both recommended its discontinuance.<sup>27</sup> In 1967, the active promotion of annuities was discontinued and their sale was terminated in 1975.

In this case, and in its struggle against the implementation of a contributory plan, the resistance of the insurance industry was determined by the impact of government policies on its activities. It had

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26. K. Bryden, *Ibid.*, pp.53-59.

27. Canada, Royal Commission on Government Organization, *Report* (1962), pp.286-288; Canada, Royal Commission on Banking and Investment *Report*, (1964), p. 257.

ignored the means-test pensions, suggested the creation of a demigrant and successfully fought the growth of public annuities.

### 3.3 Private vs Public Income Security: the Debate

The insurance industry perceived the federal proposal as a direct threat to its market. A contributory public plan, it was believed, would undercut the market for private pensions and slow down the growth of the pension industry.

Even before the federal government announced its firm intention to establish the Canada Pension Plan, the insurance industry had already spelled out the grounds on which it opposed it.<sup>28</sup> The insurance industry did not believe in any further expansion of state-sponsored income protection through a system which could not be considered to be in the welfare realm. "The fundamental aim of compulsory social security measures should be to provide a basic floor of protection against want".<sup>29</sup>

Once basic protection was carried through a program such as the Old Age Security in Canada, or Social Security in the United States, the state should not seek to increase its control. This led to the further statement that:

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28. Canadian Life Insurance Officers Association, Memorandum on Old Age Security (Toronto: CLIOA, 1958); \_\_\_\_\_, Old Age Security: Survivorship and Disability Benefits (Toronto: CLIOA, 1958).

29. Ibid., p. 25.

Above (the basic) floor, individuals should be free to decide whether they wish to build additional protection for themselves, and if so, they should decide on the methods to be used.<sup>30</sup>

The partisans of private protection clearly indicated their opposition to the notion of social insurance and argued for strict equity. The enhanced protection or promotion of income protection above state-sponsored income security should be an individual endeavor. The opposition of the insurance industry was thus framed on the individualistic ethos. This individualistic approach ran directly against the thinking of legislators who sponsored the public contributory plan.

Moreover the idea of a compulsory plan ran against the economic freedom of choice that future pensioners should have in choosing a vehicle for income protection of their own choice. The imposition of a compulsory contributory pensions not only limited the freedom of choice, but would place people into an inflexible plan, which might not offer benefits as high as those available in the private sphere.

The spectre of a reduced rate of essential private savings was also raised: A compulsory earnings-related pension program would be an encroachment on existing and desirable savings media through which capital is built up to increase productivity in Canada.<sup>31</sup>

This could constitute a sensitive point since the Pearson government was reexamining Canada's dependence on foreign (i.e. American Capital) under the impetus of its minister of Finance, Walter Gordon.<sup>32</sup> The Report of the Royal Commission on Canada's Economic Prospects, chaired by Gordon had concluded, that continued reliance on foreign capital was unavoidable. It had led R.M. Clark to cautiously conclude that:

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30. Ibid., p. 5.

31. Ibid., p. 27.

32. D. Smith, Ibid.

the development of a government contributory program with graduated benefits could have an adverse effect insofar as it led to the reduction in the rate of growth of private savings. It is easy, however, to overstate this argument.<sup>33</sup>

Still, it must be pointed that a public plan would not channel savings out of the country, but rather into the government coffers and only if the plan was fully or partly funded. This would be accompanied by a diminution of the pool of capital controlled by traditional savings media. The argument was used to strengthen the case for private pensions. It was indicated that a typical trust company in charge of administering a pension fund usually put back 80% of the fund into the economy.

Finally, there was the fear that a government plan could be pressured into performing tasks not originally intended by legislators. As the Ontario Committee on Portable Pensions indicated:

Any powerful arm of public activity, especially when it involves the handling of large sums of money, is able to exert forces in more ways than originally intended and is frequently under pressure to do so.<sup>34</sup>

The partisans of a private route to income security thus rested their case on a number of arguments. They argued that the concept of state protection was being stretched too much and too far. Government interventions in this field should be geared toward the elderly poor, and a contributory plan could be pushed into performing other tasks. It was also believed that private plans could give more flexibility and better value for each dollar invested. Finally, it based its objections on the threat to traditional savings media when Canada was attempting to enhance its economic independence.

However each of these arguments ran against those spelled out by advocates of a contributory public plan. The plan proposed was based on the social insurance principle defined by L.C. Marsh, as early as 1943. The intention of legislators was to expand its responsibilities and eliminate a sharp drop of

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33. R.M. Clark, *Ibid.*, p. 196.

34. Ontario, Ontario Committee on Portable Pensions, Summary Report (1961), p. 5.

income at retirement. The limits of state intervention were being redefined. The federal government now believed that it should intervene more forcefully. Moreover, only a social insurance system could ensure that each worker could be covered. By keeping to the strict rule of individual equity, many workers would never gain increased protection.

As to those who argued that economic choices would be imposed by the state, it was answered that most employees covered by a private plan were not given any choice. As R.M. Clark explained:

It should be noted that in many instances all employees who join a firm after a contributory employee pension plan has been established are compelled to join it and contribute to it as long as they work for the company.<sup>35</sup>

As far as the macro-economic impact of the program was concerned, it was easy for the federal government to point toward post-war prosperity. Surely, Canada could sustain that type of policy, and the decision was a reflection of the faith in Keynesian economics.

As far as comparing the advantages of public plans over private ones, the former seemed far superior. The problems that plagued private pensions could be easily handled by a public contributory plan. The plan could virtually cover all the members of the workforce. Problems of vesting and portability would not exist in a public plan. The financial status of the plan would be warranted by the federal government. Finally, protection against inflation could be provided.

But would the existence of private pensions be threatened by a public plan, or would it limit the growth of private plans? The evidence collected by R.M. Clark did not seem to indicate so. In fact the American experience was evidence to the contrary. W. Cohen, a Social Security administrator, had indicated to R.M. Clark that, "the American system of Old Age Insurance has greatly stimulated the

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35. R.M. Clark, *Ibid.*, p. 188.

establishment, expansion and improvement of private plans."<sup>36</sup> This opinion was shared by an American management consultant who said, "I question that Old-Age Insurance has reduced the roles of private pension plans by insurance and trust companies. I should say it has very obviously encouraged the role of such plans."<sup>37</sup>

The case was made not only by specialists and bureaucrats who may have expressed a bias in favor of the collective approach, but also by L.E. Coward a spokesman for the insurance industry in Canada:

The introduction of government pensions in Canada, the U.S. and Britain does not appear to have discouraged private pension plans. In fact it draws attention to the problem. In Britain when the National Insurance Act of 1946 came in, actuaries expected a flood of amendments and reductions in pension plans. It did not occur.<sup>38</sup>

Even if the Ontario Commission on Portable Pensions had argued that there would be strong pressure to increase the benefits, it must be remembered that one of the concerns of legislators was to find a way to reduce and control cost pressures. By linking directly contributions to benefits, it was believed that pressure for increased benefits would be much less likely.

The numerous objections of the opponents were thus met by a battery of counter-arguments. These divergent positions reflected the fundamental and irreconcilable differences about the role that the state should play in this sector. The advocates of the plan were fully confident in the capacity of the state to manage such a system, while the insurance industry was worried about the impact of such a legislation on its growth. In the end, private insurers could not make the case that the economy would be under any threat, nor that the private insurance industry was under any danger of collapsing. But while the pros and cons of a public program could be debated ad nauseam, the concerns of the insurance industry could be

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36. Ibid., p. 192.

37. Ibid.

38. Ibid., p. 193.

ultimately overridden but provincial resistance could not be dealt with so easily.

### 3.4 Ontario and Quebec: the Issue of Provincial Control

While Ottawa was preparing to extend its control in spite of the insurance industry opposition, the Ontario government had already rejected this option and favored the improvement and growth of private plans. Between 1951 and 1957, the percentage of employers offering private plans increased by 26%, from 37% to 63%. By 1961, there were nearly 9,000 plans in Canada. However, the regional distribution was extremely uneven and concentrated in Ontario. Of the 8,920 plans in operation in Canada, 50% were found in Ontario. Quebec, the second largest province had only 16% of them (Table 3.4)

Ontario's unique position led the Conservative government to consider the regulation of private plans. The diversity of plans was creating a number of problems. Portability was one. Workers who wished or were forced to move from one employer to another risked losing their benefits, a problem raised by the Liberal Party and the CCF in the Legislature in 1959. Another serious problem was the discrimination against older workers. Many employers were reluctant to hire aging workers because they had to offer them protection at higher costs. These problems and others led the Conservative government to set up a technical committee whose task would be to:

... explore ways and means by which retirement pension plans can be made more effective, provide more security for our older people and minimize these inhibitions which militate against the employment of the older worker.<sup>39</sup>

The committee had three options. It could argue for direct state intervention through the

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39. Ontario, Ontario Committee on Portable Pension, Summary Report (1960), p. 1.

implementation of a provincial contributory plan, or the regulation of the existing private plans, or possibly some combination of both. The first possibility had already been considered by the Department of Public Welfare. The Department believed that the public and private systems were inadequate and that too much pressure was put on municipal and provincial welfare systems. J.S. Band, Deputy Minister of Welfare was a firm believer in the advantages of a 'social insurance approach'. That position was repeated in the annual departmental reports during the 1950s and, in 1961, an outline of what such a plan could represent was produced by the Department.<sup>40</sup>

The members of the Committee did not share the enthusiasm of the Department of Public Welfare for a public plan. They had been appointed by a government which believed in the advantages of a private solution. The personal orientation of the majority of those on the Committee led them to stick with their mandate. One of the co-chairmen, G. Gathercole, Deputy Minister of Economics, was one of the most influential bureaucrats in the province and was, "philosophically opposed to government intervention in the insurance field"<sup>41</sup>. Among the other members were R.M. Clark, author of the federal report commissioned by Diefenbaker who was also opposed to state intervention, J.A. Tuck, general counsel of the Canadian Life Insurance Officers' Association, C.E. Hendry, director of the University of Toronto's School of Social Work and R.E.G. Davis, executive director of the Canadian Welfare Council.

They recommended mandatory private coverage by forcing the companies employing 15 persons or more to provide a plan, that would be submitted to standards defined by the government. John Robarts agreed with the approach proposed and, in the spring of 1963, the legislature passed the Pensions Benefits Act regulating private pensions, while Ottawa was still preparing its own draft bill for a contributory plan. The provincial bill had three central features. First, it guaranteed the establishment and enforcement of minimum standards of solvency in private plans. Second, it guaranteed a limited measure of portability in such plans by imposing modest conditions governing vesting and locking-in of

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40. K. Bryden, *Ibid.*, p. 166.

41. *Ibid.*

employee contributions. Finally, all employers of fifteen or more people would have to provide a plan that had to include benefits of \$80 a month. But while Ontario was opting for the regulation of pensions which ran against Ottawa's thinking, Quebec took a different tack entirely.

While Queen's Park and Ottawa were firing their first salvos in the summer of 1963 and bracing themselves for a bloody political fight, the Quebec government announced its intention to create and implement its own pension plan. This came as a surprise to many, since Quebec had never showed much enthusiasm for pension reform before. In fact, Quebec had usually resisted this type of intervention in the past. Quebec had repeatedly resisted the initiatives taken by the federal government, because they were considered as an invasion of provincial jurisdiction and ran against Quebec's traditional approach to welfare issues. To understand such a shift in Quebec City, it is necessary to understand the context in which the Lesage government took this decision. Quebec had always relied heavily on its religious institutions to care and support those in need, and only grudgingly accepted federal intervention. But rather than resist change, the new elite now embraced the concept wholeheartedly, but with a difference: Quebec espoused the contributory principle but wanted to keep control of it.

The new intellectual elite, on the one hand, and the new political leadership, on the other, were redefining the role of the provincial government and building a sizeable agenda of reform. Pension reform was one of them, but by no means a priority. After the Liberal victory W. Dupont, the Superintendent of Insurance, was asked to gather the appropriate data and information. He was then invited to study Ontario's approach, which he found ill-suited to Quebec's needs, but direct state intervention through a contributory plan seemed feasible and in November 1962, an Interdepartmental Committee was appointed to explore such a possibility. Among them were Walter Dupont, Claude Castonguay and Andre Marier who, according to D. Thomson, had worked on the nationalization of electricity and was, "an unwavering believer in Independence"<sup>42</sup>.

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42. D. Thomson, Jean Lesage and the Quiet Revolution (Toronto: McMillan, 1984), p. 185.

Up to that stage the reform of the pension system had been considered purely as a social reform. But Marier had a conversation with Jacques Parizeau who drew his attention to a French public body, the "Caisse des Dépôts et Consignations", which administered a variety of pensions and other funds which were reinvested to further government policy objectives. This changed entirely the potential impact and nature of the issue and reinforced the case made by those in favor of provincial control. What is striking about the report of the Interdepartmental Study Committee on the Quebec Pension Plan is that its main focus was on the economic advantages of such a project. The study clearly spelled out how the provincial government would gain greater economic leverage:

This plan transfers to the directors of a deposit and investment fund, centres of economic decisions which at present are mostly located outside Quebec. This is therefore a first step under present day conditions during which, on several occasions, the government has affirmed its willingness to reabsorb unemployment and to boost the growth of Quebec's economy which is undeniably linked to the acquisition by the people of Quebec of an important share of the centres of economic decisions; at least in the important sectors.<sup>43</sup>

This report was followed by another from a "Groupe d'Équilibre", of which Jacques Parizeau and Claude Morin were members and which endorsed the idea of a Quebec Plan. Jean Lesage, who was responsible for a debt which had doubled since he had taken power and was by then facing a revenue shortfall of 25% between revenues and expenses was pleased and agreed with the concept. When the intentions of the federal government were heard, a unanimous resolution was hurriedly passed in the Quebec Legislature endorsing a public universal contributory plan for the province.

Pension reform became a government priority. In the minds of many of the bureaucrats involved this could give the Quebec government the necessary leverage to influence the economic development of the province and foster the position of francophones. For Jean Lesage it was a means to finance the expensive catching up operation which he had launched.

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43. Quebec, Interdepartmental Study Committee on the Quebec Pension Plan, Report (1964), p. 204.

Ottawa found itself in a difficult position. On the one hand, Ontario which had chosen to implement regulations would be hostile to the federal plan which proposed an alternative that Ontario had rejected already. Ottawa would have to persuade Ontario that a contributory plan was preferable or, at the very least, complementary. On the other hand, Quebec wanted to implement its own plan whose details were not yet divulged. For the first time, Ottawa was facing competitors in the pension field. The federal government had faced opposition before. The means-test and the OAS had been implemented after some delays due to provincial resistance. But this time, Ottawa was losing control of the agenda of reform because activist provinces had developed objectives of their own and were formulating their policy preferences.

TABLE 3.1

Amount of OAS Payments and Number of OAS Recipient  
in Canada, March 31, 1952 to 1958

Year	OAS Payments <sup>1</sup>	OAS Recipients
1951-52	76,067 <sup>2</sup>	643,013
1952-53	323,142	686,127
1953-54	338,971	716,399
1954-55	353,205	745,620
1955-56	366,218	771,753
1956-57	379,111	797,486
1957-58	473,859	827,560

Source: R.M. Clark, Economic Security for the Aged in the United States and Canada (1959), vol. 1, Table 44 and 45.

(1) : Three months only.

(2) : In thousand of dollars.

TABLE 3.2  
Canada Pension Plan Proposals

	Initial Formulation June-July, 1963	Bill C-75 Spring, 1964
Coverage	Compulsory for employees; voluntary for self-employed	Compulsory for employees; voluntary for self-employed
Transition	10 years	10 years
Funding	Negligible; pay-as-you-go financing intended	Estimated fund of \$2.5 billion at end of transition; half to be available for investment in provincial securities
Earnings ceiling	\$4,000 a year, subject to "annual adjustment"	\$4,500 a year in first 5 years; adjustable thereafter
Basic exemption	Nil	Nil
Employee contribution rate	"Initial rate" of 1 percent of earnings up to ceiling <sup>1</sup>	1 percent of earnings up to ceiling for first 15 years; upward revision thereafter <sup>2</sup>
Qualifying age for old age benefit	Unconditional at 70; permanently reduced pension 65-69	Unconditional at 70; retirement test 65-69 <sup>3</sup>
Rate of benefit	30 percent of average adjusted earnings at 70; proportionate reductions for lower ages until 20 percent at 65	20 percent of average adjusted earnings
Other benefits	Pension for surviving spouse at 65	Pension for surviving spouse at 65
Exclusion of low earning periods	Unspecified number of "years of lowest earnings"; each year's earnings after 65 substitutable for earlier year	10 percent of total number of months; pensionable earnings after 65 substitutable for equal period of earlier earnings

Source: K. Bryden, *Ibid.*, Table 12.

1. In view of the pay-as-you-go method of financing, it was anticipated that upward revision of the rate would be necessary in time, but no details were given. Employee contributions were to be matched by equal employer contributions; participating self-employed were to pay aggregate rate in full.
2. The bill specified a rate of 1 1/4% from 1980, 1 1/2% from 1990, 1 3/4% from 2000, and 2% from 2015, but provision was made for reducing 1980 and later rates by order in council if such reductions were justified by actuarial reports. Employee contributions were to be matched by equal employer contributions; participating self-employed were to pay aggregate rate of 2% in full during first 15 years, but thereafter their rate was to be the sum of the applicable employee rate and 1%.
3. Matched by equal employer contributions; aggregate rate of 3.6% payable in full by self-employed.

TABLE 3.3

Private Pension Plan Coverage in  
1936, 1947, 1951, 1954 and 1957

	1936	1947	1951	1954	1957
<b>Firms or Establishments:</b>					
No. surveyed*	7,725	14,452	11,908	12,292	11,304
No. with pension plans	615	3,425	4,407	5,574	6,034
% with pension plans	8.0	23.7	37.0	45.3	53.4
<b>Employees:</b>					
No. surveyed	1,028,750	1,993,117	1,665,373	1,824,291	1,854,086
No. in firms with pension plans	356,254	1,109,501	1,095,514	1,271,595	1,442,864
% in firms with pension plans	34.6	55.7	65.8	69.7	77.8

Source: R.M. Clark, Economic Security for the Aged in the United States and Canada, p. 81.

\* : Useable returns from firms surveyed.

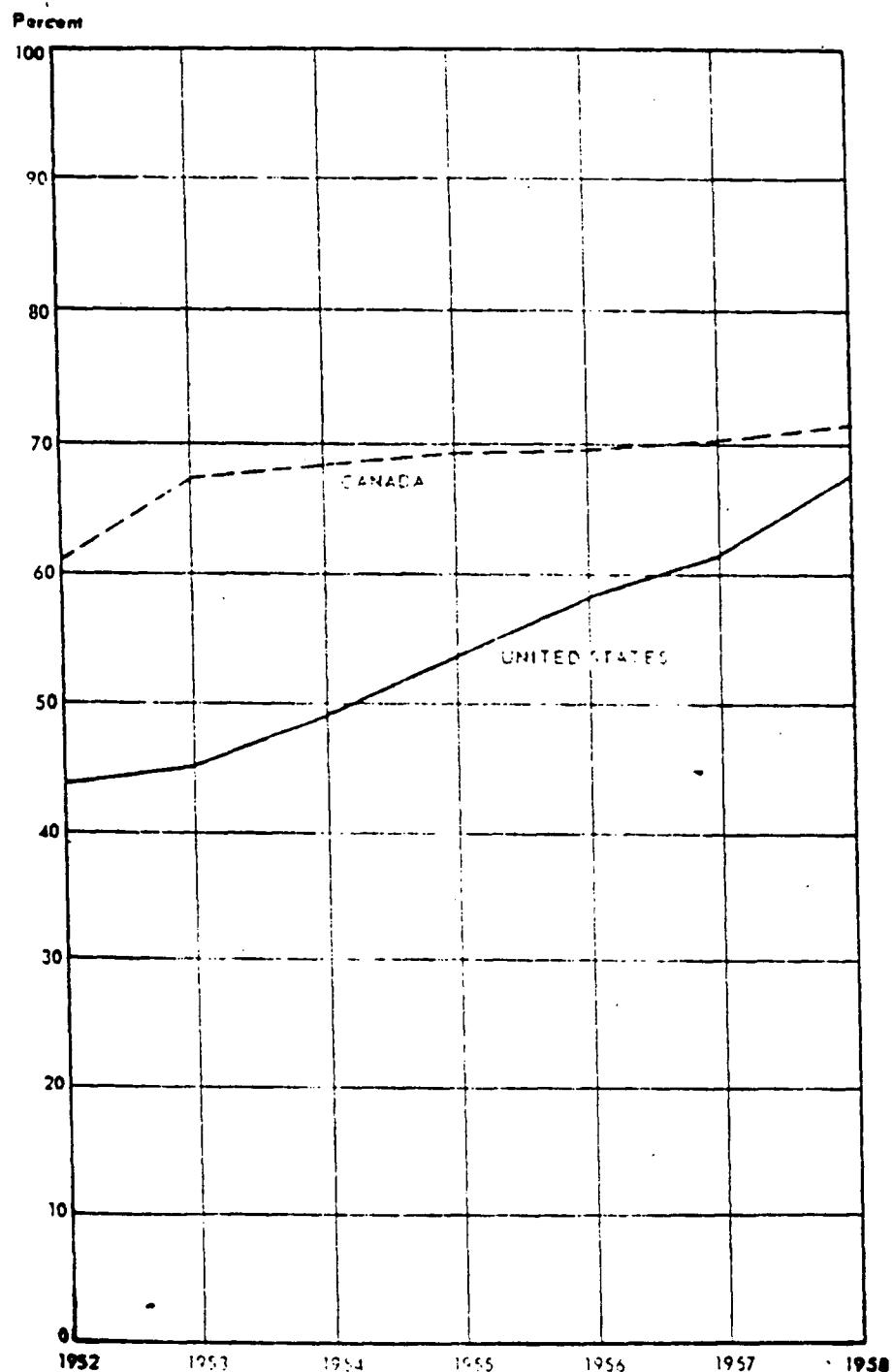
TABLE 3.4  
Geographical Distribution of Canadian Private Plans, 1960

Province or territory	Number of Plans	Percentage Distribution
Newfoundland	46	0.5
Prince Edward Island	32	0.4
Nova Scotia	217	2.4
New Brunswick	163	1.8
Quebec	1,428	16.0
Ontario	4,520	50.7
Manitoba	633	7.1
Saskatchewan	343	3.8
Alberta	647	7.2
British Columbia	844	9.5
Yukon	5	0.1
Outside Canada (1)	42	0.5
<b>TOTAL</b>	<b>8,920</b>	<b>100.0</b>

(1): Reports taken from American parent companies pension plans, non-financial statistics 1960, Federal Bureau of Statistics, Ottawa.

FIGURE 3.1

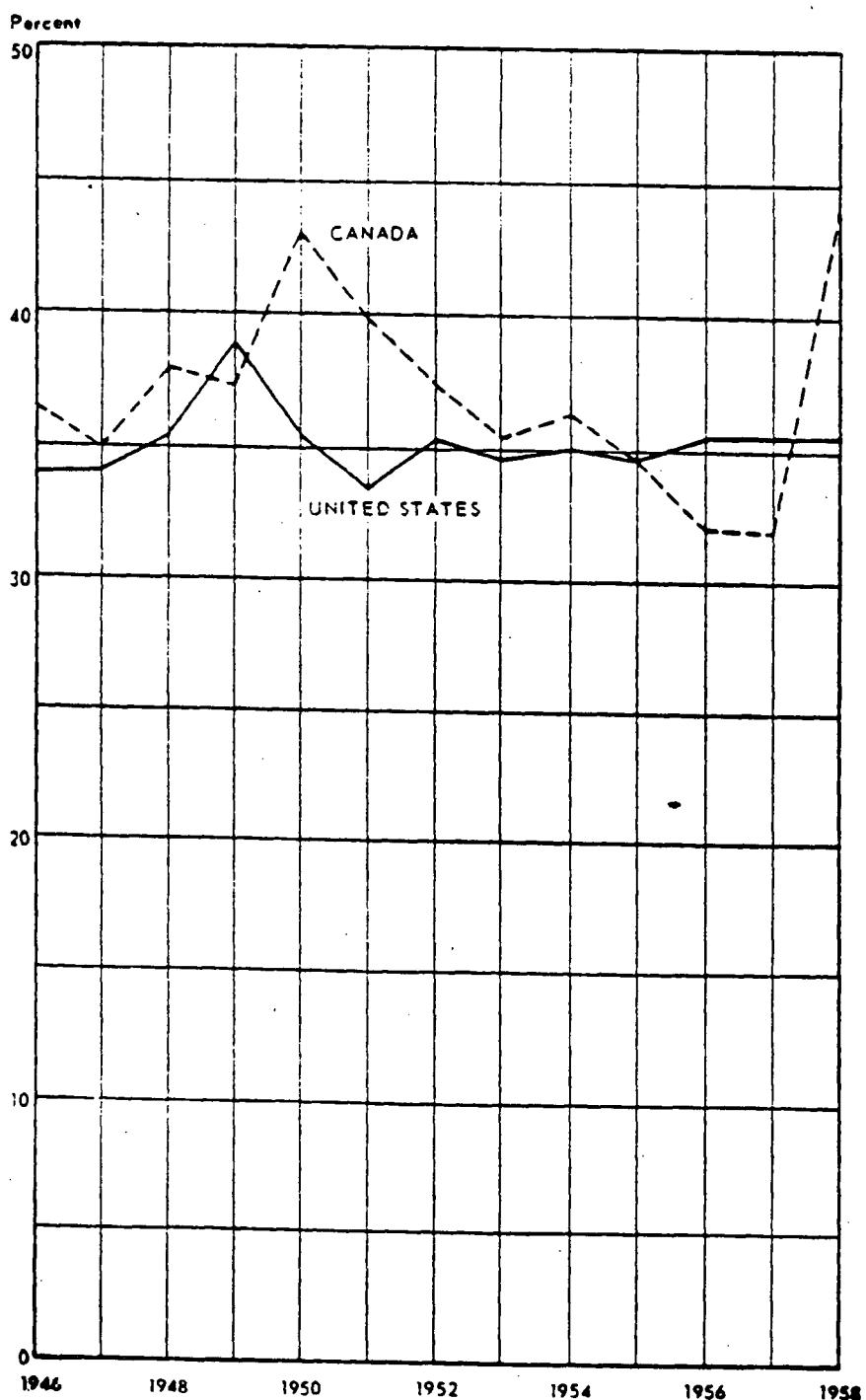
Proportion of Population Age 65 and Over receiving Old-Age Insurance Benefits, Old-Age Assistance or both in the United States, and Old-Age Security or Old-Age Assistance in Canada, 1952 to 1958.\*



\* R.M. Clark, *Ibid.*, p. 19.

FIGURE 3.2

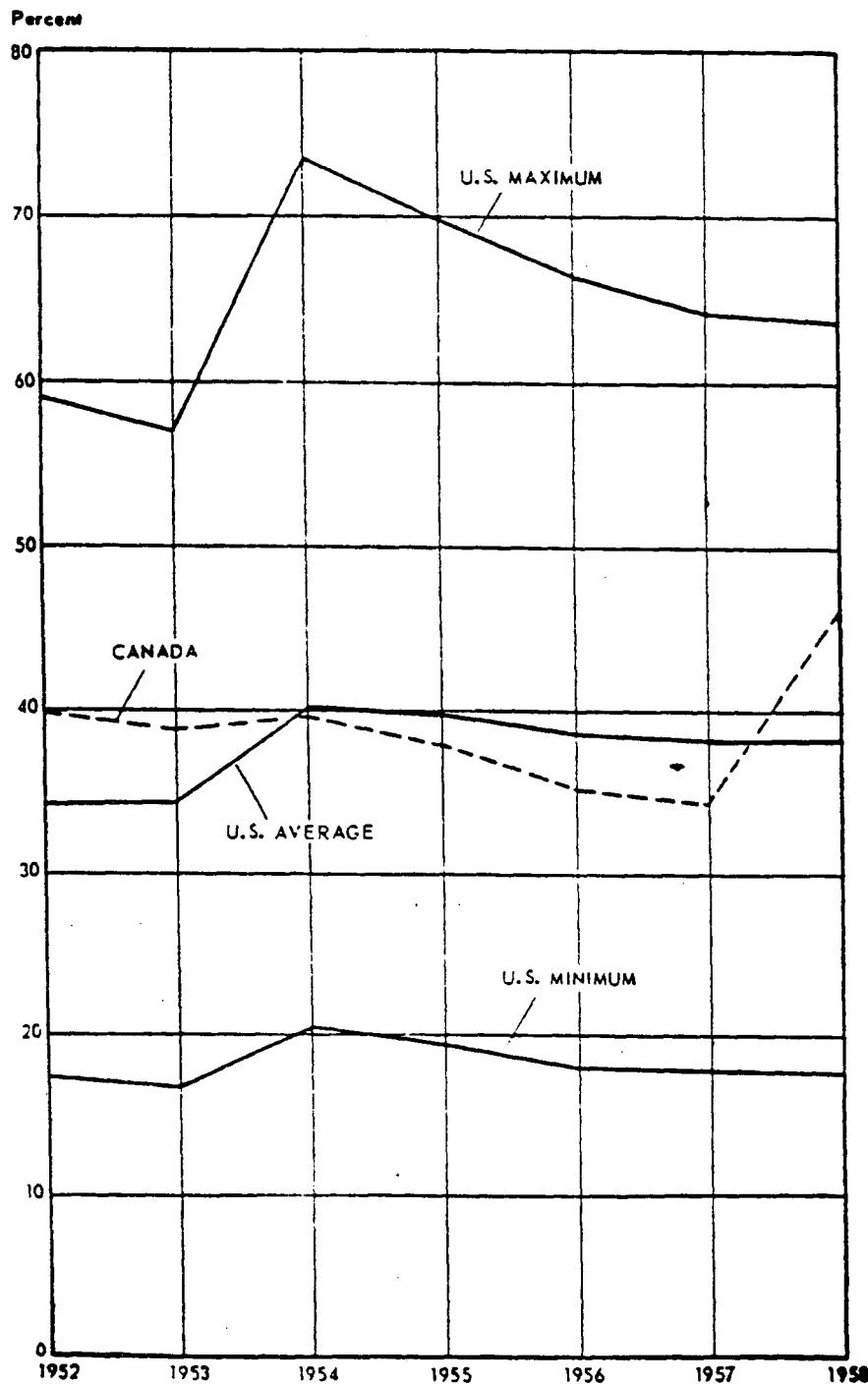
Average Old Age Assistance in the United States and Canada as Percentage of Respective Personal Income per capita, 1946 to 1958.\*



\* Ibid., p. 27.

FIGURE 3.3

Minimum, Average and Maximum Old-Age Benefits for Retired Workers in the United States and Flat-Rate Old-Age Security Benefit in Canada as Percentage of Respective Personal Income per capita, 1952 to 1958.\*



\* Ibid., p. 23.

## CHAPTER 4

### THE CANADA AND QUEBEC PENSION PLANS: THE NEW POLITICS OF PENSIONS

The Liberal Party had endorsed pension reform and intended to ensure the creation of a contributory plan. But in its hastiness it had miscalculated its capacity to act rapidly. The federal government had brought significant political embarrassment upon itself and it threatened the reform itself. During the summer of 1963, the government was able to limit the damage by granting a \$10 increase in OAS benefits and getting Robarts to agree to further discussions.

In the following months, Ottawa would have to contend with the opposition of the insurance industry and the government of Ontario, which were both hostile to this new venture, and the Quebec government which supported the principle of a public contributory plan, as long as it had full control of it. But first, Ottawa would have to deal with pensioners' organizations.

#### **4.1           The Struggle for Increased Old-Age Security Benefits**

By the 1960s, pensioners' organizations were reaching a high level of cohesion and a large membership which allowed them to put pressure on the government. It is only after the implementation of the 1927 plan that organizations of pensioners came to existence. As Bryden has indicated, "it took the

shared experience of being pension recipients to create a perception of common interest sufficient to provide a basis for organized action."<sup>1</sup> The first organization was the Old Age Pensioners' Organization of British Columbia, which was founded in 1932. The rigid administration of the means-test and the leadership qualities of E.R. Vipond contributed to increase the stature of the organization. A year later, another British Columbia organization, the Senior Citizens Organization, was also formed. In the Prairies, such organizations appeared in the 1940s while the United Senior Citizens of Ontario was not created before 1956.

Retired Canadians, and those approaching retirement, did not stand to gain from a public contributory plan, since that program was aimed at future retirees. What the government offered to pensioners was an increase of \$10 (from \$65 to \$75) in the value of the OAS benefits. However, this would only come into effect once the contribution plan was implemented since the added benefits would be financed out of the contributory plan.

When the government's intentions were made public, pensioners organizations pressed the government to increase the OAS benefits rapidly and to dissociate it from a contributory plan. In the House of Commons, Stanley Knowles became their chief spokesman. The Conservative Party jumped on the bandwagon and asked the minority Liberal government to increase the OAS benefits immediately.

The Liberal government attempted to deflect the pressure and keep its initiative alive by attacking John Robarts during the Ontario elections. The federal Liberals openly supported the Ontario Liberal leader, J.J. Wintermeyer, and attacked Robarts' refusal to endorse the creation of a public contributory plan. Ottawa failed to get Wintermeyer's party elected but Robarts agreed to further discussions. However, the issue of increased OAS benefits did not go away, since Robarts had counter-attacked by pointing to the unwillingness of the federal government to deal immediately with this matter.

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1. K. Bryden, *Ibid.*, p. 194.

Because the federal Liberals were pressured by the Conservatives and the NDP on this issue, and it was also exploited in provincial elections in Ontario, British Columbia and Nova Scotia to the detriment of Liberal forces, the cabinet grudgingly acquiesced. The OAS benefits were increased by \$10 a month and the tax component used to finance the benefits was increased from 3% to 4%. The benefits offered under the means-test pensions were also increased to \$75 a month, with corresponding increases in maximum allowable income to \$1,260 a year and \$2,200 for couples. Ottawa's blunder was thus successfully exploited by pensioners' organizations and the elderly made a significant gain.

In contrast, the powerful insurance industry was unable to block Ottawa's momentum. Their failure was due in part to the lack of finesse of their lobbying strategy, if strategy there was, and a wrong assessment of Ottawa's determination. On hearing the government intentions, the Canadian Life Insurance Officers' Association went directly to Judy LaMarsh. They wanted to get "assurances" that the government had no intention to go ahead with the reform. They were rebuffed and if anything the meeting strengthened the resolve of the minister. A visit to W. Gordon by insurance representatives was no more fruitful. Of the meeting LaMarsh wrote:

The opposition of the insurance companies is a shameful chapter in the history of Canadian business, and I hope no industry ever tries so blatant an attack upon a duly elected government again.<sup>2</sup>

Following the government's declaration of intent of June 18, the insurance industry publicly stated its disapproval. The president of Great West Life Assurance Company, D.E. Kilgour, attempted to rally forces against the plan behind him. Letters and representations were made in Ottawa but to no avail.<sup>3</sup>

More damaging than inadequate strategy was the isolation of the insurance industry which was only able to get firm support from the Chamber of Commerce, which had been an ally since the late 40s.

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2. J. LaMarsh, *Ibid.*, p. 89.

3. See Sessional Papers, 214c, 214d (1963), 202b, 202i (1964-65), quoted in K. Bryden, *Ibid.*, p. 161.

Both organizations had then urged the federal government to introduce a demogrant. However, the Canadian Manufacturer's Association and the Retail Council of Canada did not lend their support to that cause. They remained aloof until the legislative committee in charge of studying the legislation held its hearings. It was becoming clear that the insurance industry and the Chamber of Commerce were isolated, but for one powerful ally, the province of Ontario, on which it would have to rely to stop the federal government.

Moreover, the efforts of the insurance industry were counterbalanced by the campaign of the Canadian Labour Congress urging the government to go ahead. In 1964, up to 100,000 postcards and 35,000 signatures were forwarded to Ottawa, in an attempt to offset the efforts of insurers.<sup>4</sup>

#### 4.2           The Negotiations

The fate of the contributory plan was decided in a series of federal-provincial meetings.<sup>5</sup> The first meeting in July, allowed the provincial governments to learn more about Ottawa's intentions and give their initial reaction.<sup>6</sup> Ontario and Manitoba were very cool but did not attack the idea openly. Quebec stated its intention to set up a plan of its own. Saskatchewan urged the federal government to go ahead.

In September, there was some movement on the part of the different parties involved. Ontario

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4.       K. Bryden, *Ibid.*, p. 162.

5.       The most detailed account of the negotiations is found in: R. Simeon, Federal-Provincial Diplomacy, Chap. 3.

6.       Other issues would also be discussed in these negotiations; in July the establishment of a Municipal Loan Fund, in November and April, new fiscal arrangements were also on the agenda.

approved the principle of the plan and explained its preference for a system which would reflect a close tie between the benefits promised and the contributions collected, so as not to undercut the growth of private pensions. They also insisted that the flow of savings and investment capital should not be disrupted. The Quebec representatives, who only had the status of observer, indicated their willingness to allow an amendment that would allow the Canada Pension Plan to offer supplementary benefits. They did not divulge any details of the Quebec Plan still in preparation and frustrated the attempts of federal representatives to see if the two plans could be integrated.

The November meeting did not bring any major breakthrough. A more detailed discussion of the main features of the federal plan took place. Ontario disagreed with many of them. The only significant new proposal made by Ottawa would allow the provinces to take partial control of the funds.<sup>7</sup> Since an increase of the OAS benefits had been approved, the federal plan now allowed for a modest fund to be accumulated. By surrendering the control of half the sum to the provinces, Ottawa hoped to build greater support among the Atlantic provinces, Alberta and British Columbia. Still ignorant as to the type of plan that the Quebec government intended to apply, Ottawa prepared a bill, which differed from the July formulation (Table 3.2). To acquiesce to Ontario's demands the benefits would be reduced and provide 20% rather than 25% of adjusted average earnings. On the other hand, a significant fund would be created and partial control would be offered to the provinces. Bill C-75 was presented to the House of Commons and sent to the provinces. In spite of these changes, the reactions were negative. Ontario disliked the plan which was still judged as being too generous while Saskatchewan thought that it was a retrograde step; the other provinces remained lukewarm.

The meetings of April 4-5, 1964 appeared to be Pearson's last chance. He seemed to have conceded that Quebec would part company but was hopeful that the rest of the provinces would endorse his proposal, concessions had been made to sway Ontario. He was rebuffed by Ontario and Manitoba

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7. For further details on the federal proposal, see: N. Conrad, Pension in Canada (Toronto: CCH Canadian Ltd, 1964), Appendix 2.

which now openly expressed their discontent with the fact that Quebec would have its own plan. Ontario seemed to have killed the initiative and any chance of reforming the pension system had vanished, or so it appeared. However, Jean Lesage who finally had his own proposal ready, had a chance to describe it to his colleagues (Table 4.1).

The Quebec government intended to cover disabled people, survivors and the self-employed in conjunction with salaried workers. The benefits would provide 25% of the average earnings of the participants (rather than 20% by Ottawa). The contributions would be collected on a less regressive scale, since the first \$1,000 of earning would not be included in the calculations and 2% of earnings would constitute the rate of contributions. A 20 year transition meant that a huge fund would come under Quebec's control (estimated at \$5.6 billion after ten years of operation). Quebec was ready to implement a contributory program that would provide more benefits, for a larger proportion of the workforce. The program would be financed by a system more generous for those who earned less, and the government would be in control of a large amount of capital that would help finance the programs of an expansionist bureaucracy and bring greater control over the economic development of the province.

All those around the table were much impressed by the plan. T. Kent writes that "one could almost see the other provincial premiers licking their lips".<sup>8</sup> Although the conference ended in total deadlock on the pension issue and the fiscal arrangements, Ottawa did not give up. Tom Kent and Gordon Robertson, aware of the impact of Quebec's presentation, believed that a last ditch effort could still break the stalemate. Unable to influence Quebec earlier, Ottawa had attempted to find a compromise that would have satisfied Ontario and Manitoba. If Ottawa could make a compromise with Quebec, the other provinces might be rallied and Ontario and Manitoba could possibly give in.

Quebec agreed to hold further discussions.<sup>9</sup> Only two weeks of secret meetings were needed to

8. T.Kent, *Ibid.*, p.274.

9. For detailed accounts of the negotiations see: P. Desbarats, The State of Quebec (Toronto:

strike an accord. It was agreed that the two plans would operate independently but would contain identical provisions. Although concessions were made on both sides, the final plan was much closer to Quebec's formulation than Bill C-75. The Plans would be universal and this would cover the self-employed. Excluding a basic exemption of \$600, the contributions would constitute 1.8% of earnings. The benefits would provide 25% of lifetime adjusted earnings (Table 4.2). The two plans would offer greater benefits than Ottawa had first envisaged and the sums would be collected on a more progressive basis. Quebec agreed to reduce the transition period to 10 years. In other words, the plan would come into operation much more rapidly, and Quebec would collect a smaller but still impressive fund. Ottawa turned all the funds to the provinces, save for those needed for the administration of the system.

The provinces endorsed the plan enthusiastically. They felt positively about a broader coverage and they would all gain control of a larger portion of the pension fund.<sup>10</sup> Ontario was now faced with a plan which was more liberal than the previous federal proposals, something they had fought against all along. Ontario accepted, but not before getting important concessions, which would have serious repercussions in the future. The provinces would be allowed to opt out of the plan at any time in the future and any change to the Canada Pension Plan would need the approval of 2/3 of the provinces representing 2/3 of the population. De facto, Ontario was given a veto.

Ontario could have opposed the proposal, stayed out of it or even set up its own program. Simeon reports that bureaucrats debated the issue and began work on a provincial plan. The province would have been able to control the funds and balance contributions and benefits to better reflect the principle of individual equity. But, as Simeon has indicated,

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McClelland & Stewart, 1965) pp. 128-132; P.C. Newman, *Ibid.*, Chap. 22.

10. The provinces were also given a greater share of the tax points, which had been the other element of the secret negotiations.

the machinery would be costly to establish; it would be extremely difficult to design a plan which both met the conservative viewpoint Ontario had espoused and give benefits comparable to those in the Ottawa-Quebec plan; and Ontario's participation in the national plan could be interpreted as a contribution to national unity.<sup>11</sup>

Moreover decision-makers in Ontario had to be conscious of its isolation. If it refused to opt-in it would be the only province without a plan, while most industrialized countries had by then opted for the contributory principle. The United States, the United Kingdom, Sweden, Germany, Belgium, Italy, France and the Netherlands, to name only a few, all had state-run contributions plans. Moreover Great Britain and Sweden sponsored a flat-rate universal pension as Canada did. Ontario joined the plan, but amended the Ontario Benefits Act to remove the compulsory requirement for employers of fifteen or more people to provide a pension.

Bill C-136 was introduced in Parliament in November 1964. The Joint Committee of the Senate and the House of Commons heard 116 witnesses and the debates were lengthy.<sup>12</sup> The insurance industry mounted a last-ditch effort to stop the government during the hearings of the Joint Committee of the Senate and the House of Commons. By then, it should have been clear to the insurance industry that any attempt to stop the bill was futile. Still, the insurance industry persisted.

Industry representatives could have attempted to modify the content of the legislation, however they opted for a full charge against the proposed legislation.<sup>13</sup> The underlying objectives of the plan, its benefit structure, the financing formula were all condemned. The insurance industry advocated a liberalization of the Old Age Security as the best possible welfare measure:

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11. R. Simeon, *Ibid.* P. 63.

12. Canada, Parliament, Special Joint Committee of the Senate and the House of Commons on the Canada Pension Plan, Proceedings (1965).

13. CLIOA, Submission to the Special Joint Committee of the Senate and the House of Commons on the CPP (Ottawa: CLIOA, 1964).

(There is a ) basic misconception that an earnings-related plan can be the most satisfactory welfare measure for Canada. It cannot be. Such a plan cannot be universal and its benefits cannot be geared to the needs of the aged because these needs are normally greater for those persons whose earnings were the least during their working years.<sup>14</sup>

However, during these hearings, the isolation of insurers became clear. The Canadian Manufacturer's Association and the Retail Council of Canada agreed with the principle of the plan and their objections were limited to some of its specific features. The Canadian Manufacturer's Association was an important actor, and its interest in the pension question was not new. As early as 1929, the Canadian Manufacturer's Association had declared its support for a public contributory plan.<sup>15</sup> In its submission to the Legislative Committee in 1951, the CMA had reiterated its advocacy of a contributory plan.

The CMA also had a stake in pension reform. As early as 1953, the assets of company trustee plans exceeded the total assets of plans underwritten by the life insurance companies and the Annuities Branch (Table 4.2).<sup>16</sup> In 1964, the federal government estimated that 14% of private plans were trustee (1,547) and that they covered 1,135,000 workers, representing 62% of all workers participating in plans. Moreover these trustee pensions plans assets were valued at \$4,572 millions compared with \$1,060 millions held by life insurance companies and \$625 millions by the Federal Government Group Annuities.<sup>17</sup>

However, the CMA did not consider the government plan as a significant threat. As long as they would be able to diminish their contributions to private plan in order to meet their obligations to the CPP, the CMA would not oppose the legislation. Moreover, the employers were sympathetic to a measure

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14. Ibid., p. 5.

15. H. Mitchell, Ibid.

16. R.M. Clark, Ibid., p. 73 (Table 93).

17. Canada, "Pension Plans in Canada" (Mimeo, 1964).

which would diminish the pressure to increase costs of the OAS. It would be going too far to say that the CMA endorsed the plan enthusiastically. It declared:

The benefits of the proposed Canada Pension Plan stretches the concept of a 'basic pension' to its full limit and when added to the Old Age Security benefit goes somewhat beyond what the Association regards as basic. The Association is very concerned that the Canada Pension Plan function efficiently.<sup>18</sup>

Nonetheless, the CMA refused to attack the plan openly and decided to propose changes to its structure. It clearly dissociated itself from the CLIOA. It proposed the introduction of a partially-funded system, recommended the elimination of the \$600 basic exemption, and insisted on further study of the coordination of private plans and the CPP.

The Retail Council of Canada also presented a brief to the Committee.<sup>19</sup> It represented 30% of the retail store business, and a substantial number of the firms represented were medium to small enterprises. It criticized the financing formula used and was wary of its costs. It argued for a plan with more modest objectives. But in the end, it also gave a lukewarm endorsement,

The Council approves the general concept of a contributory plan. The Council believes that a majority of the citizens of this country holds similar views. The Council does, however, have considerable reservations regarding the present form of the plan.<sup>20</sup>

The Parliamentary hearings had no significant impact on the plan design. It was getting late to hope for significant changes. The Ontario government and the insurance industry had already squandered their chances. Only small concessions were made. The intergovernmental compromise was so fragile that it could not withstand significant alterations. After a long debate in the House, it received royal assent on April 3, 1965 and came into operation in January 1966, at the same time as the QPP.

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18. Canada, Parliament, Special Joint Committee of the Senate and the House of Commons on the Canada Pension Plan, *Ibid.*, p. 1417.

19. *Ibid.*, pp.969-974.

20. *Ibid.*, p. 969.

#### 4.3           Guaranteed Income Supplement

As indicated earlier, the CPP/QPP was not intended to deal with those already retired or those near retirement. It constituted a long-term solution designed to meet the financial needs of future retirees. But the situation of the retired population was not ignored totally in Ottawa. Although the debate surrounding the creation of the contributory plan occupied centre stage, the social and economic status of the elderly drew the attention of parliamentarians and ultimately led to the creation of the Guaranteed Income Supplement.

In July 1963, Senator David Croll was appointed Chairman of the Special Committee of the Senate on Aging which was commissioned to, "examine the problem involved in the promotion of the welfare of the aged and aging persons".<sup>21</sup> The mandate of the Committee was wide. The Senators were asked to survey the economic situation of the elderly as well as the performance of the income security programs and the services (health, community, etc..) provided by the state. In contrast to the limited scope of the 1924 and 1950 House Committees, the Senate Committee examined the full range of public programs and provided a comprehensive picture of the situation of the elderly population.

In its Final Report, the Senators stressed the need for more analysis and documentation as to the problems linked to aging, and expressed their dismay over the persistence of poverty among the elderly,

The Canada Pension Plan benefits will flow to those who retire in the future . . . . The fact remains however, that there are a million or more older people in Canada, already retired, who are altogether outside the scope of its provisions, and that the majority of this latter group are in serious economic need.<sup>22</sup>

The Committee recommended the creation of a guaranteed income program to meet the needs

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21.      Canada, Senate, Special Committee of the Senate on Aging, Final Report (1966), p. IX.

22.      Ibid., p. 16.

of those who would not enjoy the benefits of the Canada Pension Plan. It also constituted a call for the elimination of the means-test.

The federal government agreed and created the Guaranteed Income Supplement as a stop gap measure for non-contributors to the CPP. The program, first designed to be in operation until 1976, was later turned into a permanent element of the retirement income system and would provide \$30 a month to those relying on the OAS. Other income would be averaged on a monthly basis and the supplement would be reduced by \$1 a month for each \$2 of extra income. Moreover, the age requirement was reduced from 70 years to 65 years.

#### **4.4                  The Politics of the Canada and Quebec Pension Plans Revisited**

For the federal government, the introduction of the Canada Pension Plan the product of its efforts to provide the country with an income security policy that would guarantee a reasonable retirement income for all Canadians. As early as 1943, Marsh had advocated the establishment of a system which would guarantee more than a minimum income, but a reasonable retirement income which would shelter people against a sharp drop in income, and would make such a pension more than a privilege but a social and economic right.

The creation of the OAS constituted a recognition and an endorsement of this social philosophy, but the need to eliminate rapidly the means-test did not permit the introduction of the contributory principle. Yet, once the pressure to formulate and implement a policy that would constitute an immediate remedy to the plight of the elderly was found, the federal government could contemplate the possibility of introducing a retirement income program, which would constitute a long term and adequate solution.

The creation of a contributory pension plan changed the nature of pension politics because the initiative interfered with and challenged the activities of the insurance industry in this sector and coincided with the rise of provincial activism. Dominant economic interests had been largely foreign to the creation of the means-test pensions, a measure made necessary by the need to relieve local private and public institutions unable to cope with the needs of a growing population of retired elderly without any means of support. Groups opposed each other along a number of cleavages: rural\urban, secular\religious and local (indoor relief)\national (outdoor relief). Although the legislation challenged, as Bryden argued, the market ethos or individualistic ethos, dominant economic interests were largely absent from the debate.

The events leading to the creation of the Old Age Security Act had constituted a prelude to the politics of pensions of the 1960s and the 1980s. By then, the Canadian Manufacturer's Association and the Canadian Life Insurance Officers' Association had defined their preferences. Everybody agreed on the necessity to eliminate means-tests, but the former organization argued for a contributory plan, while the latter insisted on a flat-rate benefit structure. The decision to introduce the demogrant had little to do with the capacity of the insurance industry to influence the debate, while the CMA did not feel that the decision had to be challenged.

Concerned about skyrocketing costs and the sharp drop of income suffered by those who could not or would not participate in a private plan, all the federal parties were led to believe that the addition of a contributory component to the system was necessary. However, the growing legitimacy of the contributory principle and the analysis of agenda setting can not be understood as merely the product of incrementalism. The context in which the policies were considered was crucial.

During the 1950s and the 1960s, economic growth persisted, indeed accelerated, and it provided the setting for a blooming welfare state. Within intellectual circles, confidence in the capacity of the state to provide economic leadership and enhanced welfare measures was reaching its peak. This was also evident among the federal parties and within the federal bureaucracy. True, the Diefenbaker government

was timid as far as the enhancement of welfare measures was concerned but no attempts to curtail welfare intervention were envisaged.<sup>23</sup> Critics of the welfare state were found at the edges of the ideological continuum.

By 1960, pension reform was on the agenda of the three federal parties. Diefenbaker commissioned the Clark Report in the belief that the creation of a public contributory system, similar to the American system, would provide better control over costs and allow coverage of survivor and the disabled. When it became clear that little could be gained politically from such a manoeuvre and that Quebec was reticent, the Conservative government lost interest. The CCF/NDP also endorsed the creation of a contributory plan which would ensure that the weakest elements of the workforce would get benefits similar to those gained by unionized workers. The Liberal Party made pension reform a priority in the social security field and electoral considerations led the leadership to promise rapid action.

The Liberal government made pension reform a self-imposed test of its capacity to govern which, at first, threatened the initiative as well as the minority government; however, it increased its determination to ensure the creation of a public contributory plan. But the federal government initiative was met by Ontario's resistance while the Quebec government was developing its own strategy. The amendment to section 94A of the constitution made pensions an area of concurrent jurisdiction, while maintaining provincial paramountcy. This unique setting made pension reform the object of federal-provincial bargaining. Bryden has had little to say about the impact of the federal-provincial dynamic, his remarks being limited to the consequences of the Quebec-Ottawa deal on the policy design.<sup>24</sup>

In contrast, students of Canadian federalism have hailed the creation of the Canada and Quebec Pension Plans as a landmark, the coming of age of executive federalism. C. Leman has expressed the

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23. D. Guest, *Ibid.*, Chap. 9.

24. As Banting notes, "In his recent history of pensions, Bryden relegated federalism and the provincial governments to the lowly rank of one among several subsidiary actors in the policy process". K. Banting, *Ibid.*, p. 68.

same opinion in a different manner,

The reason that (ministerial and bureaucratic) elites overshadow parties, elections and interest groups is not that a unitary political structure allows them to impose their will; rather, the very fissures within the Canadian political system create such obstacles to agreement that the public and most political actors concede to top elites special discretion in the quest for accommodation.<sup>25</sup>

Richard Simeon has been even more specific about the impact of Canadian federalism and has drawn a bleak portrait as to the capacity of interest groups to influence the process in these conditions. He argues that "governments as they plan their policies may leave out interest groups."<sup>26</sup> The operation of the federal-provincial conferences freezes out interest groups. The preoccupation of provincial policy-makers are seldom the same as those espoused by the interest groups. Thus, according to Leman and Simeon, federalism has been of primary importance in curtailing the capacity of interest-groups, in this case, the opponents of expansion, to influence the policy process.

The impact of federalism on pension politics was undeniable. First, it transformed the policy-making process by shifting the arena of decision from Parliament to the realm of intergovernmental meetings. But the altered nature of the policy-making process was itself the product of a new politics of pensions. While the provinces had previously attempted to resist change, Ontario and Quebec now wanted policies which suited their needs and ideological bias in optimum fashion. Ontario argued that improved income security should come through the enhancement of privately sponsored pensions, a solution well suited to the needs of the most industrialized province, but not to the rest of the country. As far as Quebec was concerned, a provincially controlled public plan was a means to gain greater control over the province's political, social and, most important of all, economic destiny.

But did provincial involvement doom the efforts of the insurance industry to alter the outcome? It

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25. C. Leman, *Ibid.*, p. 281.

26. R. Simeon, *Ibid.*, p. 281

is argued here that it constituted only one of the factors which served to undermine the position of the insurance industry. The strength of the federal commitment to pension reform, the isolation of the insurance industry and its refusal to engage in dialogue, all undermined the impact of the insurance industry on the process. The involvement of the provinces only contributed further to its failure.

The opposition of the insurance industry to the principle of a public contributory plan was explicitly revealed in 1951 during the public hearings of the Joint Committee on Pensions. It was repeated in 1958 as the different federal parties were considering the introduction of a contributory plan in Canada. The Liberal Party endorsed pension reform and decided to introduce a public plan fully aware of the reservations held by the insurance industry.

Advocates and opponents of a public contributory plan operated on two different sets of philosophical and ideological principles. The former endorsed the social insurance principle which committed the collectivity to share equally in the risks that reduction of income in old age represented, while the latter believed that above a common state-administered safety net, security in old age should be an individual choice. If the opponents could not defeat the plan, it could attempt to limit its scope.

Moreover, the argument that the Canadian economy would suffer did not hold and was met by a battery of counter arguments. At a time when economic growth was still steaming ahead relentlessly, it was almost impossible to drive home the idea that such a reform threatened the Canadian economy. Moreover the market for private group pensions was not threatened as a prominent representative of the insurance industry admitted.

The strategy adopted by the insurance industry, did little to alleviate the weak arguments presented. The pension industry had developed a close and cosy relationship with the Ontario government. The insurance industry headquarters were concentrated in the province where the growth of the annuities business had been the most vigorous since the Second World War. Over the years, it had

been able to share a common understanding with the Conservative government of Ontario. Industry representatives even sat on the commission which paved the way for pension regulation in the province. But relations with Ottawa were more circumscribed. Did the insurance industry representatives believe that a meeting with the federal ministers of Welfare and Finance, would stop the government dead in its tracks? They were in for a shock and came back empty-handed. Once Bill C-136 reached the legislative committee, they persisted in their condemnation of the plan rather than attempting to cut their losses by proposing alterations to the plan.

But most of all, the isolation of the insurance industry put it in a weak position. Although it was supported by the Chamber of Commerce, it could not gain the support of the Canadian Manufacturer's Association, representing the interests of large employers which controlled the majority of assets in pension plans and by far outnumbered those of the insurance industry. Nor would the Council of Retailers, whose members grouped small employers, support the cause.

These factors weighed much more heavily in the balance against the insurance industry than the existence of a federal-provincial crisis. As far as the insurance industry was concerned, the roots of failure are to be found in its own inherent weaknesses, not in a crisis of federalism which overshadowed other concerns. This is not to mean that the frictions between Ottawa, Ontario and Quebec did not further jeopardize the likelihood of success of the insurance industry but only to indicate the limits of such an explanation.

The participation of the provinces in the policy process also stood in contrast with past experience. The provinces had always been an element of the pension equation. Their approval and/or participation had always been required. But in this case, the high stakes pushed Ontario and Quebec to assume preeminent roles in the policy process.

The manner in which the intentions of the federal government were broached to the provinces

represented a significant departure from past practices. Both in 1927 and 1951, a legislative committee inquiry had preceded the drafting of a bill, which was not the case here. Moreover, since 1935, the federal government had refrained from taking any major initiatives in this field without prior consultations with the provinces. This time, the provinces were not even consulted, even if the participation of Ontario was obligatory, as it was made clear by Judy LaMarsh as early as September 3rd 1963. She advised the Cabinet,

It is doubtful whether the federal plan in its present form could be proceeded with satisfactorily unless a majority of the provinces with a majority of the population indicated a preference for the federal plan.<sup>27</sup>

In the end, a deal signed in extremis between Quebec and Ottawa saved the day. Ottawa had started on the wrong foot, still it may have reinforced its resolve in front of adversity. Ottawa desperately looked for a compromise.

If we make exception of the activist and positive role played by the British Columbia government of the late 20s, which pressured Ottawa to act and then immediately introduced the means-test pensions in 1927, thus avoiding any possible backtracking, the behavior of the Western and Maritime provinces was familiar. These provinces decided to wait for the outcome of the Ottawa-Ontario confrontation. Saskatchewan showed its enthusiasm for a contributory plan, while Manitoba sided with Ontario.

Quebec, on the other hand, had clearly taken a 180 degree turn. The election of a Liberal government in 1960 and its subsequent reelection in 1962, signalled a new era in Quebec provincial politics. The Lesage team did not lose one moment and used its powers to modernize Quebec political institutions, as well as its social institutions and its economy. Successive Quebec governments had always constituted a major obstacle in the pension field, but it now wanted to move further ahead than the federal government and the other provinces, and use the funds accumulated to fuel economic reforms.

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27. Canada, Minister of National Health and Welfare, "Position of the Federal Government", (1963), p. 2.

Quebec was at the forefront of the drive for provincial control.

Quebec's spectacular turnaround has been duly and thoroughly noticed and documented, but the full consequences of Ontario's position and behavior have not yet been fully grasped. It is quite astonishing that Smiley would write that "after lengthy negotiations between the federal and Quebec governments it was decided that the CPP should not apply to Quebec"<sup>28</sup>, while it is really Ontario's resistance which threatened the federal plan. If Quebec's new impetus and desire to control a contributory plan could be agreed to by Ottawa, as the final compromise testified, Ontario's refusal to participate would have been an irrevocable blow to the federal government. The Conservative government of Ontario identified itself closely with pension interests and had enlisted their support and participation in drafting pension regulation legislation. The Quebec and Canada pension plans could operate side by side, but the federal plan undermined somewhat the rationale of the Ontario regulatory legislation and compulsory private coverage. The Ontario bill reflected the inner dynamic of the most industrialized province of the country. Ontario had endorsed previous federal pension legislation, but for the first time, expressed its extreme reticence vis-a-vis the federal initiative.

The behavior of the Ontario government was just as significant as Quebec's. The contributory plan would be so much atrophied without Ontario's involvement that it would have little chance of survival. Previously, Ottawa had been able to consider Ontario as a neutral actor or an ally. It now became the biggest threat, and the presence of industry representatives in the negotiating team heightened the danger.

From September 1963 to April 1964, Ottawa's efforts were geared towards bridging the gap with Ontario's tough negotiating team, while Quebec remained an observer. Important concessions were made but Premier Robarts would not be satisfied. It is only when these efforts failed in April and when Jean Lesage unveiled crucial details of the Quebec legislation that Ottawa turned around. If Ontario

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28. D. Smiley, The Federal Condition in Canada, (Toronto: McGraw-Hill Ryerson Ltd., 1987) p.137.

would not make further concessions, a compromise with Quebec was Ottawa's very last chance. When the Ottawa-Quebec compromise was announced, Ontario felt obliged to accept a plan which was now much worse from its perspective.

If, as Banting argues, "heightened political tensions between Quebec City and Ottawa have provided a mildly expansionist pressure"<sup>29</sup>, in the case of the creation of the CPP/ QPP, that was in great part due to Ontario's misjudgement which led Ottawa to seek a compromise with Quebec and isolate Ontario.

The politics of pensions of the 1960s was significantly different from earlier episodes. The insurance industry sought to defeat the initiative, while economic agents had never behaved in such a fashion before. It did so, because the public contributory plan was perceived as a direct threat. The active involvement of Quebec and Ontario was in sharp contrast with the passive and temporary resistance to the Means-Test Pensions and the Old Age Security. Ontario believed in a different approach to pension reform, while Quebec wished to get control of it.

While Bryden has paid little attention to the intergovernmental dynamic, the literature has stressed the extent to which such a lineage of conflict overshadowed and undercut the efforts of the insurance industry to stop the federal initiative. What has been argued here is that is constituted only one of the factors which undermined the efforts of this business elite.

On the other hand, the creation of the Guaranteed Income Supplement did not entail heightened political conflict and allowed parliamentarians to contribute to the process of pension reform. Since the 1940s, the provision of a safety net for the elderly has not raised opposition of any significance, and by the 1960s, two brands of politics and two processes had clearly emerged.

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29. K. Banting, *Ibid.*, p. 175.

TABLE 4.1  
Federal and Quebec Formulations Earnings-Related Pensions

	Federal Bill C-75	Quebec Committee Report	Final Formulation
Coverage	Compulsory for employees; voluntary for self-employed	Compulsory for employees and self-employed earning more than \$1,000 a year	Compulsory for employees earning more than \$600 a year and for self-employed earning at least \$800
Transition	10 years	20 years	10 years
Funding	Estimated fund of \$2.5 billion at end of transition <sup>1</sup> ; half to be available for investment in provincial securities	Estimated fund of \$2.4 billion at end of 10 years, \$5.6 billion at end of transition <sup>1</sup> ; all available for Quebec investment	Estimated fund of \$4.5 billion at end of transition <sup>1</sup> (Quebec excluded); all to be available for investment in provincial securities
Earnings ceiling	\$4,500 a year in first 5 years; adjustable thereafter	\$6,000 a year in first 2 years; adjustable thereafter	\$5,000 a year in 1966 and 1967; adjustable thereafter
Basic exemption	Nil	\$1,000 a year	\$600 a year
Employee contribution rate	1 percent of earnings up to ceiling for first 15 years; upward revision thereafter <sup>2</sup>	2 percent of earnings between basic exemption and ceiling <sup>3</sup>	1.8 percent of earnings between basic exemption and ceiling <sup>4</sup>
Qualifying age for old age benefit	Unconditional at 70; retirement test 65-69 <sup>5</sup>	Unconditional at 70; retirement test 65-69	Unconditional at 70; retirement test 65-69 <sup>5</sup>
Rate of benefit	20 percent of average adjusted earnings	25 percent of average adjusted earnings	25 percent of average adjusted earnings
Other benefits	Pension for surviving spouse at 65	Broad range of survivor, death, and disability benefits <sup>6</sup>	Broad range of survivor, death, and disability benefits

Exclusion of low earning periods	10 percent of total number of months; pensionable earnings after 65 substitutable for equal period of earlier earnings <sup>7</sup>	Ascending scale ranging from 1 year for 21 to 25 years of contributions to 5 years for 41 to 47 years; no provision for substituting earnings after 65 since no contributions after that age	15 percent of total number of months; pensionable earnings after 65 substitutable for equal period of earlier earnings
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Source: K. Bryden, *Ibid.*, Table 12 and 13.

1. Estimate based on "intermediate" cost assumptions and interest rates of 4% compounded annually.
2. The bill specified a rate of 1 1/4% from 1980, 1 1/2% from 1990, 1 3/4% from 2000, and 2% from 2015, but provision was made for reducing 1980 and later rates by order in council if such reductions were justified by actuarial reports. Employee contributions were to be matched by equal employer contributions; participating self-employed were to pay aggregate rate of 2% in full during first 15 years, but thereafter their rate was to be the sum of the applicable employee rate and 1%.
3. Matched by equal employer contributions; aggregate rate of 4 percent payable in full by self-employed.
4. Matched by equal employer contributions; aggregate rate of 3.6% payable in full by self-employed.
5. Qualifying age not to be 65 immediately, but to be reduced progressively until 65 in 1970.
6. Disability benefits not payable initially before 60.
7. Exclusions and substitutions applicable only after transition and subject to condition that total number of months not reducible below 120.

TABLE 4.2  
Plan Underwriters - 1953

Underwriter	Number	Number of Plans	Annual <sup>4</sup> Employees Covered	Assets <sup>4</sup> Contri- butions
Trusted Funds <sup>1</sup>	260	391,422	117	835
Life Insurance Companies <sup>2</sup>	2,297	226,507	62	398
Government Annuities Branch <sup>3</sup>	1,375	158,700	44	400

Source: Canada, Dominion Bureau of Statistics, Survey of Canadian Trusted Pension Funds, 1953 (1955), Table III, quoted in R.M. Clark, *Ibid.*, p. 73.

(1) : Excludes those of charitable, religious, and educational institutions, governments, government agencies and crown companies.

(2) : Excludes pension plans underwritten through individual policies in the hands of all members of the plan.

(3) : Data at end of, or during, fiscal year 1953-54.

(4) : Millions of dollars.

## CHAPTER 5

### THE GREAT PENSION DEBATE

In the mid-1970s, a debate of unprecedented scope on the fate of the Canadian pension system emerged and led ultimately to a series of reforms more than ten years later. Chapter 5 identifies those conditions which appeared to threaten the retirement income system and became fertile ground for an evaluation of the performance of the system. The multiple cracks which threatened to undermine the structure of the system and the solutions proposed by the partisans of reform are summarized and the reaction of the business community is examined.

#### 5.1      **Fluctuation and Incrementalism**

In the years following the implementation of the Guaranteed Income Supplement (GIS), the development of the retirement income system was influenced by Ottawa's attempts to come to grips with the persistence of poverty.<sup>1</sup> The arrival of P.E. Trudeau signalled the intensification of these efforts which were short lived and had a limited impact on the retirement income system.

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1. A number of reports to this effect were published during this period: Economic Council of Canada, Fifth Annual Review (Ottawa: ECC, 1968); Canadian Welfare Council, Social Policies for Canada (Ottawa: CWC, 1969); Special Senate Committee on Poverty, Poverty in Canada (1971); I. Adams et al., The Real Poverty Report (Edmonton: M.G. Hurtig, 1971); Quebec, Commission of Inquiry on Health and Social Welfare, Income Security (1971).

The Trudeau government decided to increase reliance on the GIS. In January 1971, the federal government froze the OAS benefit and, four months later, payments of the Guaranteed Income Supplement were raised from \$31.83 to \$55 (Table 5.1). Moreover, the GIS which had been introduced as a temporary stop gap measure for non-contributors to the CPP, was turned into a permanent element of the pension system. The decision to freeze OAS benefits also had the virtue of slowing down the skyrocketing costs of retirement income programs. From 1965 to 1973, the value of total benefits given, had risen from \$1 billion to \$2.5 billion, even though the annual indexation of OAS and GIS benefits was limited to 2%, far below the increases in costs of living. However, the efforts of the government simultaneously to limit the cost increase of the OAS and increase GIS benefits were short-lived. The changing political balance and a shift away from the problems of the poor to those of the "working poor", both undermined Ottawa's effort to restrict the universal component of the retirement income system.

As the 1972 elections approached, the position of the Liberal government was threatened. As part of its electoral strategy, the Trudeau government resorted to the Diefenbaker recipe. Increases of OAS payments to \$82.88 and the GIS to \$67.12 (Table 5.1) were introduced. The CPP had been created to curtail the tendency to use OAS as the object of electoral promises, but it remained a readily available tool to governments looking for votes.

The publication, in 1973, of another White Paper, Working Paper on Social Security in Canada led to a new initiative in the social security field. While in the late 60s and early 70s, the focus of welfare specialists and the government had been on the extent of poverty, the "Social Security Review"<sup>2</sup> shifted their attention to the risk to income adequacy created by low and intermittent earnings.<sup>3</sup> Five strategies<sup>4</sup>

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2. Canada, Department of National Health and Welfare, Working Paper on Social Security in Canada (1973).
  3. C. Leman, *Ibid.*; A.W. Johnson, "Canada's Social Security Review, 1973-1975", Canadian Public Policy I (1975): 456-472.
  4. The five strategies were: The community employment strategy, the social insurance strategy, the income support and supplementation strategy, the social and employment strategy and the federal-provincial jurisdictional strategy. For details, see: D. Guest, *Ibid.*, Chap. 12.

were devised including two affecting retirement income: the social insurance strategy and the income supplementation strategy. Under the first strategy, retirement needs and temporary losses had to be met through savings arranged through social insurance plans and private plans. Under the income supplementation strategy, income inadequacy from employment or social insurance had to be met by way of a guaranteed income. As far as retirement income was concerned, the instruments were in place.

Although the fundamental elements of the reforms would ultimately succumb to federal-provincial discord, the federal government upgraded retirement benefits. Under the income supplementation strategy the OAS benefits were raised to \$100 a month and the GIS benefits to \$70.14 a month (Table 5.1). Moreover, it was then decided that both programs would be indexed four times a year.

Contributory pensions were improved by raising the Yearly Maximum Pensionable Earnings (YMPE). Moreover, in 1974, the benefits would be increased to correspond fully with changes in the Consumer Price Index to keep up with inflation.

These latter changes to the CPP were only partly the product of the Social Security Review. They were also the consequence of rising tensions between Ottawa and Quebec. In 1970-71, the Bourassa government had reexamined the provincial welfare and medicare system and tried to get the federal government to vacate the welfare field altogether but was unsuccessful. This was followed in 1972 by Ottawa's decision to increase the OAS and GIS benefits, without consulting the provinces. This infuriated the Quebec government which then decided without warning Ottawa to upgrade some features of the QPP.<sup>5</sup> To bring similar changes to the CPP, the federal government needed provincial approval. It obtained it in January 1973, the ceiling on indexing moved from 2% to 3%, the Yearly Basic Exemption (YBE) moved from \$600 to \$700, and the YMPE was brought to \$5,900 with an increase to \$6,300

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5. W. Trudeau, director of the Canada Pension Plan, publicly acknowledged the tension between the two governments when he admitted that the federal government's decision to increase Old Age Security and Guaranteed Annual Income without provincial consultation did not help federal provincial relations.; "Quebec Pensions Ones-Up Ottawa", Financial Post, August 15, 1972, p. 8.

scheduled for 1975.

Yet it is worth mentioning that the provinces did not seem to worry much about the divergence between Quebec and the rest of the country. Ontario and the western provinces took the position that work should be directed towards determining how they could live with divergence rather than how they could avoid it.<sup>6</sup> But Ottawa was concerned by this situation and had forced the provinces to accept improvements. The federal government was firmly committed to uniformity. The private sector had also been quite worried about the possible gaps that could develop between Quebec and the rest of the country.<sup>7</sup>

In 1975, the federal government created the Spouse's Allowances Act to guarantee an income equal to the combined payments of OAS/GIS for low-income couples whose member (the SA recipient) is aged between 60 and 64. If the other spouse died, the SA benefits were cut out. In 1979, the Act was amended to permit the continuation of payments until age 65.

During the early 1970s the universality principle was reevaluated and curtailed but for only a short period of time. This was followed by the Social Security Review which led to system reinforcement, through significant increases of benefits, and improved indexation. Tensions between Ottawa and Quebec, also marked this period.

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6. Canada, Summary of Provincial Positions on Amendments to the CPP. Confidential Memo, (Manuscript, 1973).

7. "Uniform Pensions Long Way Off", Financial Post, June 7, 1973, p. E6.

## 5.2 The Retirement Income System: Identifying the Gaps

By 1975, numerous questions were raised and serious concerns were expressed about the future of the retirement income system in Canada. Fundamental socio-economic transformations were at the source of these worries. The first one was the impact of demographic stagnation, and its possible impact on the capacity of the society and the state to support the growing elderly population. By the mid-1970s, it was becoming clear that the 'baby boom' of the 1950s and the 1960s, would give way to a 'geriatric boom' in the years 2031 to 2051. In the meantime, the proportion of elderly, as well as their absolute numbers, would grow at a much faster rate than before. Between 1971 and 1981, the proportion of elderly was expected to grow from 8.1% to 9.7% of the total population. The peak was expected to be reached in 2031 with 19.6% (Table 2.3).

Demographic change worried many but it remained a long-term problem which gave decision-makers some time to act. A more immediate and threatening phenomenon was inflation. Between 1966 and 1974 the inflation rate averaged 4.3% a year and from 1974 to 1982 it averaged 9.8%. There was growing anxiety that accumulated pensions as well as pension-in-pay, might rapidly lose their value.<sup>8</sup> Moreover, there was growing doubt about the ability of the private sector to protect pensions under such conditions and the cost of keeping public pensions indexed.

Between 1977 and 1982, a multitude of studies, reports and position papers were published and a never ending list of recommendations and proposals were made. If many limited the scope of their inquiry to specific elements of the pension system, collectively they provided an all encompassing critical review of the system. Not a single element of the complex apparatus was ignored. The multiplicity of studies constituted fertile ground for a host of recommendations. This unprecedented phenomenon has

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8. For example, an inflation rate of 5% over 10 years could reduce by half the value of a pension, if unindexed.

been appropriately labelled "The Great Pension Debate".<sup>9</sup> Once again, concern about costs and performance drew the attention of welfare specialists, trade unions, women's groups, business interests, political parties and provincial governments.

#### *Elderly and Poor: the Income Maintenance Programs*

Most of the reports published during this period provided an evaluation of the quality of the protection provided by the State to the elderly poor through the OAS, the GIS and provincial supplements (Table 5.2). The OAS had been introduced in 1952 and, at that time, paid \$480 annually, constituting approximately 17% of Average Industrial Wages (AIW). In 1978, the OAS provided \$1,900 a year, only 14% of the AIW, at a cost of \$3.6 billion. The GIS had been created in 1967 and eleven years later it provided \$1,340 for singles and \$2,380 for couples, for those with no other source of income besides the OAS. From 1967 to 1978, the relative importance of GIS benefits had increased by 4%, from 7% to 11% of the AIW (Figure 5.1). Combined together OAS and GIS benefits provided 25% of the AIW. Between 1973 and 1978, the costs of the two programs had risen from \$2.5 billion to \$4.8 billion.

The heavy reliance on GIS persisted in the late 1970s. Nearly half of the elderly population received benefits from the Guaranteed Income Supplement. The combination of programs benefits kept elderly couples just over the poverty level, but not unattached individuals (Figure 5.2). Of the vast numbers of elderly poor 80% were unattached individuals, three-quarters of them being women.<sup>10</sup> Although the GIS had been made a permanent element of the system in 1970, by 1980 there was unequivocal evidence that many elderly predominantly single women were falling through the mesh of the

9. For summaries of the issues see: M. Ethier, "Survey of Pension Issues", in Income Distribution and Economic Security in Canada, ed. F. Vaillancourt (Toronto: University of Toronto Press, 1985), pp. 215-249.; P. Kuman and Alistair M.M. Smith, Pension Reform in Canada: A Review of the Issues and Options (Kingston: Queen's Industrial Relation Centre, 1981).

10. B. Powell and J. Martin, Economic Implications of an Aging Society in Canada. Paper presented for the National Symposium on Aging (Ottawa: Health and Welfare, 1978).

safety net.

While pensions were fully indexed and provided an important measure of security, inflation protection did not reflect enrichment trends.<sup>11</sup> The combination of OAS and GIS benefits did not yet protect the elderly from poverty.<sup>12</sup>

*Replacement Income: the Public Contributory Plan*

The Canada Pension Plan and the Quebec Pension Plan constituted the other arm of the public retirement income system. It was intended to provide each member of the workforce with a basic income replacement level at retirement, through lifetime contributions.

In 1978, the CPP/QPP amounted only to 14% of all public plan payments, but in the years to come would constitute an ever-growing portion of the total benefits as the plans matured. The CPP provided 25% of pre-retirement earnings. A worker, relying solely on the OAS and the CPP at retirement, and whose earnings corresponded to the AIW could expect to receive a replacement income representing nearly 40% of his pre-retirement salary. The CPP/QPP benefits were also protected against inflation.

The CPP fulfilled its objective of basic income replacement of workers at retirement but its financial health seemed in jeopardy. The plan was partially funded and nearly \$18 billion had been accumulated by 1978. But due to demographic change, the current contribution rates of 3.6% of AIW would be insufficient to meet future benefits by the late 1980s.<sup>13</sup>

11. National Council of Welfare, Sixty-Five Years and Older (Ottawa: NCW, 1984), p. 54.

12. Canada, Senate, Special Committee of the Senate on Retirement Age Policies, Retirement without Tears (1979).

13. Frank T. Denton and al., The Future Financing of the Canada and Quebec Pension Plans: Some Alternative Possibilities (Ottawa: Supply and Services, 1980), p. 3.

In this regard, the CPP Advisory Committee raised the issue of the management of the funds collected and their importance to finance provincial government operations.<sup>14</sup> The study questioned the fact that the provinces could borrow from the CPP fund at rates more advantageous than those of the private capital markets. The amounts borrowed were enormous (Table 5.3),

The CPP has become the backbone of provincial debt financing. In the four years ended March 31, 1974, the provinces participating in the Plan raised for themselves and for provincially-guaranteed entities a total of \$12.4 billion in net new financing, of which CPP supplied \$4.67 billion or about 38% of the funds.<sup>15</sup>

At the time, the CPP supplied 17% of the total Canadian capital market financing. The Advisory Committee saw advantages in this situation. First, the provinces were not crowding the financial markets. Second, the money lent to the provinces at lower than market rates could be considered as subsidies to build infrastructures, such as highways and hospitals. On the other hand, since the government was supposed to play the role of trustee and seek to increase the contributors' assets, lending money at low interest rates to the provinces did not make much sense and the contributors were in effect losing money. For the Committee an even greater danger lay in the fact that the QPP was getting better returns than the CPP which could eventually lead to discrepancies in the contribution or benefit rates (see Table 5.4).

The Advisory Committee recommended a renegotiation of the interest rates at a higher level and, under such circumstances recommended the continuation of provincial borrowing from the fund. This would also ensure parallelism between the Quebec and Canada plans.

The most interesting statement of the Committee may have been its surprise vis-a-vis the general lack of knowledge and interest about this matter:

14. Canada, Advisory Committee of the Canada Pension Plan, The Rate of Return on the Investment of the Canada Pension Plan (1975).

15. Ibid., p. 7.

The Committee is somewhat surprised by the fact that almost no one in Canada seems to be greatly concerned about the rate of interest charged on moneys lent to the provinces. (...) Any deficiency in respect to interest income must be made up by contributions from the labour force. Notwithstanding this, no organizations representing unions, business, have made a formal complaint that, because of low investment returns on the fund, contributions will have to be increased.<sup>16</sup>

#### *Replacement Income: the Private Plans*

The problems of the Canada Pension Plan seemed manageable when compared to those plaguing the network of private employment plans which came under heavy criticism. The weaknesses of the public program could be dealt with, if a consensus developed and a willingness to bring change was present. Decisions-makers did not have to rush into a decision, time was still on their side. On the other hand, private pensions seemed to be riddled with weaknesses and gaps of all kinds.

The numerous problems persisted in spite of the fact that by the mid-70s a number of provinces had enacted legislation pertaining to the regulation of private pension benefits. As discussed in Chapter 4, Ontario had been the first province to regulate the private pension sector. In the decade which followed, the federal government, Quebec, Alberta, Saskatchewan, Manitoba and Nova Scotia all imitated Ontario.

Coverage was the biggest problem. The CPP/QPP had been designed to provide only a minimum level of replacement income (25% of AIW) at retirement. The private insurance industry, which had opposed the measure, was expected to fill the gap. But in 1976, only 62% of the workforce could enjoy protection from a private pension plan. The exclusion of public sector employees from this calculation meant that only half of the workforce working in the private sector was covered. Although the number of private plans was diminishing, the number of workers covered kept increasing (Figure 5.3).<sup>17</sup>

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16. Ibid., p. 13.

17. For more details on basic statistics about coverage in the private sector, see: Canada, Statistics Canada, Pension Plans in Canada, 1978 (1979); On the varied ways to interpret the data

However, the private sector could not be expected to cover all workers because among smaller industries the disincentives are numerous. Low levels of unionization and high levels of mobility tend to lower the demand for pension coverage in small industries. For the employers, the risk and the high administrative costs preempt them from offering coverage. Finally, insurance or trust representatives do not seek the smaller employers because the amount of effort involved in relation to the commission is low. Canada lagged behind in comparison to many other countries (Figure 5.4).<sup>18</sup>

But lack of coverage also afflicted those who worked for employers offering pension plans. This was usually due to vesting requirements. A majority of employers (75%) required an employee to work at least ten years and be 45 years old to have a right to their full pension, including their employers' contribution, at retirement. If an employee changed employer before benefits became fully vested, he usually was only entitled to receive a return of his own contributions with interest. Such vesting requirements were the toughest among western industrialized nations (Table 5.5).

The loss or diminution of pension privileges was also due to the lack of portability. Even if the employee's pension was vested he usually lost his privileges if he changed employer. If no transfer agreements could be reached with the new employer, an employee's prior service and salary could not be included in the pension calculation made by a new employer. Coverage was thus a very serious problem which all the reports were quick to identify, and there was a strong feeling, even among those lukewarm about the need for change, that improvements had to be made.

In its report entitled One In Three, The Economic Council of Canada identified inflation as the "Achilles' Heel" of the pension system. As inflation hovered around a 10% rate in the late 70s and early

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on coverage, see: D.S. Rudd. "The Coverage Question in the Pension Debate", in Pensions Today and Tomorrow: Background Studies, ed. D.W. Conklin et al. (Toronto: Ontario Economic Council, 1984), pp. 454-473.

18. For discussions of the reasons for the lack of coverage, see: Canada, Federal Task Force on Retirement Income Policy, The Retirement Income System in Canada: Problems and Alternatives for Policies for the Future (1980), p. 43.

80s, many wondered if the private system could keep up under such pressure. Many found their pensions rapidly losing their value. Table 5.6 is an appropriate illustration of what happens to the purchasing value of unprotected pensions under different inflation rates. The fact that most deferred pensions and pensions-in-pay were only adjusted on an ad hoc basis meant that many pensioners could not get appropriate protection as the value of their pension rapidly shrunk under its effects. The Council concluded:

The fact that most such pensions are not maintained in real terms means declining living standards as their recipients move through retirement. (...) If action is not taken quickly to improve occupation plans in these respects, there will almost certainly be further pressures to expand public programs.<sup>19</sup>

On the other hand, public pension benefits were protected against inflation, but the cost of maintaining the real value of pensions was increasing faster than ever. Inflation thus affected the value of private pension benefits and the costs of the public and private programs.

### *Women and Pensions*

Throughout the seventies, increased attention was focused on the failure of the system to meet the different and specific needs of women, whether poor, widowed, at work, or at home. A number of questions were raised about the many loopholes in the system which tended to penalize women more often than men. Women who lived longer than their spouse, women in the workforce and women at home did not receive the same protection as men. The public and private sectors both failed in this respect.<sup>20</sup>

19. Economic Council of Canada, One In Three (Ottawa: Canadian Government Publishing Centre, 1979), p. 30.

20. A number of publications dealt specifically with the situation of women in this regard, see: Canada, Department of National Health and Welfare, Better Pensions for Canadians: Focus on Women (1982).; Canadian Action Committee on the Status of Women, Pension Reform for Women: A Discussion Paper (Ottawa: CACSW, 1981).; National Action Committee on the Status of Women, "Women and Pensions: A Discussion Paper", (Mimeo, 1981).; K. Collins, Women and Pensions (Ottawa: Canadian Council on Social

The most urgent problem was the persistent poverty among single elderly women, documented earlier. All the reports published were unanimous in stressing the inadequate protection offered to them. Not only did the combination of OAS, GIS and provincial supplements fail in this respect, but proper survivorship arrangements in the private sector were also lacking. The survivorship clauses were already included in the Canada Pension Plan, but the situation in the private sector was different. In 1974, less than 25% of private plans had survivors' benefits (widows' pensions), while slightly more than 35% simply refunded the employee contribution. In the public sector, on the other hand, 85% of the plans had survivor benefits. Finally, where provisions did exist they usually provided only 50% of the deceased pension.

A second problem had to do with women who left the workforce for a few years to raise their children. Because of vesting and portability rules they usually lost their pension privileges in the private sector. In the case of the CPP, the Ontario and B.C. governments were blocking the introduction of a child-rearing drop-out clause, proposed by Ottawa and Quebec, which would allow women to subtract from the calculation of final CPP benefits those years out of the workplace.

Moreover, the private sector was ill-equipped to deal with part-time workers, a majority of whom were women. Finally, housewives were not allowed to contribute in the Canada Pension Plan or the Quebec Pension Plan. Thus, by the late 70s, the treatment of women, as contributors to private plans, as housewives and as part-time workers, reached the pension agenda for the first time.

The overall cost of the retirement income system was increasing rapidly by the mid-70s and the demographic profile of the nation was changing, which meant that in the future a shrinking workforce would have to support a larger elderly population. In this regard, the Economic Council of Canada was

unequivocal:

Canada's public expenditure on income support for the aged as a share of GNP will rise in the future because the number of eligible people will increase faster than that of people in the labour force.<sup>21</sup>

Canada was not in a unique position in this regard, since its population remained relatively young by Western standards (Table 5.7). The Council believed that the proportion of the GNP going into retirement program would increase from 4% to 7% in the next century (Figure 5.5).

High rates of inflation and forecasts of profound demographic change undermined the confidence in the pension system less than ten years after the implementation of the CPP/QPP and the GIS. Would the income of the elderly be protected properly against inflation? Would a shrinking workforce be able to support the increased load that the aging baby boomers would represent in the future? How could Canada best meet the challenge? These phenomena led a number of organizations to take a closer look at the system's performance. It revealed that despite the multitude of programs and the increasing sums of money invested, gaps remained as far as protection against poverty and sharp drop of income levels were concerned.

### **5.3. Public Solutions to the Pension Crisis**

While there appeared to be some degree of consensus about the problems which plagued the retirement income system, this was not the case with the different proposals for reform. For it is really when the search for solutions got under way that sharp disagreements emerged among governmental

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21. Economic Council of Canada, *Ibid.*, p. 25.

and non-governmental actors. It slowly became clear that out of the multiplicity of recommendations, two avenues of reform were being proposed. A first group argued for fundamental reform of the system, a change that would give most responsibilities to the state and upset the balance between the CPP/QPP and employers' pensions. A second group believed that only incremental and limited changes to private sector pensions were both affordable and sufficient.

Although unionized workers constitute one of the better protected groups in respect to retirement income, the union movement was the first to urge fundamental changes to the pension system. It was soon followed by welfare advocates and women's organizations. This loose coalition was responsible for keeping the pressure on the federal government and fuelled the sense of urgency in which the debate emerged and finally reached the political agenda.

The Canadian Labour Congress (CLC) proposed a dramatic expansion of the public retirement income system as early as 1975.<sup>22</sup> The CLC saw its primary objective as defending the interests of future retirees and argued that their security had to be assumed primarily by the State, which was believed to be the only institution capable of doing so.

The CLC proposed what they considered to be the simplest and most comprehensive approach. The OAS and the CPP would constitute the main component of the pension system which would provide 75% of the Average Industrial Wage at retirement. Increased contributions, under a pay-as-you-go system, would be shared equally between employees, employers and the state to ensure some measure of income redistribution. Moreover they proposed other improvements such as better survivor benefits (60% of spouse's pension) and retirement age at 60. All along, they insisted that only the state had the capacity to provide security for all, "For private employers, providing adequate retirement incomes

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22. J. Clark, "CLC Pension Campaign", Canadian Labour 20: (1975): 4-7. It was reiterated in 1978; For the most detailed proposal, see: Canadian Labour Congress, "The CLC Proposal for Pension Reform", (Mimeo, June 1982).

involves financial gambles which most private employers cannot be expected to undertake."<sup>23</sup> However, it did not stop them from advocating improvements of private pensions through better coverage, portability and inflation protection.

The Canadian Council on Social Development (CCSD) soon joined the CLC and made similar suggestions. It openly criticized the public authorities for their refusal to consider increased public intervention in this field.<sup>24</sup> The CCSD argued for a public system which would provide the totality of retirement income based on the following assessment,

Government pension planning is based on the assumption that it is sufficient to aim to provide only a reasonable minimum income through government schemes and leave additional income to the private pension system (...) it can only be justified if the private pension system is functioning adequately. It is quite clear that it is not.<sup>25</sup>

The CCSD reform proposals approximated those of the CLC. The public contributory plans should provide a replacement ratio of 50% to 75%, while private pensions should be under a regime of immediate vesting, adequate portability, survivor provisions and worker participation. Surprisingly, the CCSD had little to say about the fate of the elderly poor, limiting itself to a statement that, "in justice to those excluded from the full benefit of the Canada (Quebec) Pension Plans, attention must be given to upgrading the income of this group."<sup>26</sup>

In 1978, the Canadian Council on Social Development published another study, entitled Women and Pensions. Its main object was to document the significant shortcomings of the pension system in

23. J. Morris, "Pension Policy", Canadian Labour 23 (1978): 23.

24. Canadian Council on Social Development, Statement on Retirement Policies (Ottawa: CCSD, 1976).; The statement followed the publication of a critical analysis of the system a year before, see: J.C. Brown, How Much Choice? Retirement Policies in Canada (Ottawa: CCSD, 1975).

25. CCSD, *Ibid.*, p. 9.

26. *Ibid.*, p. 15.

regard to women. It concluded that pensions had to be considered as deferred pay and as such the equal principle should apply to pensions,

Anti-discrimination legislation in all jurisdictions should explicitly include pensions as part of pay in equal pay provisions. The setting of different conditions by sex should be completely eliminated.<sup>27</sup>

Pensions should also be considered as property, so that reforms aimed toward sharing on the basis of the equal value contributions by both sides should include pensions along with other marital assets. As far as the CCSD was concerned, this entailed a series of specific changes. Private pensions had to be improved through earlier vesting and full indexation. Each pension should be going to both members of families and, consequently, should be split equally on marriage breakdown. In the case of death, proper survivor benefits should go to the spouse.

There were also calls for improvement of the public system. The OAS/GIS should be raised to reach the CCSD poverty line.<sup>28</sup> The financing of the CPP/QPP should be done on three-way basis to eliminate regressivity. The splitting of credits on marriage breakdown should be expanded to a general splitting basis so that the pensions would be shared at all times by couples. Finally, survivor benefits should be increased substantially.

These warnings and the plethora of reform proposals were counterbalanced by the more sober recommendations of the Economic Council of Canada. In 1979, it published, One In Three, which paid particular attention to the economic impact of aging as well as the cost of different reforms. The Economic Council remained committed to the private pension system and the undesirability of increased state intervention, as reflected in this statement:

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27. K. Collins, *Ibid.*, p. 237.

28. Higher than Statistics Canada's poverty line.

Government plans may involve even greater concentration of power than private systems and they raise questions about the level of government interventions.<sup>29</sup>

The Council called for the strengthening of the private pension system, and only minimal changes to the public system, such as increases in GIS benefits and, if needed, enactment of the "child rearing drop-out clause", as well as an increase of the CPP contributions to keep the plan partially funded. It rejected the calls for higher benefits. Improvements to the private sector should come through earlier vesting and the portability problem would be solved by allowing workers to buy locked-in government annuities when an employee left a job. To solve the coverage problem, the government would be allowed to sell annuities to individuals whose employers were not offering pensions.

It soon became apparent that the union movement as well as welfare and women's organizations were intent on pressuring the state to carry fundamental and radical transformations. Since the private pension network seemed unable to reach the whole workforce and was the weakest element of the system because of inadequate inflation protection and portability, they suggested increased state intervention rather than more modest improvements to the private network of pensions.

The public lobby agenda and the recommendations that came with it had three components. The first one was to improve protection against poverty in old age, which remained rampant although the federal government had enacted significant increases of benefits and created the Spouses Allowances Act. The second set of proposals pertained to improve the system by remodelling some of its facets so as to meet the specific needs of women. The last and most radical proposal was the expansion of CPP contributions and benefits, and if the public authorities were to agree, it would constitute a radical break from past policy. The CPP which was designed to soften sharp drops of income at retirement was, in a way, a safety net designed for the working and middle classes. The CLC and the CCSD believed that the unsatisfactory performance of private pensions could not fill the gap and that increased public control was

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29. Economic Council of Canada, *Ibid.*, p. 95.

warranted. The state was asked to venture far beyond the concept of basic protection regardless of private activity in this sector.

#### **5.4 Early Response from the Private Sector**

Employers and insurers were slow to recognize the potential threat that the campaign launched by the CLC and the CCSD represented. At first, industry spokesmen, ignored the calls for change or downplayed the serious shortcomings of private pensions.

For example, a report written in 1977 by the Canadian Life Insurance Association (CLIA) focused solely on the inflation problem. The CLIA did not see any need for improvements such as earlier vesting. To solve the inflation problem, they had a simplistic proposal, "as to palliatives to the inflationary erosion of pensions and other fixed-dollars savings, the only really effective way of helping all the aged is through OAS."<sup>30</sup>

The Board of Trade of Metropolitan Toronto, presented a similar point of view in a brief to the Royal Commission on the Status of Pensions in Ontario. It seemed to be out of touch with reality. It did not believe that increased OAS, GIS or GAINS benefits were necessary and argued that indexing such benefits should not be automatic. As far as private pensions were concerned, they could not see any need for a greater degree of regulation, mandatory coverage and indexing. They believed in voluntary measures when needed while only conceding that vesting could be improved.<sup>31</sup>

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30. Canadian Life and Health Insurance Association, "Private and Public Pensions, Some Views", (Manuscript, 1977).

31. Board of Trade of Metropolitan Toronto, "Pensions in Canada" (Manuscript, 1977).

Finally, the Canadian Federation of Independent Business insisted on the fact that the majority of small enterprises could ill afford to provide pensions and expressed the fear that changes in government programs could reduce the amounts of savings going into the financial markets.<sup>32</sup>

It can be reasonably argued that business interests underestimated the capacity of the public lobby to stir the federal government into a major reform of the pension system. The following statement reflects the ambivalence and incredulity of the business sector vis-a-vis the CLC proposal,

If ever the CLC proposals for the CPP were pursued actively by the federal government - a highly unlikely event - the ramifications would extend from inter-provincial squabbles, to the mortal injury of the valuable private pension industry, to costs that would place an intolerable strain on future generations. The vested interests that would be challenged in the process would also shake this country's political foundations.<sup>33</sup>

But as the pressure mounted, the industry was repeatedly warned of the risks incurred if it refused to engage the public lobby, and critically assess its own performance. Among those who warned the private sector, J.M. Crozier, Saskatchewan's Superintendent of Pensions, told private sector representatives that they would face unpleasant surprises if they did not react. He proposed the formation of a committee which, "should bury its short-term interests and make its recommendations on a moral and ethical basis."<sup>34</sup> P. Coxe, a pension manager himself and a member of the Ontario Royal Commission on the Status of Pensions in Ontario, was even more alarmist. He alerted his colleagues that, "a massive redesign of the state-supported program is inevitable."<sup>35</sup>

The initial torpor of the private sector was grounded in the belief that the federal government would not endorse pension reform. Once this apathy was shaken, the major hurdle would be to reach a

32. Canadian Federation of Independent Business, "A Submission to the Royal Commission on the Status of Pensions", (Manuscript, 1977).

33. "Provinces have a vested interest in reforming the CPP", Financial Post, March 15, 1975, p. D1.

34. Globe and Mail, May 1st, 1978, p. B16.

35. D. Coxe, "The 1984 Pension Plan", (Manuscript, 1978).

consensus among the different elements of the business community, which had divergent interests. Never before had the private sector built a common front.

The threat of an expanded public retirement income system constituted the impetus for action, but the formation of a common front out of the diversity of business interests constituted a formidable challenge. While striving to formulate answers, the private lobby had to contend with the divergent views and interests of its members. The small business sector contended that mandatory private coverage, as well as an increased role for the CPP was unacceptable. It argued that the costs of such reform were too high and may well bankrupt a number of smaller enterprises.

Big business, on the other hand, was less worried at the prospect of legislated mandatory coverage. Canada's largest employers provided such protection already. However, the added costs that would accompany any form of compulsory inflation protection and the added administrative burden that full portability entailed, anguished larger enterprises.

As far as the insurance industry was concerned, and overriding any other potential considerations, the expansion of the contributions and benefits under the CPP/QPP sent waves of panic. Such proposals if carried out, could be tantamount to the destruction of the pension industry status and lead to the withering of privately sponsored pensions.

Consequently, while private insurers were ready to concede the need for stricter regulation and even consider, half-heartedly, mandatory coverage and inflation protection, big and smaller enterprises were primarily concerned by increased costs. However, an expanded CPP would be a threat to all of them as well as financial institutions, and the possibility of an expanded CPP served to unite them. Brought together by the threat of an increased public system, while still apart on the type of concessions which they were willing to make, the private sector strived to define a common position.

The first initiative came from the "Private Sector Task Force on Retirement Income Issues". Formed in October 1978 by members of the business elite concerned by their colleagues lackadaisical attitude, it formulated a first concrete set of proposals aimed at providing an alternative point of view. The goal of the Group was to persuade the public that they could deliver, "solid pensions that would not be undermined by inflation or transformed into meaningless promises because of things such as employee termination."<sup>36</sup> The following year, the Task Force provided the following proposals: inflation protection through an excess-interest approach<sup>37</sup>; improved vesting through a 2+30 formula; improved portability for transient workers belonging to defined-benefit plans through locked-in RRSPs. These proposals were a far cry from those calling for a revamped CPP. Moreover with the exception of the proposal regarding transient workers, there was no solution to the coverage question.

The efforts of the "October 12 Group", as it was also called, only constituted an incomplete and preliminary attempt to enter the debate. It did not represent the position of a formal alliance of private interests since it only counted a number of individuals intent on building a private sector consensus. For representatives of small Canadian industries these proposals went too far. For others, they were not enough. For example the CLIA warned in the spring of 1980,

Insurance companies must move quickly to improve private pension plans or the federal government will take over the pension field. (...) Our industry does not like compulsion, but I question if business will act quickly enough to improve pensions without legislation. (...) The stonewalling about investments, performance and funding that has been characteristic of many private plans will have to disappear.<sup>38</sup>

By 1980, a noticeable change was under way within the business community. The results of a survey administered in 1980 by W.M. Mercer, a pension consultant firm, among large industrial and business corporations shows that attitudes were changing (Table 5.8). The recognition that

36. Financial Post, September 22, 1979, p. 8.

37. See glossary.

38. Toronto Star, May 29, 1980, p. 8.

improvements were necessary was emerging. Eighty percent of those interviewed believed that such ameliorations had to come through the private sector, and not through an increase of state intervention. Seventy percent of them believed that earlier locked-in vesting was desirable, an idea that had brought strong opposition in 1973. There was also strong support for better survivor provisions. A majority (56%) agreed with inflation protection through an excess-interest approach using a government stabilizing facility. Finally, sixty percent of the respondents supported mandatory coverage.

By the late 70s, the fate of the retirement income system had become a hot topic of discussion, as a public coalition made up of unions, women's groups, seniors' organizations and welfare and advocacy groups were trying to stir the state into action. As in the late 50s, concerns about costs and performance were present, but in contrast the state at first, did not show any urge to intervene. As long as the state remained aloof, the private sector did not seem to be concerned. Against the warning of members of the business elite, the private sector did not mobilize itself, even if the need for change seemed to be acknowledged by a growing proportion of businessmen by 1980.

Chapter 6 examines how pension policy made its way to the political agenda and how Ottawa and the provinces reformulated their policy stance.

TABLE 5.1

## Maximum Monthly Pension Under Old Age Security Act, 1965-1984

Date Effective	Basic Pension	Guaranteed Income Supplement		Maximum Pension	
		Single	Married Couple	Single	Married Couple
1/01/52	40.00	-	-	40.00	-
1/07/57	46.00	-	-	46.00	-
1/11/57	55.00	-	-	55.00	-
1/06/62	65.00	-	-	65.00	-
1/10/63	75.00	-	-	75.00	-
1/01/67	75.00	30.00	-	105.00	-
1/01/68	76.50	30.60	-	107.10	-
1/01/69	78.00	31.20	-	109.20	-
1/01/70	79.58	31.83	-	111.41	-
1/04/71	80.00	55.00	95.00	135.00	255.00
1/01/72	82.88	67.12	119.24	150.00	285.00
1/04/73	100.00	70.14	124.60	170.14	324.60
1/10/73	105.30	73.86	131.20	179.16	341.80
1/01/74	108.14	75.85	134.74	183.99	351.02
1/01/75	120.06	84.21	149.58	204.27	389.70
1/01/76	132.90	93.22	165.56	226.12	431.36
1/01/77	141.34	99.13	176.06	240.47	458.74
1/01/78	153.44	107.62	191.12	261.06	498.00
1/01/79	167.21	137.28	228.30	304.49	562.72
1/01/80	182.42	149.76	249.04	332.18	613.88
1/04/80	186.80	153.35	255.02	340.15	628.62
1/07/80	191.28	192.03	296.14	383.31	678.60
1/10/80	196.83	197.60	304.72	394.43	698.38
1/01/81	202.14	202.94	312.94	405.08	717.22
1/04/81	208.20	209.03	322.32	417.23	738.72
1/07/81	214.86	215.72	332.64	430.58	762.36
1/10/81	221.74	222.62	343.28	444.36	786.76
1/01/82	227.73	228.63	352.54	456.36	808.00
1/04/82	232.97	233.97	360.64	466.86	826.58
1/07/82	239.73	240.67	371.10	480.40	850.56
1/10/82	246.92	247.89	382.24	494.81	876.08
1/01/83	251.12	252.10	388.74	503.22	890.88
1/01/84	263.78	265.60	409.72	529.38	937.28

Source: M. Ethier, "Survey of Pensions Issues", in Income Distribution and Economic Security in Canada, ed. F. Vaillancourt (Toronto: University of Toronto Press, 1985), p. 222.

TABLE 5.2

Maximum Monthly Benefit and Provincial Supplements,  
by Province,  
as of March 31, 1979

		Pension payable under OAS/GIS	Provincial supplement to the elderly	Old Age income support
Newfoundland	Individual	304.49	-	304.49
	Couple	562.72	-	562.72
Prince Edward Island	Individual	304.49	-	304.49
	Couple	562.72	-	562.72
Nova Scotia	Individual	304.49	13.50	317.99
	Couple	562.72	27.00	589.72
New Brunswick	Individual	304.49	-	304.49
	Couple	562.72	-	562.72
Quebec	Individual	304.49	-	304.49
	Couple	562.72	-	562.72
Ontario	Individual	304.49	38.88	343.37
	Couple	562.72	104.02	666.74
Manitoba	Individual	304.49	7.82	312.31
	Couple	562.72	16.86	579.58
Saskatchewan	Individual	304.49	25.00	329.49
	Couple	562.72	45.00	607.72
Alberta	Individual	304.49	45.01	349.50
	Couple	562.72	94.40	657.12
British Columbia	Individual	304.49	38.88	343.37
	Couple	562.72	99.66	662.38

Source: Economic Council of Canada, One in Three, p. 12.

TABLE 5.3

Canada Pension Plan Fund Investment by Province<sup>1</sup>

	1965-76	1969-71	1971-73	1973-75	Total	%
Newfoundland	37.9	32.4	36.6	47.5	154.4	1.95
Prince Edward Island	7.2	6.7	7.4	9.6	30.9	.39
Nova Scotia	77.1	63.6	74.3	94.7	311.7	3.93
New Brunswick	58.8	50.0	55.6	71.1	235.5	2.97
Quebec	4.6	8.2	14.6	16.0	43.4	.55
Ontario	1,140.6	921.8	1,034.7	1,308.4	4,405.5	55.50
Manitoba	118.7	99.2	111.1	139.0	468.0	5.90
Saskatchewan	91.5	83.3	85.9	103.4	364.1	4.59
Alberta	181.7	159.4	181.7	234.8	757.6	9.55
British Columbia	293.6	242.3	272.7	350.8	1,159.4	14.62
TOTAL	2,011.7	1,666.9	1,874.6	2,375.3	7,930.5	100.00

Source: CPP Advisory Committee, The Rate of Return on the Investment Fund of the Canada Pension Plan (1975), p. 29.

1. Millions of dollars.

TABLE 5.4  
Rates of Return of the CPP and the QPP

	CPP Net Return	QPP Net Return
1970	6.997%	6.69%
1971	7.093%	6.84%
1972	7.219%	7.00%
1973	7.316%	7.08%
1974	7.880%	7.08%

Source: CPP Advisory Committee, The Rate of Return on the Investment Fund of the Canada Pension Plan (1975), p. 29.

TABLE 5.5  
Minimum Vesting Requirement for Employer-Sponsored Pension Plans

Country	Age	Plan	Notes Membership
France		immediate	
Sweden	28	immediate	for white collar workers
Netherlands	any age	1	
Switzerland	any age	5	9 months proposed
United States	any age	10	alternative provisions for partial vesting
United Kingdom	26	5	
West Germany	35	10	earlier vesting possible if employee has worked for employer prior to joining plan
Canada	45	10	

Source: Canada, Federal Task Force on Retirement Income Policy, The Retirement Income System in Canada: Problems and Alternatives for Reform (1980), p. 15.

TABLE 5.6

The Value of \$1.00 in Purchasing Power with Annual Inflation  
Rates of 3%, 4%, 5% and 8% per Annum

	3%	4%	5%	8%
After 5 years	0.86	0.82	0.78	0.68
After 10 years	0.74	0.68	0.61	0.46
After 15 years	0.64	0.55	0.48	0.32
After 25 years	0.48	0.38	0.30	0.15

Source: Canada, Federal Task Force on Retirement Income Policy, The Retirement Income System in Canada: Problems and Alternative for Reform (1980), p. 31.

TABLE 5.7  
International Comparison of Age Composition and  
Public Old Age Benefits, 1970-71

	Persons aged 65 and over as a proportion of total population 1970	Old age, death, and survivor's benefits as a proportion of GDP 1971
Netherlands	10.1	8.4
West Germany	13.3	8.0
France	12.8	6.8
Italy	10.6	6.6
Belgium	13.3	6.5
United Kingdom	12.8	4.7
United States	9.6	4.2
Sweden	13.6	3.4
Canada	7.8	2.1

Source: Economic Council of Canada, One in Three, p. 29.

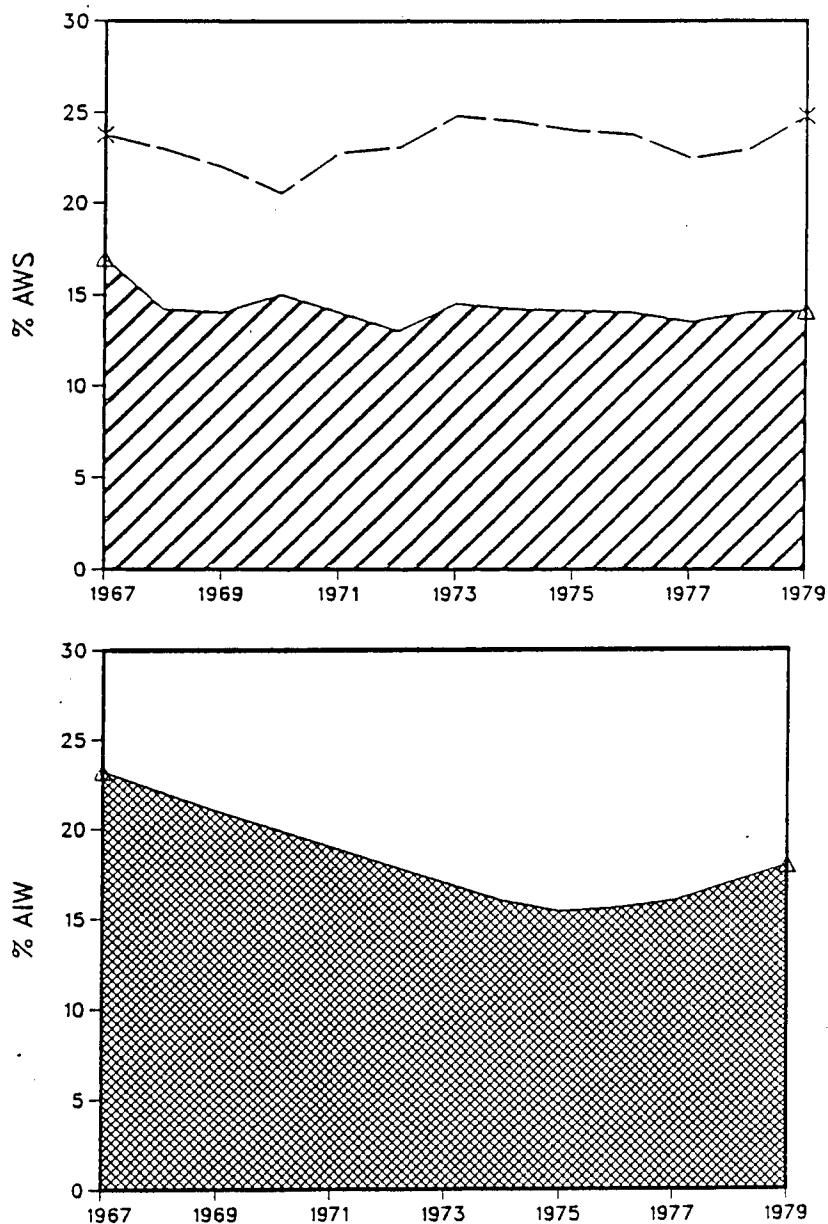
TABLE 5.8  
Business Attitude on Reform of Private Pension\*

	Agree	Disagree
Earlier Vesting	77.0%	28.0%
Locked-In RRSPs	79.0%	21.0%
Expansion of pension coverage	87.0%	12.0%
"Pensions are too low"	31.5%	68.5%
Indexing: before retirement	80.0%	20.0%
after retirement	74.0%	26.0%

Source: Financial Executives of Canada, Reports on Survey of Pension Plans in Canada (1981).

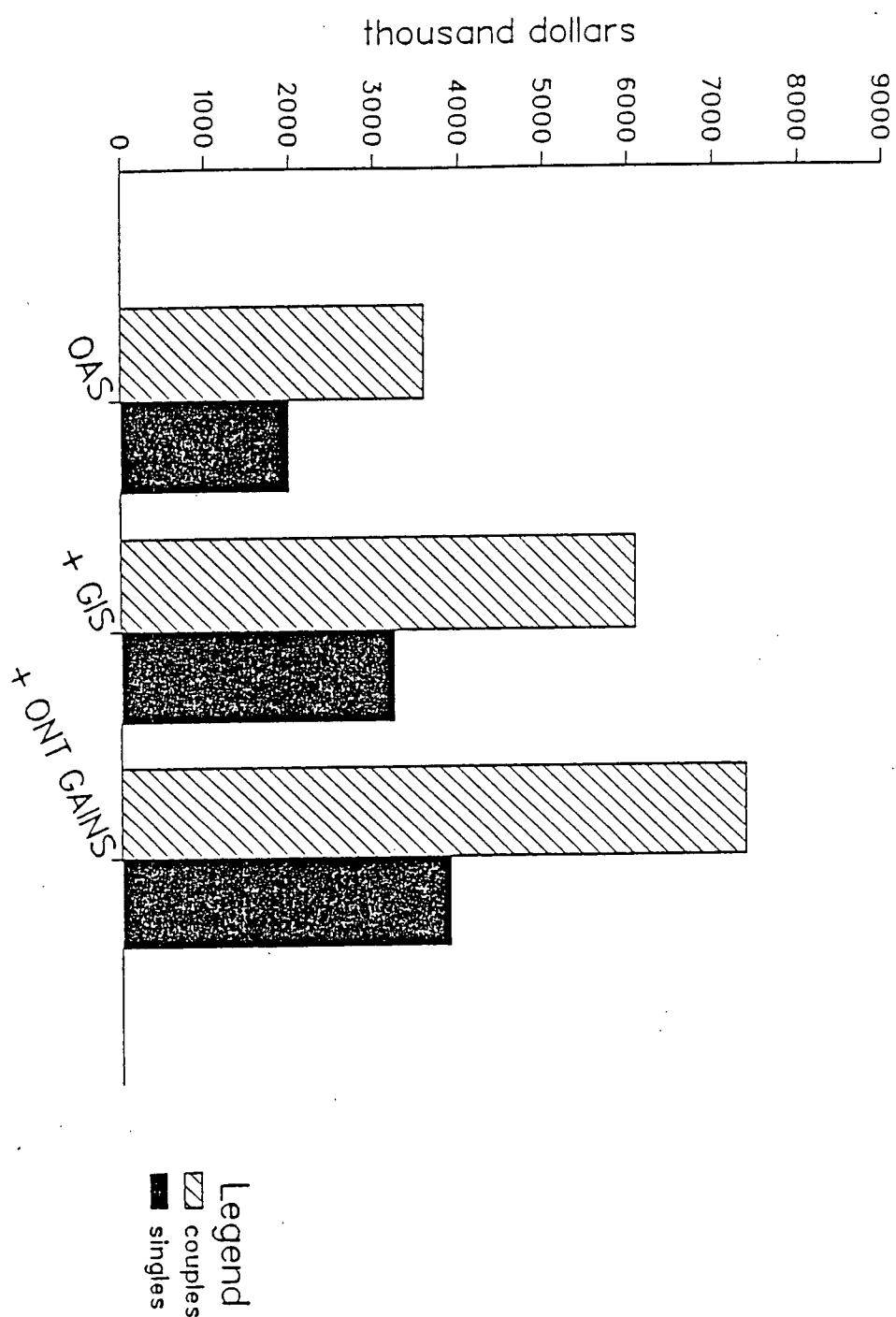
\* : Survey of 181 corporations with 268 plans.

Figure 5.1  
Public Pension Benefits as Percentage of Average  
Wages and Salaries maximums



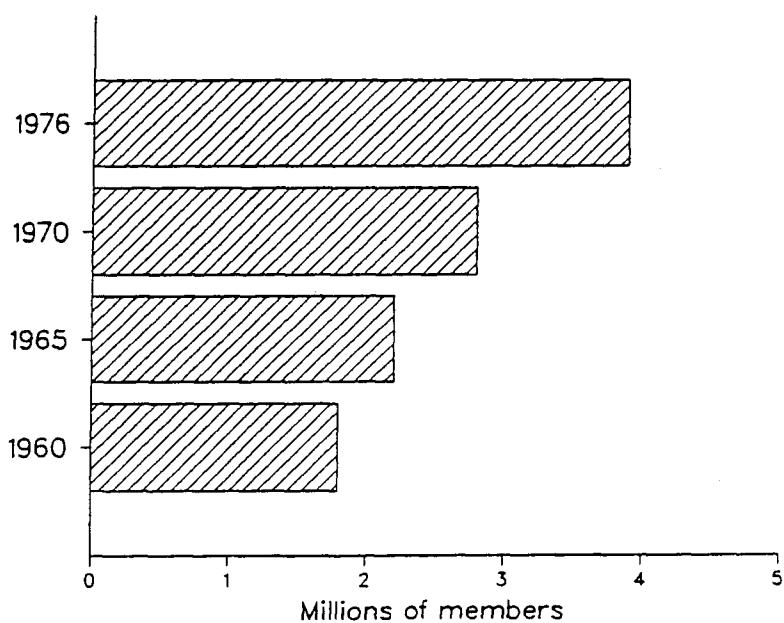
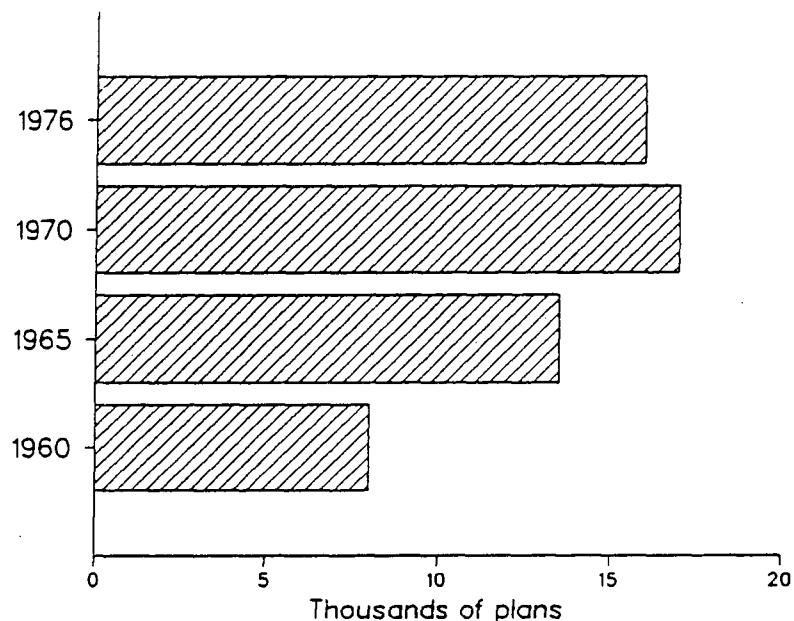
\* Canada, Task Force on Retirement Income Policy, *Ibid.*, p. 28.

Figure 5.2  
Benefit levels Guaranteed in 1978



\* Canada, Task Force on Retirement Income Policy, Ibid., p. 28.

figure 5.3  
Growth of Occupational Pension Plans  
in Canada, 1960 to 1976



\* Economic Council of Canada, *Ibid.*, p. 13.

Figure 5.4  
Proportion of Paid Workers in Canada and  
Seven Other Countries Covered by  
Employer-Sponsored Pension Plans, 1976

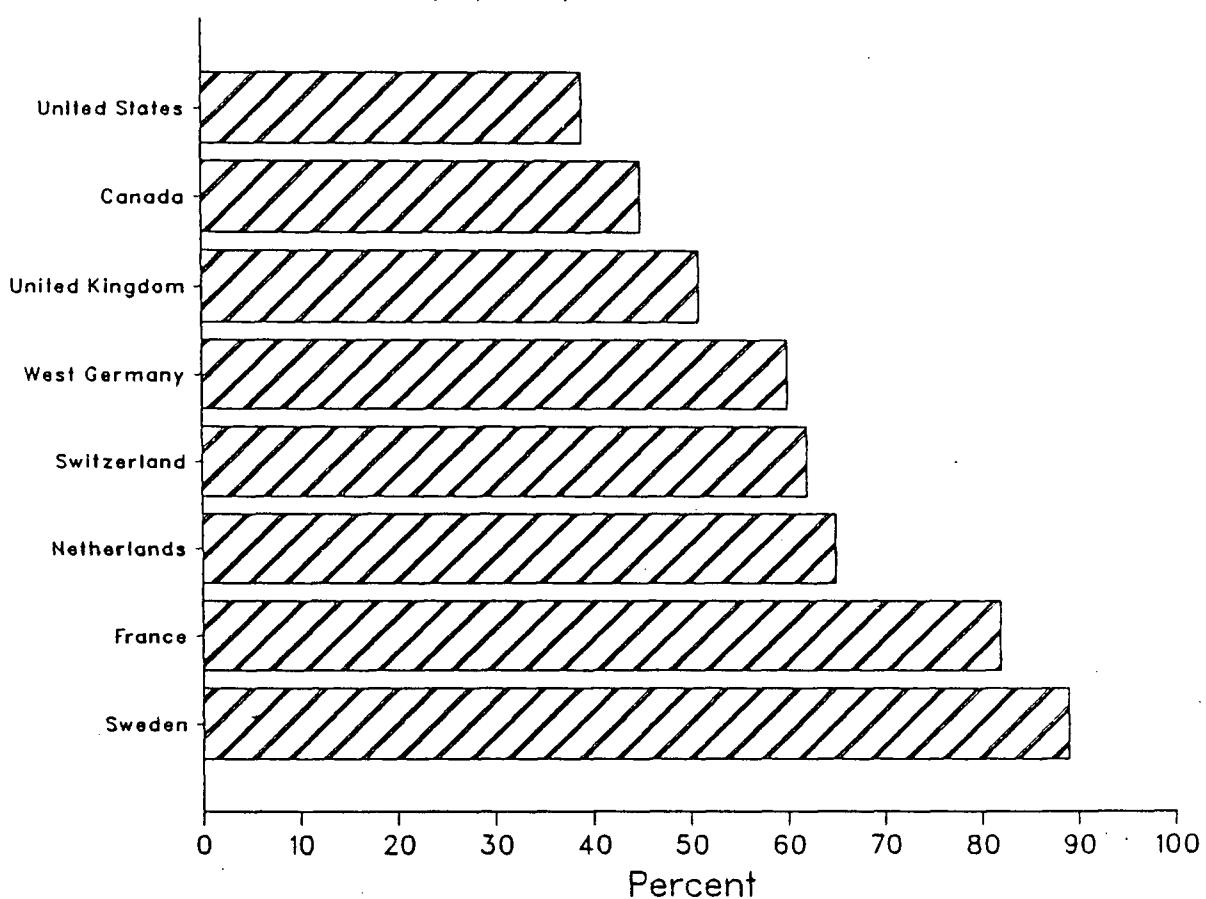
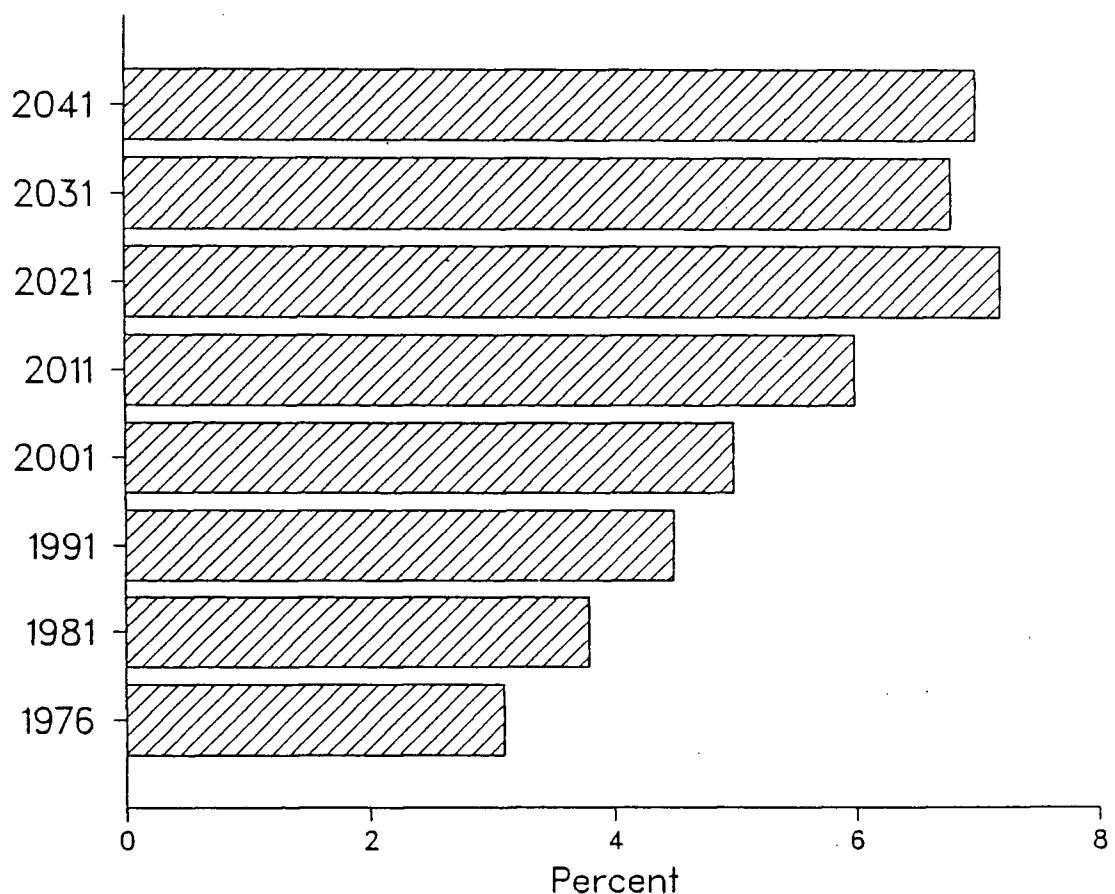


Figure 5.5  
Expenditures on Public Retirement Income  
Programs as a proportion of GNP,  
Canada, 1976 to 2051



## **CHAPTER 6**

### **THE PENSION PROPOSALS: RESISTANCE IN OTTAWA**

Chapter 6 unravels the reasons why, ultimately, an expanded CPP and mandatory private coverage were both rejected as solutions to the pension crisis as well as why pension reform proceeded at such a slow pace. Although the Liberal Party of Canada endorsed pension reform in 1980, it took four years to define its policy. Chapter 6 demonstrates that the delays and the conservative reform package which emerged in 1984, were not the product of federal-provincial disagreements. In fact, as chapter 7 will show, the bases for an intergovernmental consensus were present as early as the fall of 1982, and the negotiation process was underway in 1983. Rather, the dissension which emerged in Ottawa itself appears to have determined the limited scope of pension reform and the means that would be used to enforce changes.

#### **6.1 Exploring New Horizons: Ontario and Quebec**

The repeated calls for a major reform of the retirement income system were not to be ignored by the state. Amid a context of demographic change and strong inflation approximately ten years after the creation of the CPP, the federal government, as well as a number of provincial governments decided that the status of the retirement income apparatus had to be reexamined.

The initial response of the federal government was to dismiss publicly suggestions for an expanded CPP emanating from the CLC. Such a change, argued Marc Lalonde, the Minister of National Health and Welfare, would force the state to collect contributions corresponding to 30% of employment earnings and lead to the disappearance of most private plans.<sup>1</sup> Although Ottawa publicly dismissed the CLC proposals, it established an interdepartmental team of bureaucrats to undertake a study of the public and private pension systems. It was designated as the Task Force on Retirement Income Policy, and would be headed by Harvey Lazar.

However, the Task Force report was not released before 1980, and was preceded by the publication of two provincial studies. In 1977, the "Comite d'Etude sur le Financement du Regime des Rentes du Quebec et sur les Regimes Supplementaires de Rentes", also known as "Cofirentes+", published a report entitled La Securite des Personnes Agees au Quebec. In 1980, the Ontario Royal Commission on the Status of Pensions in Ontario also released its report.

The tone of the Cofirentes+ report echoed the general philosophy which had led Quebec to argue for a public plan in the 1960s. Because of the relative underdevelopment of the private pension industry in that province, Quebec had opted for strong public intervention. Moreover it had advocated generous benefits, because it saw the QPP as the basis or the core of the income replacement apparatus, while in Ontario it was only considered as one of the elements of the income replacement strategy.

The authors of the Report concluded that the overreliance on universal and transfer programs (OAS and GIS) was becoming too costly. Moreover GIS dissuaded a large section of the workforce with low salaries from joining private plans. The Study Group proposed raising the income maintenance rate from 25% of contributors average pensionnable earnings to 50% on the first half of the value of maximum pensionnable earnings while remaining at 25% for the other half. A worker at maximum pensionnable

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1. Marc Lalonde, "Straight Talk about Pensions", Address to Pensions in Crisis Conference. Reproduced in Financial Post, September 27, 1975.

level would enjoy a 37.5% replacement rate. Workers whose pre-retirement income was at minimum-wage level would receive a total retirement income equal to 90% of their employment earnings. It was believed that this would lessen the reliance on GIS by workers with low salaries. Not surprisingly, the report asked for a rapid increase of contributions to make sure that the next generation would not have to take an undue load in the 21st century, and to secure the flow of capital going to the Caisse de Dépôts.

The Lesage government had embraced pension reform in the 1960s, because it would allow the Quebec government to fuel its effort of "rattrapage". The existence of the Caisse de Dépôts<sup>2</sup> had allowed the continuation of the state-building efforts and accelerated the movement of young francophones into the world of industry and finance. In the mid-seventies, social reformers and economic planners remained strong supporters of the Quebec Pension Plan. At the very least, "Quebec would enter such negotiations instinctively inclined towards a public sector response to retirement income needs."<sup>3</sup>

The Ontario government did not remain idle as the tide of criticisms was rising. The Ontario government was well aware of the possible pitfalls of immobility, and had warned the industry as early as 1977 that,

If the private sector cannot broaden the effectiveness of its coverage in terms of increasing the dollars actually paid as pensions and find a more appropriate mix of provisions in pension plans, then we are in a situation where a government may be forced to take part in a much larger share of the pension industry.<sup>4</sup>

The Ontario government asked Donna Haley to chair the Ontario Royal Commission on the

2. The performance of the Caisse de Dépôts, recipient of the funds from the Régie des Rentes has been examined, see: Stephen Brooks, A. Brian Tanguay, "Quebec's Caisse de Dépôts et Placement: tool of nationalism?", Canadian Public Administration 28 (1985): 99-119; Stephen Brooks, "The State as Financier: A Comparison of the Caisse de Dépôts et de Placements and the Alberta Heritage Fund", Canadian Public Policy XIII (Sept. 1977): 318-329.
3. K. Banting, *Ibid.*, p. 64.
4. D. McKeough, *Ibid.*, p. 6.

Status of Pensions in Ontario. A massive ten volume report was published in 1980. Its recommendations reflected Ontario's inclination for limited state intervention coupled with private and voluntary measures and incentives. The conclusions of the Commission confirmed the existence of a coverage problem, the difficulties involved in reforming the private system, and the opposition of the Commission to a major expansion of the CPP. In these circumstances, and amid these constraints, the solution proposed was the creation of a Provincial Universal Retirement System (PURS).

PURS would allow workers without pension plans to have their own money-purchase plans based on earnings up to the AIW. They would be vested after five years of participation. Contributions would be tax deductible and would offer 60% survivorship benefits. The employers would have the choice between contributing to the employee's plan or opting out of PURS if they offered the equivalent in company plans. The contributor would control his pension dollars via a manager of his choice who would invest the money on his behalf and according to specific standards.

Such a solution, the Commission believed, would not increase the large sums of money already under state control, while the private sector would not be forced to bear the heavy costs associated with improvements to the system. The funds accumulated would be funnelled to private markets and produce high returns. The proposal moved income protection away from group responsibility and towards individual responsibility. It reflected the government's antipathy for increased state intervention.

The two provincial reports were the result of advisory bodies allowed to explore freely any possible alternative. Consequently the reports of Cofirentes+ and the Ontario Royal Commission were not tied down to the enunciation of specific remedies for narrowly defined ills. It allowed the experts involved to suggest original solutions which turned out to be a fair reflection of the governments' general dispositions in this area.

Cofirentes+ proposed a system which would integrate the different elements of the retirement

system. Besides giving increased control to Quebec, it would make the QPP an instrument of income redistribution. The proposal was a clear endorsement of the social democratic underpinnings of the system, and reemphasized the full support for a fully integrated social insurance instrument. However, even if "the basic thrust of the report was well received within Quebec political circles"<sup>5</sup>, it did not stir decision-makers into action.

Similarly, the Haley Report proposed a new approach which would give greater control of pensions to Ontario, while enhancing its preference for individual responsibility over the social insurance principle. The proposal pleased the private sector, as was expressed by the Financial Post,

The Haley Commission has thus taken a giant step away from the welfare state drift in pension policy. The fully-funded, portable PURS, to be supervised by the individual would invest these savings to best advantage in capital markets, financing industrial expansion and fixed asset creation.<sup>6</sup>

On the other hand, the proposals of the Ontario Royal Commission for the creation of the "Provincial Universal Retirement System" were criticized by another branch of the Ontario government. The Pension Policy Unit of the Office of the Budget did not have much praise for this proposal. PURS was seen as regressive, since the disposable income of low-income earners would be reduced and thus they would be unable to collect GIS benefits. The level of benefits remained uncertain and would take 47 years to mature. Finally, the creation of a new administrative agency would be costly and there were serious doubts about the willingness of other provinces to accept and implement such a plan.<sup>7</sup> Ultimately PURS was deemed impractical and the Ontario government never attempted to model legislation after it.

5. K. Banting, "Institutional Conservatism: Federalism and Pension Reform", in Canadian Social Policy: Federal and Provincial Dimensions, ed. J.S. Ismael (Montreal: McGill/Queens University Press, 1985), p. 63.
6. Financial Post, August 23, 1981.
7. Ontario, Ministry of Treasury and Economics, "Provincial Universal Retirement System", (Manuscript, 1982)

In the final analysis, both reports argued for increased provincial control over pensions and the proposals involved a radical break from established policy. They also illustrated the divergent views of the two provinces on pension issues.

The lack of enthusiasm of the Ontario government vis-a-vis the Canada Pension Plan was not only evident in the Haley Report. In 1977, Ontario in conjunction with British Columbia refused to approve the enactment of the "child-rearing drop-out clause" allowing women to deduct the years spent outside the workforce to raise their children, from the calculation of their benefits. The measure sponsored by Ottawa and Quebec, and agreed upon by the other provinces met with Ontario's veto. Ontario argued that such a measure of income redistribution was unacceptable. This question clearly irritated the Ontario provincial treasurer who threatened to balkanize the system if Ottawa went ahead,

The Canada Pension Plan exists because the provinces allow it to exist. If the federal government continues to overstep its role in the CPP, it may find that the provinces would rather operate their own plans.<sup>8</sup>

Ontario's opposition was also motivated by a desire to convince Ottawa to reexamine the financing issue.<sup>9</sup> Although the Ontario government seemed to dislike the Canada Pension Plan and refused to contemplate a benign reform such as the child-rearing drop-out clause, it had grown dependent on the vast sums of money which could be borrowed from the fund. As the CPP Advisory Committee had revealed in 1975, Ontario was by far the most important borrower.

Although great distance existed between Ontario's and Quebec's thinking on the pension issue, they all shared a common interest in the integrity of the patrial-funding formula of the CPP/QPP. Although Quebec was not coming under heavy criticism for using the pension funds in the dubious fashion that the other provinces did, they both relied heavily on the savings of Canadians.

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8. D. McKeough, *Ibid.*, p. 9.

9. Based on private interview.

By buying government bonds and investing in corporations based in Quebec, the Caisse de Depots pursued an aggressive investment policy to foster province-building. Meanwhile, the other provinces chose to borrow heavily from the CPP funds to develop infrastructure and finance crown corporations.

Regardless of the other factors involved in defining their respective positions on pension reform, all the provinces would insist on the continuous flow of CPP funds to the provinces. For the poorer provinces this was even more important since the interest reduction varies from .5% for the wealthiest provinces to several points for the poorest. Thus, while Ottawa was asked to raise the contributions to increase benefits, the provinces would argue for increased levies to secure the CPP fund.

If the levels of contributions were not increased this crucial source of financing could dry up as early as 1985, according to the most pessimistic forecasts. It even led the Ontario government to argue for a fully-funded system on the basis that it would reduce Canada's reliance on foreign capital. L. Shiffrin argued at the time, "Ontario is pushing the idea of fully-funding the CPP, increasing contribution rates so that the funding continues to grow and the provinces never have to pay back their loans."<sup>10</sup> This constituted a thorn in the relations between the industry and the Ontario government which otherwise shared similar views on the pension issue.

## 6.2           The Liberal Party and Pension Reform: a Timid Endorsement

The federal government remained the undisputed leader of the pension checkerboard in the late 1970s. It retained full control over the Old Age Security, the Guaranteed Income Supplement and the

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10.       Ottawa Citizen, September 26, 1977.

Spouse's Allowance programs, even if it did not possess exclusive jurisdiction over the Canada Pension Plan. Ottawa retained the greatest capacity to initiate changes, since federal politicians could use the vast resources of the Ottawa bureaucracy and were not restrained by a desire to preserve a share of the capital funds since it only controlled the sums necessary to administer the plan.

However, serious limits on its capacity to promote change also existed. In the past, the jurisdictional limits had always been hazy in the pension field, but Ottawa had not hesitated to test them in 1951 and 1963. The Act creating the Canada Pension Plan included clear and restrictive "decision rules"<sup>11</sup>. Under Ontario's insistence, amendments to the Canada Pension Plan would need the approval of two-thirds of the provinces representing at least two-thirds of the population.

Changes to the private pension plan regulations are subject to another set of rules. In this case, the establishment of standards governing the private pension industry is an exclusive provincial responsibility except for those plans covering workers under direct federal jurisdiction, such as banking and interprovincial transportation. Ontario was the first province to create such legislation in the mid-sixties and it was followed by five other provinces in the following ten years.<sup>12</sup>

Ottawa had initiated the drive for a contributory plan in 1963, but was disinclined to endorse pension reform readily once again in the late seventies as it was still trying to bring to fruition the "Social Security Review" which would ultimately succumb amid federal-provincial disaccord.<sup>13</sup>

Moreover, the ideological climate in which the Great Pension Debate arose in the 1970's differed

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11. K. Banting, "The Decision Rules: Federalism and Pension Reform", in Pensions Today and Tomorrow: Background Studies, ed. D.W. Conklin (Toronto: Ontario Economic Council, 1984), pp. 184-209.
  12. Nova Scotia, Quebec, Manitoba, Saskatchewan and Alberta.
  13. C. Leman, The Collapse of Welfare Reform: Political Institutions, Policy and the Poor in Canada and the United States, (Cambridge: MIT Press, 1980)

markedly from the conditions of the post-war period. Gone were the days when the state, earnest and unbridled, would consider intervening to rectify what were perceived to be the imperfections of the market economy. As the signs of the upcoming recession became stronger and government deficits grew rapidly in size from year to year, state intervention in economic and social affairs came under heavy criticisms. The remedies prescribed by Keynes seemed incapable of eliminating stagflation and neo-conservative economists led the charge against state intervention. From a small group of academics on the fringe of economic and social thinking, the anti-collectivists were becoming academically and politically influential.<sup>14</sup> As the economic rationale for state intervention in social affairs began to be questioned, states showed greater reluctance to endorse major new social projects. Mishra comes to the conclusion that,

The economic rationale of the welfare state has been weakened seriously, leaving only the social or Beveridgian aspects in place. And these, by and large, now seem to form the principal justification for welfare state provision.<sup>15</sup>

Although Canada has not witnessed the rise of powerful political movements intent on forcefully curtailing the welfare state as in the United States and Britain<sup>16</sup>, a large dose of skepticism toward expansionism was taking hold in Ottawa.

The public rejection of the CLC proposal coupled with the setting up of an Interdepartmental Task Force clearly reflected the ambivalence of the federal government. The federal government took more time than expected before releasing the Retirement Income Task Force report, also dubbed the Lazar Report. Unlike Cofirentes+ and the Ontario Royal Commission, a specific reform plan was not submitted, but four different reform packages, from least to most comprehensive were outlined. Option one

14. See V. George and P. Wilding, Ideology and Social Welfare, (London: Routledge and Keegan Paul, 1985) chap.2

15. Mishra, *Ibid.*, p.19

16. See R.M. Coughlin, Ideology, Public Opinion and Welfare Policy: Attitudes Toward Taxing and Spending in Industrialized Societies, (Berkeley: Institute of International Studies, 1980).

proposed improvements to private pensions through earlier vesting, partial indexing, improved survivorship provisions and splitting of pension credits in the case of divorce. Option two suggested the replacement of defined benefit plans by defined contribution plans. The third option and the most comprehensive in terms of improving the private pension network would be compulsory coverage of the workforce. The final option called for the enlargement of the CPP, which should then replace 45% rather than 25% of pre-retirement earnings for those earning the Average Industrial Wage. The advantage of the last solution was its administrative simplicity and its comprehensiveness.

The Lazar Report had the merit of indicating the multiplicity of avenues open to the state. Besides confirming the existence of serious problems, it gave an added degree of legitimacy to those arguing the case for the expansion of the CPP, to the obvious distaste of reform opponents.

The four years needed to publish the report were not merely the product of bureaucratic languor or delays because of successive federal elections in 1979 and 1980. As the signs of an upcoming economic recession grew stronger and the bulging public deficit was perceived by critics as out of control, the Liberal Cabinet, unprepared to engage in pension reform, delayed the publication of the report. Members of the Trudeau Cabinet holding economic portfolios halted the release of the Task Force Report which argued for fundamental and costly reforms.<sup>17</sup>

However, the electoral dynamic once again led the Liberal Party to endorse pension reform. During the short period spent as the official opposition in 1979-1980, the Liberals, in customary fashion engaged in a reevaluation of their political platform. The Social Security Review having failed the party felt that it was necessary to identify a social policy area where progress could be achieved. Pension reform seemed a suitable and logical option for a party still portraying itself as committed as ever to social welfare and social justice, even in an unfavorable economic climate. However, the Liberal Party remained elusive about the specific reforms it envisaged as far as private and/or public pensions

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17. Based on private interviews.

providing replacement income were concerned.<sup>18</sup>

The Conservative Party also unveiled its plan of action in the late 70s.<sup>19</sup> It promised to stop the practice of cutting the Spouse's Allowance upon the death of the marriage partner and allow homemakers to contribute to the CPP. It endorsed the child-rearing drop-out clause. The promises remained modest and the Conservatives promised to draft a White Paper on the issue, as soon as they would gain power.

The New Democratic Party was the only party to endorse unequivocally a comprehensive reform of the retirement income system. As early as 1967, the Party was proposing legislation to correct the injustices of the private pension system by improving vesting, portability rules and the disclosure of assets.<sup>20</sup> At its 1977 federal convention, the party closed ranks with the union movement by endorsing an expansion of the CPP,

Whereas the private pension plan industry covers a minority of Canadian workers; and ... many workers have been cheated out of their pension rights, therefore be it resolved that a federal New Democratic Party will amalgamate private pension plans into the Canada Pension Plan.<sup>21</sup>

During the 1980 elections, the Liberals did not hesitate to engage the NDP in a bidding match over the GIS benefits. The New Democratic Party promised a \$40 increase of GIS benefits, while the Liberals promised a \$35 increase in payments at a cost of \$570 million dollars. The promise was kept and the benefits were quickly improved soon after the Liberal victory. Thus, when the Liberal Party won the federal election of 1981, the pension issue had once again risen to the top of the social policy agenda in Ottawa. The government remained elusive about the reform it had in mind but all the major actors

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18. Liberal Party of Canada, Discussion paper for the National Convention of the Liberal Party of Canada (July 4-6, 1980).
  19. Progressive Conservative Party, "The Progressive Conservative Commitment to Canada's Senior Citizens", in "Let's Get Canada Working Again" (Mimeo, 1979).
  20. New Democratic Party, "Resolutions Reference", (mimeo, 1986), p. 79.
  21. Ibid.

interested in pension reform were invited to join a gathering sponsored by the federal government in the spring of 1981, officially designated as the National Pensions Conference.

This announcement sent the private sector into a frenzy of activity. The industry's greatest fear was that the federal government would try to impose its views, and present them with a fait accompli, reminiscent of the events which had led to the creation of the CPP. J.L. Clare, a veteran of the repeated confrontations between the private sector and the federal government would write in the aftermath,

The private sector had had little impact on pension policy for two decades. The federal pension decisions during that time have often not been in the national interest. Finally, the option package which appeared likely to be favoured federally ... was far from being the pension package that would best serve the national interest in the future.<sup>22</sup>

By 1980, the pension industry did not deny the need for changes. As the Mercer survey clearly showed, many were ready to engage in a constructive dialogue with the federal government. Moreover, the insurance industry was not isolated anymore. Large manufacturers as well as small enterprises were also opposed to further expansion of the Canada Pension Plan. Nonetheless, the private sector remained unable to define a specific set of counter-proposals.

Two months before the National Pensions Conference the "Business Council on Pension Policy" (BCPP) was constituted. It brought together a number of associations representing the diverse elements of the Canadian business community.<sup>23</sup> In the few weeks preceding the Conference, the newly formed coalition strove to define a common position. Unable to reach such a consensus, it succeeded,

22. J.L. Clare, "1983 Private Sector Consensus", Canadian Business Management Developments II (1983): 35.

23. The members of the BCPP were: The Association of Canadian Pension Management, the Business Council on National Issues, the Canadian Banker's Association, the Canadian Chamber of Commerce, the Canadian Federation of Independent Business, the Canadian Life and Health Insurance Association, the Canadian Manufacturer's Association, the Canadian Petroleum Association, the Canadian Pulp and Paper Association, the Canadian Stock Exchanges and Investment Dealers Association, the Financial Executives Institute Association and Trust Companies Association of Canada.

nonetheless, in reducing as much as possible the discrepancies in the positions of the different associations, and brought about a much needed degree of cohesion.<sup>24</sup>

The BCPP did not act as spokesperson for the private sector during the Conference, each Association submitting its own proposals.<sup>25</sup> Still the message from the private sector was clear. As argued by the private sector, the priority of the government should be the improvement of the financial position of the elderly poor and women. The specific measures proposed were an increase of the OAS and GIS benefits, the enactment of the child-rearing drop-out clause and an improvement of survivorship provisions. Further expansion of the CPP was deemed inappropriate and too expensive. The private sector encouraged Ottawa and the provincial governments to engage rapidly in negotiations to revise and increase the contribution rates to CPP to ensure its financial stability. It maintained its advocacy of a pay-as-you-go system.

Finally pension managers and sponsors acknowledged their readiness to upgrade private pensions. Vesting requirements, improved survivorship benefits and a proposal to enhance portability via locked-in RRSPs were suggested. However, the private sector would not endorse ambitious solutions to the most serious problem of all: indexing and coverage. Industry spokesmen continued to argue that inflation protection would only serve to fuel the problem which was undermining economic growth and would threaten the competitiveness of Canadian industries. To insure inflation protection, inflation itself had to be defeated.

Oddly enough, the private sector consensus was only seriously broken by one organization, the CLHIA. It had judged the industry counter-proposals as too timid. In what could become a struggle for its very survival, the CLHIA had decided to make more significant counterproposals in its bid to preserve

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24. J.L. Clare, *Ibid.*, p. 454.

25. Canada, Department of National Health and Welfare, Summary of Submissions, National Pensions Conference, March 31, April 1-2, 1981 (1982).

private pensions. It agreed that if coverage had to be improved, mandatory private coverage would be preferable to increased state intervention. While mandatory coverage would dramatically increase the demand for their services, employers alone, not insurers, would have to bear the cost of inflation protection. Moreover, it argued for mandatory inflation protection through an excess-interest approach.

The lines of battle among non-governmental actors were clearly drawn by the end of the National Pensions Conference. The public lobby argued for the expansion of the public system<sup>26</sup> or at the very least for mandatory private coverage<sup>27</sup>, more generous inflation protection, better vesting and portability, and improved treatment of women. The private sector did not deny the need for improvements but, with the exception of the CLHIA, did not envisage inflation protection and mandatory coverage as needed reforms.

The clear delineations among non-governmental actors stood in sharp contrast with the elusiveness of the federal government. Confusing messages were sent to the delegates. The agenda of the Conference itself seemed to be tilted in such a way as to indicate that the costs of any reform would be borne by the private sector. Four major areas of discussion were on the agenda: Coverage, Inflation Protection, Women and Pensions, and finally Portability, Vesting and Locking-in.

However, in her address to the conference, Monique Begin, the Minister of National Health and Welfare, pointed out the flaws of the Canadian pension systems, in comparison with European pension systems, which provided inflation protection and better coverage using more comprehensive public systems. On the other hand, the concluding remarks of the Minister of Finance were very cautious. The minister wanted to move on vesting and survivorship provisions, and stated his preference for an excess

26. See position of Canadian Center for Policy Alternatives in *Ibid.*, p. 3; for the position of Canadian Labour Congress, see *Ibid.*, p. 7.

27. See position of Canadian Council on Social Development in *Ibid.*, p. 20; for the position of the National Action Committee on the Status of Women, see *Ibid.*, p. 13; for the position of the Consumers' Association of Canada, see *Ibid.*, p. 24.

interest approach. On the other hand, he did not see any 'consensus' on the question of coverage. He went a long way to reassure the private sector with his statement that,

It is not just the budgetary implications that I am thinking about, or the impact upon the budgets of the provinces, but also on the impact of higher pension costs on the competitiveness of our industry, the structure of our capital markets and the efficient growth of the economy.<sup>28</sup>

As the National Pensions Conference came to an end, the federal government had a clear picture of the problems plaguing the retirement income system, the numerous avenues of reform available as well as the location of the different actors involved. The Minister of National Health and Welfare announced Ottawa's intention to prepare its proposals and submit them to the provinces in the summer of 1981.

However, the federal government would wait until December 1982 before publishing a Green Paper on pension reform and 1984 before making solid commitments and too late to implement them before the federal elections of September 1984. By then, the expansion of the Canada Pension Plan and mandatory coverage of the workforce had been rejected.

### **6.3                  Formulating Policy in Ottawa and the Provinces**

At first glance, it would appear that from 1981 to 1984 Ottawa chose to play a game of cat and mouse with the provinces and refused to take the initiative while the private sector was allowed to keep sniping at each contentious proposal while the impulse that had propelled pension reform to the top of the

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28. Canada, Department of National Health and Welfare, Proceedings, National Pensions Conference (1981), p. 41.

social policy agenda faded away.

An analysis of the intergovernmental dynamic would seem to indicate that Ottawa was reluctant to engage in yet another federal-provincial squabble. After all, the country was emerging from a bitter confrontation over the Constitution. Ottawa kept reacting and refused to assert its leadership. In this section, the dynamic and nature of the intergovernmental dialogue is examined, but as the next section will reveal, the federal-provincial "false hesitation" from 1981 to 1984, only hid more profound differences within the federal government itself.

Saskatchewan was the first province to establish its position clearly.<sup>29</sup> At the National Pensions Conference, it elucidated its support for an institutional approach to pension reform,

The Government of Saskatchewan believes that (pension reform) can only be accomplished if we recognize that ensuring adequate retirement incomes is primarily a community responsibility, and not simply an individual or family responsibility. Only through collective action can we set in place these mechanisms that will ensure adequate retirement incomes for all Canadians.<sup>30</sup>

Consequently, the Saskatchewan, CLC and CCSD proposals all argued for an expanded CPP providing between 40% and 50% of pre-retirement earnings. Saskatchewan wanted the CPP to become an integrated instrument of income redistribution which would contain a progressive contribution structure, cushion the impact of increased contribution rates and consider the idea of a Homemaker's Pension.<sup>31</sup>

The following year, British Columbia publicized its position in a short discussion paper in which it unequivocally rejected the idea that better coverage was at stake.<sup>32</sup> The government believed that there

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29. Saskatchewan, Minister of Labour, Pension Branch, Reform of Canada's Retirement Income System - A Saskatchewan View (1981).

30. Canada, Department of National Health and Welfare, Proceedings, p. 38.

31. Canada. Department National Health and Welfare, Summary, pp. 28-29.

32. British Columbia, Ministry of Provincial Secretary and Government Services, Developing a

was,

A reasonable basis for concluding that the existing system is capable of producing acceptable levels of benefits on average. This contradicts the frequently offered viewpoint that our retirement income system is inadequate.<sup>33</sup>

It encouraged the federal government to enter into negotiations with the provinces to consider legislated improvements to Pension Benefits Standards, although B.C. had never legislated in this area. A number of improvements to the private sector pensions were proposed. Although silent on the question of inflation and mandatory coverage, it endorsed improvements of vesting, portability and compulsory membership requirements as well as legislated improvements of survivor benefits.

The Ontario government showed no desire to rush into making any proposals. Whether or not this was intended to be a delaying tactic, the Ontario Legislature was asked to examine the Report of the Royal Commission and make its own recommendations. The Final Report was published in 1982.<sup>34</sup> The Committee was adamant that, "the government should resist any steps to increase the existing levels of retirement benefits under the CPP".<sup>35</sup> The Committee also rejected the proposal of the Royal Commission for a Provincial Universal Retirement System (PURS), because it contained too many weaknesses.

It was argued that changes should be limited to the adoption of the child-rearing drop-out clause, and the provision of better survivor benefits. The financing should be changed so that a 3 year contingency fund and parts of the CPP fund should be invested at market rates. Most of the changes would have to come, as B.C. argued, through improved private plans. With better vesting, portability, survivorship clauses and indexing according to an excess-interest approach. The New Democratic Party

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Pension Policy for the Future (1982).

33. Ibid., p. 13.

34. Ontario, Legislative Assembly, Select Committee on Pensions, Final Report (1982).

35. Ibid., p. 25.

members of the Committee disagreed with this policy and argued for a larger public system.<sup>36</sup> Yet, these remained the proposals of a legislative committee and the Ontario government took two more years to elucidate its position.

Begin had announced at the end of the National Pensions Conference that Ottawa would enter negotiations with the provinces in 1981. Twenty months later, the government published a Green Paper - in lieu of a White Paper - entitled Better Pensions for Canadians. It confirmed the worst fears of the public coalition and appeared to be a full retreat vis-a-vis Ontario's position.

To the question, "Is there a need to expand mandatory pension arrangements?", it answered,

There is clearly no consensus among Canadians on this issue. The governments of Ontario and British Columbia - as well as nine organizations which issue the "Business Consensus on Pension Reform" in August 1982 - have suggested that no expansion of mandatory pensions is required at this time.<sup>37</sup>

The Green Paper endorsed a mixed baggage of improvements. "As soon as resources permitted", the elderly single should be given further help through the GIS. As far as the CPP was concerned, an increase of the YMPE to reach the AIW should be implemented rapidly. Other changes to the CPP should bring fairer treatment of spouses. Upon marriage breakdown credit-splitting should be used. As well, an increase of post-retirement survivor benefits could be considered and would constitute a lifetime continuing pension equal to 60% of the pension of the deceased.

The major improvements proposed would come through stricter regulation of private pension benefit standards. The most significant proposal was the provision for inflation protection through an excess-interest approach. The creation of a tax-assisted retirement vehicle called a Registered Pension Account (RPA) was proposed to alleviate the portability problem. Moreover, by allowing employers to

36. Ibid., pp. 153-162.

37. Canada, Department of National Health and Welfare, Better Pension for Canadians (1982), p. 35.

contribute to an employee's RPA, the Green Paper offered a somewhat timid solution to the coverage problems.

Enhanced protection of pensioners would come through compulsory membership in plans for full-time employees after one year, and vesting after two years. As far as part-time employees were concerned, the Green Paper limited itself to a statement that "coverage would be required for part-time employees meeting minimum age and service requirements".<sup>38</sup> Finally, spouses could have fairer treatment through survivorship provisions required to be at a 60% level, and their continuance after remarriage, and credit-splitting after marriage breakdown.

Although Ottawa had dropped the most controversial proposals from the pension agenda, it was unwilling to act. The Green Paper announced the creation of a Parliamentary Task Force on Pension Reform, which would be given a year to report "on the issues surrounding pension reform"<sup>39</sup>, which allowed the private sector to examine the proposals.

The business community's efforts to influence the outcome did not stop at the end of the National Pensions Conference. On the contrary, as far as the Business Council on Pension Policy was concerned, the efforts to rally the business community and form a common front constituted a first step in a strategy aimed at defeating the plan for an expanded CPP or mandatory coverage and limiting the scope of the other reforms proposed.

The most potent allies of the private sector were the Ontario and the British Columbia governments which did not need to be persuaded. But Ottawa could not be trusted as far as the business world was concerned. The position of the federal government remained dangerously vague at the end of the National Pensions Conference.

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38. Ibid., p. 31.

39. Ibid., p. 59.

In August 1982, the BCPP released its own position paper on the changes which were believed to be both affordable and necessary.<sup>40</sup> The Consensus Brief itself was accompanied by a thorough study of the different aspects of pension reform, and their costs. The voluminous analysis, nothing less than the business version of a Royal Commission report, was published a year later.<sup>41</sup>

To nobody's surprise the BCPP argued against an expansion of CPP benefits and mandatory private coverage, as well as mandatory inflation protection. It stressed, once again, that the primary role of the state was to protect the elderly poor from poverty, and suggested "increases where evidence shows that the income of single retired persons is inadequate".<sup>42</sup> It approved the more modest proposals to improve the CPP, such as the correspondence between the YMPE and the AIW, credit-splitting on divorce and improved post-retirement survivor benefits. The Consensus Brief also reiterated the position of the business community about funding,

If a fully funded CPP continues to be invested in non-marketable government bonds, governments in Canada will have an expanded source of captive financing that avoids the legislative and market discipline of seeking external financing. On the other hand, investment of fully-funded CPP/QPP pools of capital through the market would unduly concentrate financial power in the hands of a few government decision-makers.<sup>43</sup>

The Brief argued that private pensions could be improved at reasonable cost if the following changes to private pensions were legislated. Vesting could be improved with a 5 + 30<sup>44</sup> or 1 + 45 formula and portability enhanced through Registered Pensions Account. Compulsory membership for full-time and part-time workers was not endorsed. The fate of spouses would be improved through credit-

40. BCPP, A Consensus Brief on Canadian Retirement Income Policy, (Toronto: W.M. Mercer Ltd, 1982).

41. BCPP, Cost Study Background Papers (Toronto: W.M. Mercer Ltd, 1983).

42. Ibid., p. 19.

43. Ibid., p. 22.

44. This means that an employee of 30 years of age or more and having worked five years for a company would see his pension rights vested.

splitting on divorce and 60% post-retirement survivorship provisions. The only dissenting voice came from the CHLIA, which still argued for mandatory inflation protection.

The period of grace granted to the private sector by the Parliamentary Task Force also allowed Nova Scotia to join the fray with its own analysis and proposals. In 1983, the Report of the Royal Commission on Pension and its recommendations were endorsed by the Government of the day.<sup>45</sup> While Saskatchewan and British Columbia were situated at opposite ends of the continuum, Nova Scotia had opted for a mildly expansionist position. Nonetheless, it did not endorse the CLC proposal on the grounds that, "it would completely displace private pension plans and would result in the federal government having almost absolute control over retirement income."<sup>46</sup>

As a solution, the Nova Scotia government proposed the expansion of CPP benefits by 50%, so that 37.5% of pre-retirement earnings would be covered. If the OAS was increased from 14% to 15%, as proposed by the Report, 51.5% of pre-retirement income would be replaced. In the case of a one earner-couple, in which the non-working spouse receives only OAS, 65.5% of pre-retirement earnings would be covered. To finance such a program, the elimination of the YBE and the increase of contribution rates (2.7 for employers and 2.5 for employees) would cover the expenses.

The firm intentions of the federal government were finally enunciated in a document issued by the Ministry of Finance and jointly signed by Lalonde and Begin in the winter of 1984.<sup>47</sup> Increases of GIS benefits were announced. The current monthly benefits of \$265.60 would be raised in two stages: \$25 on July 1, 1984 and another \$25 on December 1, 1984. The additional expenses would be of the order of \$460 million.

45. Nova Scotia, Royal Commission on Pension, Report (1983).

46. Ibid., p. 210.

47. Canada, Department of Finance, Action Plan for Pension Reform: Building Better Pensions for Canadians (1984).

Modest improvement of CPP benefits would come through an increase of the YMPE, set to reach the AIW by January 1987. Other changes were intended to improve the lot of spouses: survivor benefits would not be terminated on remarriage, splitting of credits on marriage breakdown as well as when contributors reach retirement. The Homemakers' pension proposal of the Task Force was rejected.

In the same document, Ottawa also announced the amendments to the Pension Standards Act that would be legislated. The most important element of this second facet of pension reform was the introduction of compulsory inflation protection which would correspond to 60% of the increase of the CPI. The maximum annual adjustment would be 8%.

Furthermore, vesting would be required after two years of service. Registered Pensions Accounts (RPA) would be created in order to enhance portability. If a worker did not want to leave pension entitlements with a former employer or could not transfer it to a new one, he would be allowed to leave it in a locked-in RPA which would come under the same standards provided by regulations of private pensions.

Membership would become compulsory for any full-time worker over 25 year of age, after one year of service, while the same measure would apply for part-time workers after three years if they work at least 50% of the normal work period.

Women would be the beneficiaries of a number of changes. Survivor benefits would have to constitute 60% of the contributors' benefits and would not be terminated after remarriage. Pre-retirement survivor benefits would be granted as a lump-sum or could be put in a RPA. Credits would be split upon marriage breakdown. Finally, the government announced that after further study pension benefits would be equal for men and women.

The timing of the federal government and the substance of the proposals closely corresponded

with Ontario's. The Ontario government made public its position on pension reform in April 1984.<sup>48</sup> The proposals did not depart significantly from the Select Committee Report. It recommended that help to single elderly people should be improved by providing 60% of the benefits going to couples, and that the OAS be raised from 14% to 15% of the AIW. Improved benefits for CPP contributors would come through an adjustment of the YMPE to the AIW. Other improvements would be directed at spouses with credit-splitting upon divorce and survivorship rules letting 60% of benefits and their continuation upon remarriage. It endorsed the federal proposal to use 35 and not 40 years as a base for the calculation of benefits. The Homemakers' Pension proposal was rejected. New regulations of private pensions would include, new vesting and locking-in rules, minimum employer contribution, survivor benefits and splitting of credits.

Ontario agreed with the creation of a portability vehicle, equivalent to the Registered Pensions Account defined by Ottawa, as long as contributions would be locked-in, which were dubbed Locked-In Retirement Accounts (LIRA). The excess-interest approach was rejected. It was now proposed to index pensions to represent 60% of yearly inflation rates.

Quebec published its position in 1985.<sup>49</sup> Most interesting is that it came "after the fact", only once a broad consensus had been attained. It contained a number of proposals very similar to those coming from Ottawa and Ontario. Moreover, it repeated Quebec's belief in a fundamental reform of the Quebec Pension Plan. In the concluding remarks, the proposals emanating from the Cofirentes+ report were repeated: "the financial security of retirees should in future depend less on social assistance and more on insurance programs".<sup>50</sup>

The intergovernmental process of policy formulation lasting from the spring of 1981 to the spring

48. Ontario, Ministry of Economics, Ontario Proposals for Pension Reform (1984).

49. Quebec, Action Now for Tomorrow, The Quebec Policy on Retirement Income Security (1985).

50. Ibid., p. 79.

of 1984 leaves the distinct impression that Ottawa was unable to act forcefully, and would seem to confirm Banting's conclusions about pension reform in the 1980s. According to such an analysis, the federal government was constrained by Ontario's veto and unable to formulate policies by itself. In its search for a consensus, Ottawa had to concede on all the contentious issues and allowed the private sector to mobilize. Due to provincial and business resistance, Ottawa did not include extended coverage from the Green Paper and to give more time to the provinces created a Parliamentary Task Force. However, it will be demonstrated that Ottawa's languor and timidity were primarily if not solely, the product of severe internal divisions within the federal government itself.

#### **6.4 Irreconcilable Differences In Ottawa**

Pension reform was a welcome change for the Minister of National Health and Welfare. In the early 1980s, Begin may not have had to fight back frontal attacks directed against the welfare state, nonetheless most of her energies were spent securing the vast amount of funds necessary to keep it afloat. Health and Welfare advocated the expansion of the CPP on the grounds that it constituted the simplest and most comprehensive change. Moreover, such a reform would ensure Ottawa's continued leadership in this field, while the alternate route, the stricter regulation of pensions, would not be under its control. For Health and Welfare, an expanded CPP was the logical choice and could become the ultimate phase in the gradual expansion of state-sponsored income protection in old age, begun in 1927.

The Department of Finance saw pension reform under a very different light. It opposed an increase of CPP contributions and benefits because of its far-reaching consequences on the structure of capital markets and the very nature of the Canadian economy. The reform advocated by the Department of National Health and Welfare would upset the traditional channels through which savings are turned into

the large pools of capital needed to fuel economic growth. To understand the full impact that an expanded CPP would have, it is necessary to examine the role that pension funds have come to play in Canada.

In Canada, Banks, Trusteed Pension Plans, Life Insurance companies and Trust companies controlled 77% of the assets of all private financial intermediaries in 1979 (Table 6.1). Although, the banks have always been the dominant actor, trust companies and trusteed plan have experienced the greatest increase in assets in the post-war period. The number of large pension funds increased from 143 representing \$25 billion in 1960, to nearly 400 with assets of \$108 billion in 1979.<sup>51</sup>

The capital needs of the country for the 1980s were projected to be between \$750 and \$850 billion and a substantial proportion of these funds would have to come from domestic savings. Pension funds held by individual trustees and trust companies play a significant role in fuelling Canada's economic growth. If the expansion of CPP arrangements was contemplated, its impact on capital markets had to be considered. According to a consulting firm's 1977 estimate, "it was expected that 70% to 80% of all new capital needs of industry in the future will be supplied through private pension funds."<sup>52</sup>

The creation of the CPP/QPP in 1965, had not upset capital markets. Rapid economic growth had allowed the state to tap into vast surpluses. Moreover, the government was taking hold of savings among smaller industries without pension plans which the private sector could not even reach. Furthermore, it allowed the provinces to finance their own investment needs without burdening private capital markets.<sup>53</sup>

51. Canada, Statistics Canada, Trusteed Pension Plans Financial Statistics, 1979 (1981), pp.20-21.

52. Reported in: R. Deaton, "The Political Economy of Pensions: the Political and Economic Framework of the Canadian Pension System", in Pensions: Public Solutions vs Private Interests, ed. Canadian Center for Policy Alternatives (Montreal: CCPA, 1981), pp. 57-105.

53. See chapter 5 of this thesis.

But to enlarge government responsibilities further would not have the limited impact of tapping into surpluses. It would upset the structure of capital markets. Since the creation of the CPP/QPP, 3/4 of pension savings had been used for government capital formation, while 3/4 of the holdings of private pension plans were going to the private sector. The growth of trust companies and trustee plans would be stifled and possibly decrease. Moreover, if the investment pattern of publicly controlled pension funds was any guide, the savings would not be put to their best use. As explained by the Economic Council of Canada,

Efficient capital markets will allocate savings to their most productive uses . . . . The conditions that lead to greater efficiency are those that promote competition - namely, the largest number of participants in the market and transactions effected through the market.<sup>54</sup>

The Ontario government which remained ambivalent vis-a-vis the CPP, had become its hostage by virtue of its dependence on the funds which came under its control. It had seriously considered the idea of a fully-funded CPP, in the late 70s. Such a financing structure would channel trillions of dollars to the state. Since Ontario's objective was to avoid repayment of the loans, it studied how the money could then be redirected to private investors.<sup>55</sup> The proposal made the financial community extremely nervous and representations were made to the Royal Commission which rejected the proposal.<sup>56</sup>

The Finance Department was not ready to envisage a reform which had such far-reaching consequences<sup>57</sup> . Moreover, in order to double the benefits a similar increase of contributions was

54. Economic Council of Canada, *Ibid.*, p. 62.

55. Ontario, Ministry of Treasury and Economics, "The Economics of Financing National Pension Plans", Submission to the Royal Commission on the Status of Pensions in Ontario (Mimeo, 1977).

56. Ontario, Royal Commission on the Status of Pensions in Ontario, A Plan for the Future (1980), vol. 5, chap 7.

57. The evidence presented in this section is based on a series of interviews of high officials of the Departments of Finance, National Health and Welfare and Insurance. The interviewees agreed to discuss under the understanding that confidentiality would be respected. Any information presented here has been confirmed by at least two sources.

necessary, and it constituted another major obstacle. Since the changing demographic profile would force increased contributions, a further enrichment of benefits would necessarily entail contributions rates which would constitute 15% to 20% to be shared between employees and employers. There was serious doubt about the willingness of workers to save such amounts for their old age.

Moreover, the proposal for an expanded CPP entailed the transformation of its financial structure to a pay-as-you-go basis. This meant that as the system matured in the 1990s and the 21st century, a shrinking workforce would have to support a bulging elderly population as the baby-boomers would become geriatric boomers. In Ottawa, the long-term and far-reaching consequences of the CPP proposal were crucial elements of the pension reform equation. The Finance Department remained wary of this proposal which could potentially lead to a serious backlash in the years to come. If much has been made of provincial resistance to proposals which could cut the continued flow of capital from the CPP funds, Ottawa, which was free to consider all the options, was seriously concerned by this other facet of the pay-go system.

The second option available to the federal government was to propose mandatory coverage of the workforce. It would not threaten the CPP financial arrangements while preserving the structure and nature of Canada's savings media. However, in the climate of economic recession, such a measure could only further weaken the Canadian economy. Small businesses were under enormous strain and many went bankrupt while interest rates kept escalating. The proposal to expand mandatory coverage ran dead against the government's macro-economic goals during the recession.

Another inherent weakness of mandatory coverage was that those approaching retirement would not draw sizeable benefits from such plans due to the long phase-in period necessary. In fact, the CLC had indicated as early as 1975 that the private sector could not be expected to solve, by itself, the coverage question.

Thus, the Department of National Health and Welfare and the Department of Finance had widely divergent views about pension reform, and it would take the federal government twenty months to forge a consensus.

A number of departments were brought together to define the position of the federal government. The nerve centre was constituted of assistant-deputy ministers from Finance, National Health and Welfare, the Ministry of State for Social Development, the Department of Labour, the Department of Insurance and the Treasury Board. The inner circle in which the hard-bargaining would take place was limited to ADM's from the first three departments and was chaired by Michael Kirby of the Privy Council Office. It soon became clear that neither side was ready to back down.

By the summer 1981, the departments of Finance and National Health and Welfare were deadlocked, neither side being able to get the other to back down. In October 1981, Kirby publicly scotched rumors that there was an important rift between Finance and National Health and Welfare.<sup>58</sup> But the announcement that "an option paper" which would provide a "comprehensive analysis of all the alternatives", which itself should lead to practical measures in 1983-84 failed to reassure the partisans of reform, and served to betray the difficulties that the government was facing.

The confrontation between Finance and National Health and Welfare had been predicted by the Ontario Minister of Finance, F. Miller, as early as March 1981. He declared, "I hope that in the current battle within the federal cabinet, Mr. McEachen wins over Ms. Begin".<sup>59</sup>

In October 1981, Kirby had announced the publication of an option paper for December. As Christmas was approaching, the deadline was pushed back to March 1982, and the publication deadline was pushed back continuously until a Green Paper, entitled Better Pensions for Canadians was finally

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58. "Reforms for Pensions to be listed", Financial Post, October 10, 1981, p. 5.

59. F. Miller, "Speech to the Burlington Chamber of Commerce" (March 23, 1981), p. 8.

published in December 1982, 20 months after the National Pensions Conference.

The publication of the Green Paper confirmed the worst fears of the coalition which had argued for pension reform. National Health and Welfare had lost to Finance on the CPP issue, although the document left the door opened ever so slightly.

The final compromise was not very satisfying for either of the two protagonists. On the one hand, Finance was uncomfortable with the \$2.2 billion dollar price tag attached to the reform package. Finance also believed that forcing employers to protect pensions against inflation, if only partially, would be a bitter pill to swallow for the private sector. On the other hand, National Health and Welfare was defeated on the issue of CPP expansion. The creation of RRSPs to solve the coverage question was far from a perfect answer from their point of view. The biggest blow for reform advocates was the fact that these proposals would not constitute the base for immediate negotiation with the provinces.

From 1981 to 1984, the intergovernmental process of policy formulation served to hide the difficulties that Ottawa met while trying to reach a consensus. From 1975 to 1980, the federal government of P.E. Trudeau has shown little if any enthusiasm for pension reform. But, in customary fashion the Liberal Party decided to give a high profile to the issue. However, immediately after the National Pensions Conference, it became clear that cost-conscious and welfare conscious actors gave very different meaning to pension reform. The resistance of the Department of Finance to an expanded CPP was based on the impact that such a measure would have on capital markets, while mandatory coverage fell prey to the climate of recession. The decision to drop the coverage issue from the agenda was reinforced by the daunting perspective of having to persuade or force Ontario to move. In terms of intragovernmental axes of conflict, the Department of Insurance and the Federal-Provincial Relations Office naturally sided with the Department of Finance. The former was inclined to promote regulation while the latter gave prime consideration to the political implications of the measure. Ottawa thus rejected enhanced coverage and the delays resulted from the intragovernmental deadlock.

The Minister of National Health and Welfare expressed her disappointment to the Parliamentary Task Force in the spring of 1983,

The voluntary approach has not resulted in sufficient coverage ... thus, if we are going to guarantee a decent pension income, we must introduce legislation creating mandatory private pension plans, or expanding the public earnings-based pensions, or some combination of the two.<sup>60</sup>

Begin's intervention was not intended to keep the coverage issue alive but rather to express her opinion as well as the position of her Department to a committee which brought very little to debate. Was the Parliamentary Committee formed to give more time to the provinces? Not likely since Ottawa was not ready to push private and public pension costs immediately. Improved GIS benefits and better protection of pension rights would have to wait for an economic upturn. In fact, as will be shown in the next chapter, Ottawa and the provinces were in a position to start the negotiations as early as December 1982.

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60. Canada, Minister of National Health and Welfare, "Coverage: the Big Issue of Pension Reform", Submission to the Parliamentary Task Force on Pension Reform (Mimeo, 1983).

TABLE 6.1  
Assets of Canadian Financial Intermediaries  
Book Value, 1979

Financial Intermediary	Assets, 1979 \$Million	% Assets	
		Total Private Intermediaries	Total Private Non-Bank Intermediaries
Chartered Banks	\$147,285	43.5	-
Pension Funds - trustee	42,616	12.6	26.4
Life Insurance	38,136	11.3	19.9
Trust Companies	33,373	9.8	17.4
CP and CV	32,574	9.6	16.9
Construction Loan	14,135	4.2	7.4
Mortgage Loan	12,330	3.6	6.4
Fire and Casualty	10,311	3.0	5.4
Investment Companies	5,536	1.6	2.9
Quebec Savings Bank	1,678	0.5	0.9
Fraternal Societies	766	0.2	0.4
Total Private Financial Intermediaries			\$338,969
Total Private Non-Bank Financial Intermediaries			\$191,684

Source: R. Deaton, The Political Economy of Pensions, chapter 6. Calculated from data supplied to the author by the Financial Section, Statistics Canada, April 28, 1980.

## CHAPTER 7

### PENSION REFORM: THE OUTCOME

The analysis of the policy formulation process conducted in Chapter 6 has revealed that the ambitious proposal for an expanded CPP or mandatory private coverage was never given any real chance. A rapid glance could have left the distinct impression that the process was deadlocked as a result of intergovernmental disagreement, it is clear that the far reaching impact of such a change chilled whatever enthusiasm the Department of Finance may have had for pension reform.

Chapter 7 describes how the federal and provincial governments entered negotiations in order to agree on the improvements that had to be made to the pension system. Because changes to the private pension system and the public system were not discussed and decided at the same table they will be examined separately even if they overlapped in time. The first section deals exclusively with changes to pension benefits standards legislation and the changes made to the CPP. The second section examines the failure of the Mulroney government to deindex pension benefits. The last section evaluates the extent and shortcomings of the improvements made to the retirement income system in the 1980s.

#### **7.1           Private Pensions Agreements**

The long and tortuous process of introspection and consultation which led to the release of the

federal government "Action Plan for Pension Reform" and the "Ontario Proposals" in 1984, did not preclude other provincial governments from acting, and negotiations from starting.

Saskatchewan, for one, had refused to wait for the other provinces and amended its Pension Benefits Act as early as 1981. The Blakeney government had placed the province in front of the pack by introducing in 1981 many of the changes that would come into effect in other provinces by the end of the decade. The vesting requirements were changed to a 45 years of age + 1 year of service formula. Minimum employer contributions, refunds of pension value with interest, 50% survivor benefits, and credit splitting on marriage breakdown were all included in the legislation.

Such action intensely displeased the private sector which had hoped that the Saskatchewan government would wait for a national consensus before taking action. A consulting firm declared at the time, "the Act further fragments the structures of pension laws at a time when the whole question of pension delivery system is the subject of intense study".<sup>1</sup>

The Manitoba government of H. Pawley also showed its impatience vis-a-vis the languishing process. When Ottawa announced in December 1982 that the publication of the Green Paper would be followed up by the constitution of a Parliamentary Task Force, Manitoba lost patience. J. Corp, Chairman of the Pension Commission of Manitoba and Commission Superintendent, Aidan O'Brien, urged action and condemned Ottawa's intention to carry further the consultation process, in unequivocal fashion:

Now, it is up to the governments. Instead of starting a useless travelling road show, the federal government should immediately call a meeting of all federal and provincial ministers ... and hammer out a uniform set of proposals with implementation target dates.<sup>2</sup>

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1. Towers, Perrin, Forster and Crosby, "Regulation Issued under Saskatchewan's Pension Benefits Act", TPEC Bulletin (Toronto: TPEC, August 1981): 1.
  2. "Pension Reform Overdue", Winnipeg Free Press, December 17, 1982, p. 18.

Manitoba believed that provincial and federal officials were ready to sit at the table and forge an agreement. Since Ottawa did not contemplate the extension of mandatory public measures, no further studies were needed. Moreover, the Superintendents of Insurance had already outlined a set of reforms deemed necessary and affordable, in a paper entitled A Consensus for Pension Reform.<sup>3</sup>

The Canadian Association of Pension Supervisory Authorities (CAPSA) was formed in 1974 to promote uniformity of pension legislation across jurisdictions, assess the legislation in force and recommend alterations to existing legislation and regulation. The federal government, Ontario, Quebec, Alberta and Saskatchewan were the original members of the group and were later joined by Manitoba and Nova Scotia. While the different governments had been trying to define their positions on pension reform, the Association had reached its own consensus.

The release of the Consensus Paper was significant in two respects. For the first time, a broad consensus had been achieved among representatives of different jurisdictions and could constitute the basis of the federal proposals for the reform of private pensions included in Better Pensions for Canadians.

The federal proposals on vesting, compulsory membership, survivor benefits, credit-splitting, portability and inflation protection were all inspired by the intergovernmental agreement reached by the Superintendent of Pensions within CAPSA, a fact properly acknowledged in the Green Paper.<sup>4</sup> In such a context, Manitoba could not understand Ottawa's desire to establish a Parliamentary Task Force and decided to act on its own.

In the winter of 1983, the Pension Commission of Manitoba proposed twenty-four amendments to

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3. Canadian Association of Pension Supervisory Authorities, "A Consensus for Pension Reform", (Mimeo, 1982).
  4. Canada, Department of National Health and Welfare, Better Pension for Canadians (1982), p. 26.

the existing legislation and the NDP government announced its intention to act quickly. The proposals included new standards involving vesting, coverage and survivor benefits.<sup>5</sup> They also included more controversial changes such as inflation protection, the use of unisex mortality tables and vesting after 2 years of service for part-time employees. The Manitoba government came under intense pressure from business quarters and withdrew the highly controversial inflation protection clause.<sup>6</sup>

There is no doubt that the Manitoba government had to retreat because of the disadvantageous position in which the province would have been placed. Forcing Manitoba employers to offer inflation protection might not only dissuade future employers to operate in the province but also incite companies to discontinue their operations. Manitoba's retreat constitutes a clear example of the constraints that the need to preserve mobility of capital and labour can put on provincial governments which envisage ambitious social programs.<sup>7</sup>

The amendments to the Manitoba Act were enacted in August 1983 and corresponded with the provincial Premiers decision to initiate negotiations aimed at streamlining new private pensions regulation. At the Premiers' Conference held in the summer of 1983, Premier Davis of Ontario invited the provincial ministers responsible for pension legislation to start negotiations on the reform of provincial pension legislations.

By then, the criticisms of the Manitoba Superintendent of Pensions were being echoed by the private sector. Insurers and employers had successfully argued the case against an expanded CPP and

5. The different amendments were scheduled to be phased-in. Most of them would become effective in January 1984, with others to follow in 1985. Vesting would come after five years until 1990, when the 2 years service rule would be implemented.
6. "Delay Sought in Pension Reform", Globe and Mail, March 31, 1983, p. B10.; "Pension Exodus Forecast", Winnipeg Free Press, August 11, 1983, p. 5.
7. For a detailed analysis, see: D. Usher, "How should the Redistributive Power of the State be divided between Federal and Provincial Governments?", Canadian Public Policy VI (1980), p.16-29.

forced Manitoba to withdraw inflation protection but they now pressed the provinces and Ottawa to agree on a set of changes as fast as possible.<sup>8</sup> Private plan sponsors were reluctant to bring changes before government intentions were divulged.

The first meeting of ministers was held in Toronto on June 5, 1984.<sup>9</sup> It led to agreements on a number of issues, including membership by part-time and full-time workers, post-retirement and pre-retirement survivor benefits, minimum employer contributions and the splitting of pension credits on marriage breakdown.<sup>10</sup> However, serious obstacles remained. The creation of a portability vehicle and the use of unisex mortality tables would be studied further, while the greatest hurdles would be the introduction of inflation protection for deferred pensions and pensions-in-pay, as well as uniform wording of the legislation throughout the country.

Ontario, which had invested a lot of resources in ensuring the defeat of the most radical elements of the pension reform proposals, was now arguing for inflation protection. Larry Grossman who prepared his bid for the leadership of the Conservative Party of Ontario had persuaded his provincial colleagues to endorse such a policy.<sup>11</sup> The NDP and the Liberals also supported inflation protection. The federal government<sup>12</sup> and Queen's Park<sup>13</sup> both proposed a formula which would ensure the annual indexation of benefits which would represent 60% of inflation. But the other provinces, with the exception of Manitoba did not show the same enthusiasm. When the Progressive Conservatives took office in the fall

- 8. "Pension Reformers Must Act on the Consensus Achieved", Globe and Mail, December 4, 1984, p. B2.; "Pension Issues to Rear End when System Feels the Strain", Globe and Mail, April 19, 1985, p. B2.
- 9. Ottawa only had the official status of observer in these meetings.
- 10. Ontario, Minister of Economics, "Opening Address to the Meeting of Ministers", (Mimeo, 1984).
- 11. Based on private interviews.
- 12. Canada, Department of Finance, Action Plan for Pension Reform Building Better Pension for Canadians (1984), p. 5.
- 13. Ontario, Ministry of Economics, Ontario Proposals for Pension Reform: Adopting to Social and Economic Transformation (1984), p. 44.

of 1984, they quickly withdrew federal support for this initiative.

The December meeting and another one in the spring of 1985 did not allow the ministers to resolve these differences. The three outstanding issues remained inflation protection, uniform wording of the legislation and the creation of a portability vehicle. It became clear that the regulation of private pensions would not proceed according to the wishes of the Ontario government and the private sector. By 1986, each jurisdiction began to make changes.

On June 26, 1986, the House of Commons gave final reading to Bill C-90, the Pension Benefit Standards Act. The Conservative government sponsored a bill tailored from the proposals in the 1984 Action Plan for Pension Reform, including the use of unisex mortality tables. Inflation protection remained the only element missing from the bill. The Liberal government had suggested the creation of Registered Pension Accounts to enhance portability. In its place, Bill C-90 would allow workers who left an employer to put their pension credits in a locked-in RRSP.

Alberta had been unwilling to endorse the inflation protection and vesting proposals during the intergovernmental meetings of 1984-1985.<sup>14</sup> In September 1986, the Pension Benefits Standards Act was superseded by the Employment Pension Plans Act. It was similar to the federal legislation except for the vesting and locking-in provisions which were now to come after 5 years rather than two.

In 1987, Nova Scotia and New-Brunswick both introduced pension regulations. New Brunswick joined the ranks of provinces legislating in this area, leaving only Newfoundland, Prince Edward Island and British Columbia without benefit standards. The Nova Scotia legislation, to become effective in 1988, mirrored the federal legislation. The only distinction between the two Maritime provinces legislation was that vesting would be required after 5 years by New Brunswick. The P.Q. government introduced legislation in 1985 but did not have time to pass it before its defeat. The Bourassa government has not

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14. Based on private interviews.

acted yet. The Quebec government has not shown any intention to amend its legislation. A spokesperson for the Labor Department has indicated recently that "private pensions are the responsibility of the parties in negotiation".<sup>15</sup>

Ontario, which had urged its sister provinces and the federal government to resolve their differences and enact new pension regulations, was unable to present draft legislation before the fall of 1986. The defeat of the Conservatives and the constitution of the first Liberal government in more than 40 years delayed the introduction of legislation. The Ontario Treasurer, Robert Nixon, first announced in January 1986 the broad contours of the legislation which would be tabled later in the year. The government was heavily criticized by the Conservatives and the NDP because of the absence of inflation protection.<sup>16</sup> Even if inflation had been brought under control and pension benefits did not appear to be under immediate threat the social pressure for indexation remained extremely strong.<sup>17</sup> Political pressure was also important since the Conservatives had endorsed inflation protection as well as the NDP.

The situation was further complicated by a new development. While the high inflation levels had forced numerous companies to maintain the solvency of their pension funds at a high price in the late 70s, greater investment returns were creating large surpluses by the mid-80s.<sup>18</sup> In Ontario, the existing legislation did not prevent companies from using these surpluses.<sup>19</sup> The withdrawal of \$37.9 million from the pension fund by Dominion Stores<sup>20</sup> caught national attention. The case was brought to the courts

15. "Pension Win Could Have Wide Impact", Montreal Gazette, September 26, 1987, p.B1

16. "Ontario's Latest Pension Reforms Fall far Short", Toronto Sun, January 31, 1986, p. A15.; "Half-Way to Reform", Toronto Sun, February 4, 1986, p. A5.

17. "Labour Preparing to Renew Battle", Globe and Mail August 24, 1984, p. R4.

18. "Firms Tap into Growing Pension Surpluses", Globe and Mail April 2, 1984, p. B1.

19. Quebec and Manitoba are the only provinces where surpluses can not be withdrawn from the funds.

20. "Dominion Case Creates Worries on Pension Funds", Globe and Mail, March 24, 1986, p. B1.

and the company was forced to return the amount to the company pension plan. However, the Supreme Court of Ontario judgement did nothing to clarify the law, since the decision was based on a technicality.<sup>21</sup> It was judged that the Pension Commission of Ontario had erred in granting the removal of funds without notifying the employees.

A draft bill was introduced in December 1986. Its content represented a middle of the road approach. It announced a commitment to inflation protection but its final shape would only be decided once a Task Force had examined the possibilities. In the meantime, a moratorium on surpluses withdrawals would be in effect.<sup>22</sup> In June 1987, the Pension Benefit Act, received final reading, but did not include inflation protection. Its introduction at a future date has been promised.<sup>23</sup>

The final chapter on pension reform can not be written yet. The Ontario Liberal government has promised to bring in mandatory inflation protection. The Task Force on Inflation Protection for Employment Pension Plans, headed by Martin Friedland, submitted its report in January 1988. It urged the government to implement inflation protection. It proposes an indexing formula linked to increases in the CPI (75% of CPI - 1%, up to 10%).<sup>24</sup> The Ontario Treasurer has indicated that the Legislature will be asked to amend the legislation in the fall of 1988, at the latest.

The Ontario Legislature can hardly backtrack at this stage. If the government keeps its promise, the pressure will then be on the other provinces which may have to imitate Ontario where 70% of employment plans operate, in order to preserve the competitiveness of their industries.

- 21. "Dominion Pension Money Will Be Returned with Interest", Globe and Mail, August 20, 1986, p. 11.
- 22. "Ontario Wants Private Pensions Indexed", Globe and Mail, December 10, 1986, p. A1.
- 23. "Politicians Can't Agree on Indexed Pensions", Globe and Mail, June 24, 1987, p. A6.
- 24. Ontario, Task Force on Inflation Protection for Employment Pension Plans, "Pre-publication Draft" (Mimeo, 1988), Chapter 14.

It is possible to draw a portrait of the new pension laws enacted in the provinces and Ottawa<sup>25</sup>, in 1985-86.<sup>26</sup> Membership is now compulsory for full-time employees after two years of service, as well as for part-time employees earning 35% of the YMPE (25% in Manitoba). Vesting and locking-in come after two years of plan participation but for Alberta and New Brunswick which allow five years, while Saskatchewan uses the 1 + 45 formula. In all provinces, but for Saskatchewan and Manitoba, a terminated employee may transfer vested benefits to a locked-in RRSP, successor employer's pension plan or a deferred life annuity. Employers will have to contribute 50% of the vested pensions in all jurisdiction. Within ten years of the normal retirement date, early retirement is allowed.

The use of unisex mortality tables is now compulsory except in Alberta and Saskatchewan. The splitting of credits at marriage breakdown is now possible and/or required in all provinces. Post retirement benefits must represent 60% of the pensions payable when both spouses were alive (50% in Saskatchewan and 66% in Manitoba). If a spouse dies before retirement the full lump sum value goes to the survivor as an immediate or deferred annuity, except for New Brunswick and Nova Scotia which prescribes 60% of the commuted value of the vested pension. No cessation of survivor benefits will be allowed after remarriage.<sup>27</sup>

The refinancing of the Canada Pension Plan and alterations of some of its features were both settled at a meeting of the Finance Ministers in December of 1985.<sup>28</sup> By then, the Ontario government had been urging the federal government to deal with this matter for a long time and was resisting the inclusion of the child-rearing drop-out clause because of Ottawa's slowness in the matter (see section

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25. See Appendix 2.

26. It does not include British Columbia, Quebec, Prince Edward Island and Newfoundland. The federal legislation covers Yukon and the Northwest Territories.

27. If Saskatchewan regulation differs in many instances, it is because it enacted its legislation as early as 1981.

28. A previous meeting had been held in January of 1985.

5.1).29

In June 1981, the provincial Finance Ministers had been asked to examine the possibilities in this matter.<sup>30</sup> It was agreed that a yearly increase of .2%, from the 3.6% contribution base to a rate of 8% to 10% would be necessary, assuming that the benefits would remain the same.<sup>31</sup> But the preparation of the Green Paper, the work of the Parliamentary Task Force as well as the electoral defeat of the federal Liberals killed any chance of a quick settlement. Moreover, as long as Ottawa did not take a position on the issue of coverage and the possibility that the Canada Pension Plan would be enlarged remained, no settlement could be contemplated because there was no sense of urgency in Ottawa which did not borrow any money from the fund.

Ottawa had toyed with the idea of maintaining the same contribution rate and let the fund deplete itself. In so doing, the provinces would have had to repay the interest on the fund and the capital itself. Another possibility was to increase the rates in order to maintain the fund, but not allow interest to build up in the fund, a solution proposed by the Canada Pension Plan Advisory Committee.<sup>32</sup>

The provinces agreed to make some concessions in order to preserve continued access to the fund. It was decided that the partial-funding formula would be changed to a pay-as-you-go formula with a reserve fund (See Table 7.1). In practice, the fund which had been equivalent to a six years reserve would be reduced to a two-year reserve. Contributions rates would start increasing in 1987, at a yearly rate of .2% until 1992 when the increases would be of the order of .15%, to attain the level of 7.6% in

- 29. Ontario, Ministry of Treasury, "Review of Issues in Financing the Canada Pension Plan", (Mimeo, 1976)
- 30. Provincial Premiers' Conference, Conference Communique, (1981).
- 31. "Report of the Working Group of Provincial Officials on Retirement Income Matters", (Mimeo, 1981), quoted in Ontario, Ministry of Economics, *Ibid.*, p.42.
- 32. Canada, Advisory Committee of the Canada Pension Plan, "Report on the Funding of the Canada Pension Plan", (Mimeo, 1984).

2011. The formula approximated what the provincial Finance Ministers had envisaged in 1981. Until 1995, the provinces will be able to borrow up to \$2.5 billion a year although they have started to repay the interest on their loans and will keep doing so.<sup>33</sup>

The negotiations also produced agreements to make improvements to the plan. Contributors would be allowed to draw CPP pensions on a more flexible basis (at any time between 60 and 70 years of age) the benefits being adjusted actuarially. Credits would be split in case of marriage breakdown and at retirement. Furthermore, survivor benefits would not be terminated anymore on marriage breakdown.

## 7.2           Conservatives in Power: the De-Indexation Incident

The dissolution of the House of Commons in June 1984, prevented the Liberal government from passing its draft legislation. The subsequent Conservative electoral victory delayed action further. When the Conservatives assumed power they intended to pursue two overriding objectives: encourage economic recovery which entailed deficit reduction<sup>34</sup> and improve federal-provincial relations.

Pension policy had been the object of specific promises by the Progressive Conservative party during the electoral campaign.<sup>35</sup> They included the extension of Spouses' Allowance to widows and widowers between the ages of 60 and 65; the increase of GIS benefits as soon as resources permitted;

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33. During these negotiations transfer payments from Ottawa to the provinces were also renegotiated. The federal government had decided to reduce the payments to the provinces. CPP refinancing and transfer payments were linked together during the negotiations.
34. The federal deficit had increased from \$4.5 to \$32 billion between 1981 and 1984.
35. Michael J. Prince, "Startling Facts, Sobering Truths and Sacred Trust: Pension Policy and the Tories", in How Ottawa Spends, ed. Allan M. Maslove (Toronto: Methuen, 1986), p. 151.

the pursuit of negotiations aimed at the inclusion of homemakers' pensions in the CPP; the creation of RPAs to improve portability and restore full indexing of OAS benefits which had been limited to 6% in 1985 and 5% in 1984. This last promise and Mulroney's declaration that the social welfare system was "a sacred trust not to be tampered with", would come back to haunt the government which was looking for ways to reduce the deficit.

In May 1984, a few months before the Conservatives took power, the Department of Finance initiated a study to identify how the federal deficit could be reduced<sup>36</sup>. By 1985, social spending constituted more than 40% of the federal budget. The economic recession had increased the number of people who had to rely on transfer payments.<sup>37</sup> The Finance Department suggested that one way to reduce the deficit would be to reconsider the commitment to universality embodied in programs such as the Old Age Security and Family Allowances. Until the Trudeau government had envisaged such a possibility in the early 70s (section 5.1), the universality principle had never been questioned.

Michael Wilson, the new Minister of Finance, opened the door to a reevaluation of the universality principle in a policy document presented to the House of Commons in November 1984, which listed the deindexation of OAS payments as a possible cost-cutting measure.<sup>38</sup> The government came under immediate pressure from opposition parties and the media and in the weeks which followed, the Minister of Finance, the Minister of National Health and Welfare and the Prime Minister kept issuing contradictory and ambiguous statements about the government's intentions concerning the universality principle.

By late December, the government had backtracked considerably. Mulroney declared "what we

- 36. David Bercuson, J.L. Granatstein and W.R. Young, Sacred Trust ? Brian Mulroney and the Conservative Party in Power (Toronto: Doubleday Canada Ltd, 1986), chapter 6 provides an overview of the events which led the federal government to deindex pension.
- 37. K. Banting, "The Welfare State and Inequality in the 1980s", Canadian Review of Sociology and Anthropology 24 (1987): 309-338.
- 38. Canada, Department of Finance, A New Direction for Canada: an Agenda for Economic Renewal (1984).

shall do is maintain the integrity of the universal system ... while attempting to find a formula we hope will allow us to do more for those ... who genuinely need help".<sup>39</sup> This was followed by the publication of a Consultation Paper from the Department of National Health and Welfare in January 1985, which announced that universality would remain a keystone of the Canadian welfare system.<sup>40</sup> It thus seemed that as the Conservatives were engaging in the budget formulation process, the economic security of the elderly would be sheltered from cutbacks. Wilson seemed to be defeated, while Mulroney had successfully extricated himself from the dangerous waters he had dared to plunge into.

In February, budget preparation got under way. The universality principle was now politically untouchable but Finance decided to deindex the OAS and family allowance benefits, so that each year inflation protection would remain 3 percentage points below the real inflation rate, thus saving \$1.6 billion a year. To offset this 3 point loss, the super-indexation of the GIS benefits, was discussed but eventually dismissed since the savings would have only been in the order of \$740 million. Although Jake Epp, the Minister of National Health and Welfare, opposed the deindexation of the OAS benefits, he gave in because he was assured that the burden of reducing the deficit would be shared equally among all classes of society.<sup>41</sup>

The deindexation of pensions did not draw much attention until Raymond Garneau pointed out that by the end of the decade, the deindexation measure would save the government \$6.4 billion and that the elderly would have to pay a disproportionate portion of the bill. From that moment until the cancellation of the measure on June 27, deindexation drew national media attention, dominated the House of Commons debates and stirred pensioners' organizations into action.<sup>42</sup>

39. Bercuson, *Ibid.*, p. 107.

40. Canada, Department of National Health and Welfare, Child and Elderly Benefits: Consultation Paper (1985).

41. Bercuson, *Ibid.*, p. 113.

42. For a recapitulation of the events, and how different senior organizations attempted to lobby the government, see: E. Russel-Dixon, "Seniors advance, Mulroney Government Retreats:

The largest seniors organizations put pressure on the Cabinet members and individual MPs. The representatives of the National Pensioners and Senior Citizens Federation representing 400,000 Canadian elderly, Pensioners Concerned (50,000 seniors) and the Association of Jewish Seniors met Wilson and representatives of National Health and Welfare after having staged a symbolic "burning of promises" in front of the Parliament.

The Mulroney government was in a desperate situation. The opposition parties were having a field day, the electronic press would not turn its cameras away from such a spectacle. A public opinion poll<sup>43</sup> revealed strong public opposition to the initiative and pressure from seniors' organizations and other welfare groups would not subside. Furthermore, the allies of the Conservative government were now deserting it. Although seven provincial legislatures were under Conservative control, most of them adopted motions condemning the federal initiative. A more severe blow came when four national business organizations, the Canadian Chamber of Commerce, the Business Council on National Issues, the Canadian Organization of Small Business and the Canadian Federation of Independent Business joined the public outcry.<sup>44</sup> On June 26, Mulroney decided to cut his losses and the following day, he announced that he would withdraw the measure. The budgets of 1986 and 1987 did not contain any measure to constrain the growth of GIS and OAS benefits. In fact, the 1986 budget extended Spouses' Allowances to widows and widowers aged 60 to 64.

What was significant in Mulroney's decision to curtail the indexation of universal entitlements and ensuing retreat of the federal government? First, the exercise was not the product of the pension policy process. During the Pension Debate, Old Age Security had remained immune from attacks. Only the Economic Council of Canada had suggested the curtailment of benefits in favor of increased GIS

Grey Power and the Reinstatement of Fully Indexed Pensions", (Mimeo, 1986).

- 43. The poll indicated that 85% of respondents opposed the measure. "Tories Retreat on De-indexing Pensions," Globe and Mail, June 28, 1985, p. 1.
- 44. "Business Joins Outcry about Seniors' Pensions," Globe and Mail, June 12, 1985, p. 5.

benefits.<sup>45</sup> Provincial and federal decision-makers had not considered a downgrading of OAS benefits. In fact, some had suggested a small increase of benefits.<sup>46</sup>

Second, the deindexation incident reminds us that pension reform was able to move ahead in spite of the economic recession and the loss of confidence in welfare intervention. Remarkably, pension reform was not choked by the powerful constraints which provided the context in which the Pension Debate took place. The economic downturn and the reservation of decision-makers vis-a-vis any further expansion of the welfare apparatus only had a limited impact on the pension policy process. Mandatory private coverage and the pace of change seem to have been most affected by this different set of conditions.

### 7.3            **Pension Reform in the 1980s: Evaluation**

Pension reform in the 1980s has not affected the balance between the public and private arms of the system. An expanded CPP would have diminished the importance of employment pensions in the Canadian retirement income system. The scope of public intervention remains as it was in the 1970s. On the other hand, the means through which improvements are enforced have changed and differ from the strategy adopted in the 1960s. Further regulation of employment pensions has been chosen.

The elderly poor have benefitted from continued increases in the benefits granted through the GIS and the decision not to discontinue Spouses' Allowances on the death of the spouse. The elderly

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45.        The proposal did not receive unanimous support among the members of the Council. See Economic Council of Canada, *Ibid.*, pp. 111-113.

46.        Ontario proposed increased OAS benefits. *Ibid.*, p. 27.

poor find their position strengthened by Mulroney's retreat on the deindexation of OAS benefits. If the Mulroney government had successfully curtailed the automatic indexation of benefits, the elderly poor would have seen their economic security eroded. In the end, and as indicated by the National Council of Welfare, "elderly Canadians have seen a substantial decrease in poverty over the past several years, thanks in large part to improvements in the retirement income system".<sup>47</sup>

While the integrity of the OAS has been preserved, the GIS has now become an object of political promises. Diefenbaker and Gordon had both endorsed the creation of a public contributory plan because they wanted to withdraw the OAS from the auction block. In this respect, the GIS has taken its place. Increased benefits were enacted in 1979, 1980 and 1984, which were all election years.

The elderly poor have been sheltered from the worst effects of the recession and have maintained their gains. The safety net is even more secure, now that the Conservative government has had to make a humiliating retreat in 1985. It will not only become nearly impossible to attempt such an operation in the years to come, but the preservation of the OAS enjoys wide public support since it has the virtue of providing benefits to the entire population, which makes it a taboo for those intent on curtailing benefits. The pension reform process has thus brought some measure of reinforcement to the safety net component of the system. If the economic condition of the elderly poor formed part of the agenda, it played second fiddle to the larger question of income replacement.

On the other hand, the economic status of elderly women and their treatment was the focus of much analysis and debate. For the first time, in the history of pension reform, the problem of women, as such, was scrutinized and given prime consideration. The socio-economic status of women has been significantly altered since the Second World War and the retirement income system, conceived for a society in which the traditional nuclear family was still dominant, had to be altered. Whether poor, widowed, at home or at work, the needs of women were not met appropriately by the Canadian pension

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47. National Council of Welfare, Progress against Poverty (Ottawa: NCW, 1986), p. 1.

system. Women's groups were actively involved in the Great Pension Debate and shared responsibility for fuelling it. Women and Pensions became the subject of a multitude of inquiries and constituted an element of discussion at the National Pensions Conference. As a result many of the improvements to the CPP and employment pension regulations are directed towards women. In fact, it is fair to say that it is in this regard that pension reform has met its greatest measure of success.

As indicated below, the elderly poor - a majority of whom are women - have seen their economic status improved. Pre and post-survivorship provisions, which affect mostly women, have been much improved in the public and private fields. Pension credits are now considered marital assets to be split on divorce. The enactment of the child-rearing drop-out clause and mandatory pension plan membership for part-time workers are two measures geared primarily toward women with children who wish to stay in the workforce, although not on a full-time basis. The use of unisex mortality tables, although they entail higher pension costs for contributors, was another concession.

The only outstanding question remaining is the fate of Homemakers' Pensions. Although the Conservative government was committed to the introduction of such a scheme, it is widely opposed. Federal bureaucrats from both Finance and National Health and Welfare, welfare organizations such as the National Council of Welfare, the union movement and even some women's organizations oppose the idea. The issue has received even less endorsement than the expansion of the CPP benefits. The introduction of this measure which runs against the very nature of the CPP, conceived for the workforce, is unlikely in the near future.

The issue of replacement income constituted the most divisive and controversial element of the Great Pension Debate. The state was pressured into reassessing the proper balance between private and public pensions arrangements. The CPP had been created in order to provide a limited measure of protection against a sharp drop of income. It had been done in spite of social and political resistance. The CPP became another type of safety net, one which was conceived to answer the needs of working

and middle classes unable to find appropriate protection. In order to provide income security, a social insurance scheme was devised which forced those already participating in employment plans to contribute to the CPP.

In the mid-seventies, the state was once again asked to step in and become the primary agent of protection because of the shortcomings of private plans. The target group was constituted by those who could only rely on the CPP and those who lost their pension privileges because of unfair vesting and lack of portability. The CLC, the NDP and National Health and Welfare argued that the best way to deal with the problem was to expand the CPP. In contrast to changes needed to bring fairer treatment of women, an expanded CPP entailed the attrition of employment pensions and the transformation of capital markets. The state was asked to disregard and displace the providers of private pension and to abandon the concept of protection. With the exception of Department of National Health and Welfare, the federal government never endorsed the proposal and chose to provide further protection through incremental improvement of private pension benefits standards. Improved portability and vesting rules will thus improve slightly the lot of those already in private pension plans. These improvements constitute a limited set of changes. The greatest losers in the pension battle are not the elderly poor, women, the middle-class or unionized workers. The great losers are those workers who are employed in the weakest sectors of the economy. While contributors to employment plans will enjoy increased protection of their private pensions, a significant proportion of the workforce will not be able even to contribute to one. The working poor, who were the target of so much attention have not met the measure of success of other groups.

Canada still seems unable to come to grips with the problems of the working poor. Just as the Social Security Review failed to produce policies designed to deal with persistent poverty among a wide cross-section of the workforce, pension reform has not been able to produce solutions.

TABLE 7.1  
Impact of New Schedule of Contributions Rates on the CPP

Contribution Rate (%)	Expenditures	Revenue		Loans	Fund	Fund/Benefit Ratio
		Cont.	Int.			
1987	3.80	6.8	5.8	3.4	2.5	36.6
1988	4.00	7.9	6.5	3.6	2.2	38.8
1989	4.20	9.0	7.3	3.8	2.1	41.0
1990	4.40	10.0	8.2	3.9	2.1	43.1
1991	4.60	10.9	9.1	4.1	2.3	45.4
1992	4.75	11.9	10.0	4.2	2.3	47.7
1993	4.90	12.9	11.0	4.4	2.4	50.1
1994	5.05	14.0	12.0	4.5	2.4	52.5
1995	5.20	15.3	13.1	4.6	2.4	54.9
1996	5.35	16.3	14.3	4.7	2.6	57.5
1997	5.50	17.7	15.6	4.9	2.7	60.2
1998	5.65	19.1	17.0	5.0	2.9	63.1
1999	5.80	20.6	18.5	5.1	3.0	66.1
2000	5.95	22.2	20.1	5.3	3.2	69.3
2001	6.10	23.8	21.9	5.3	3.5	72.8
2005	6.70	31.6	30.4	5.7	4.5	88.9
2010	7.45	45.9	44.8	7.1	6.0	116.2
2011	7.60	49.7	48.3	7.5	6.9	122.3

Source: Canada, Department of Finance. "New Financing Arrangement for the Canada Pension Plan". (Mimeo) 1985. P. 3

## CHAPTER 8

### PENSION REFORM IN THE 1960S AND 1980S: A COMPARISON

From the late 1950's, when the introduction of a contributory pension plan was first given serious consideration to the mid-1980's when Ottawa and most of provinces agreed to improve their respective benefits standards legislation, pension politics has changed dramatically. Chapter 8 highlights the few parallels and the major differences between the two periods.

One of the commonalities which emerges from a comparison of pension politics in the 1960's and 1980's is that the twin concerns of financial stability and performance served to put the pension question back on the political map. By the late '50s questions were raised about the existing retirement income system which did not have a contributory component. The exclusive reliance on the Old Age Security Act funded out of general revenues seemed particularly vulnerable to societal pressures and amenable to politically motivated manipulation. The OAS was an easy and identifiable object of pressure for the champions of social compassion, while politicians could target it much too easily as a means to get additional votes through promises of increased benefits. Secondly, however rapid the expansion of private pension arrangements was, they protected less than half of the workforce, and the likelihood of widespread private coverage seemed unlikely unless mandated by the state. In the meantime, a majority of the workforce suffered a severe drop of income at retirement. The Canada Pension Plan was in part a response to these problems.

Approximately twenty years later, the CLC was the first to claim that the public and private arrangements for retirement were inadequate; poverty was still rampant among an important

cross-section of the elderly population, while combined, the CPP and employment pensions could not protect everybody fully against a sharp drop in income. Moreover, inflation was rapidly eroding private pension benefits. At the same time, declining fertility rates and the capacity of the provinces to borrow at less than market rates could threaten the solvency of the CPP in the years to come if nothing was done.

However, the federal government showed little if any enthusiasm for pension reform in the latter half of the 1970's, in contrast to the late 1950's when it had sought to deal quickly with the problem. In fact, while in the former case it was pressured to act, in the latter it seems to have preceded public opinion. The Diefenbaker government seriously considered the creation of a contributory plan but decided otherwise. The Clark Report dampened the enthusiasm of the Prime Minister who could not see any immediate benefits. Quebec's initial resistance killed the initiative temporarily. The Liberal Party made pension reform a top priority. The desire to restructure the retirement income system was itself part of a larger commitment to enhanced state intervention in economic and social affairs, a rediscovery of Keynesianism of sort.

Twenty years or so later, no such enthusiasm appeared to move the Liberal Party. In the late seventies, the context in which the Liberal Party endorsed pension reform was quite different. Gone were the days of steady growth and unabashed state intervention. Stagflation was threatening the economic infrastructure of the country and, in the social field, the federal government was still trying to bring the "Social Security Review" to fruition. In these conditions, the Liberal government strained its reformist impulses and was content to appoint a Federal Task Force. For five years, the Trudeau government refused to endorse pension reform.

From 1975 to 1980, the torch had to be carried by a loose but large constituency including retirees, unionized workers, women's group and welfare advocates which argued for significant transformations of both public and private components of the retirement income system. A plethora of studies, position papers and reports were published in an effort to demonstrate the need for change.

Never before had so much attention been focused on the pension system. This phenomenon reflected both the growth in the number of groups advocating changes and their capacity to lay solid foundations from which claims could be made as well as the growing complexity of the retirement income system and the multiple implications of any change. The pressure exerted on the federal government during this period resembles somewhat the wave of criticisms that befell the means-test pensions in the 1940's.

In 1975, Marc Lalonde who preceded Monique Begin as Minister of National Health and Welfare, had rejected the CLC proposals on the grounds that they would "have the effect of eliminating or seriously undermining the private pension and savings system."<sup>1</sup> Whether or not the Federal Task Force on the Retirement Income System and the Royal Commission on the Status of Pensions in Ontario were commissioned to gain time, their release as well as the publication of the Cofirentes+ report only served to confirm the shortcomings of the system and add legitimacy to the claims of the reformist coalition. While it was out of power the Liberal Party finally decided to make pension reform its priority.

Thus, in both cases the performance of the retirement income system as well as its financial stability were at stake, and in both cases the Liberal Party while in opposition decided to promote pension reform, after it had been the subject of public inquiry. However, in 1960, the Liberal Party was ahead of the game and the decision was a reflection of a renewed commitment to state intervention. In contrast, the Trudeau government (1974-79) resisted the idea for quite a while. Not only did the government resist the idea for a long period of time but six years would be needed by the federal government and the provinces to implement the changes.

If pension politics and the policy process took an entirely different character in the 1980's, it is to a large extent because the proposals went far beyond what had been proposed and realized before. The expansion of CPP arrangements as well as mandatory private coverage both implied a fundamental

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1. M. Lalonde, *Ibid.*, p. 7.

restructuring of the retirement income system and interference with the private pension network.

The creation of the means-tested pensions (1927) and universal pensions (1951) did not infringe on the private economy. In 1927, the traditional relief apparatus could not meet the demand anymore. The debate centered on the necessity to provide outdoor relief and the measure was resisted by the providers of indoor relief. Similarly, in 1951, the state was forced to deal with the lacunaes of a system which it had itself created. In both cases, the state was attempting to come to grips with problems which were of little relevance to business.

On the other hand, the Government Annuities Act (1908) and the CPP/QPP, came under fire because they entailed public intervention in areas where the insurance industry was operating profitably. The sale of annuities by the federal government came under repeated attacks and was ultimately eliminated. The creation of a public contributory plan was perceived as a threat by insurers but they were unable to break the momentum behind the initiative.

However, extending the coverage level of the CPP would have more far reaching consequences. The insurance industry would see the expansion of its market seriously stifled by a public system which could guarantee a replacement ratio of up to 75%. Big businesses would lose control over large sums of capital which they controlled as trustees. Financial intermediaries would be asked to adapt themselves to a fundamental transformation of the channels through which private savings are recycled and fuel economic growth. Finally small businesses, most of which did not offer private protection would have to double their contributions to the CPP.

Earlier legislation entailed something of a positive-sum game. Since, with the exception of the profitable operations of insurers, the expansion of public arrangements only led to further extraction of surpluses and their redistribution, the public and private elements of the retirement system could evolve, side by side, with limited interference. On the other hand, a further expansion of the CPP/QPP in the

1980's would not take place in such a vacuum and would seriously alter the delicate balance and redefine the boundaries of the private and public spheres of activities. The proposals of the public coalition for an expanded CPP made pension reform a zero-sum game.

Pension politics in the 1980's would thus differ significantly from the events of twenty years earlier because the possibility of an expanded public program would lead to the formation of the first anti-expansionist coalition of business interests and resistance in Ottawa itself.

Consequently, the position, strategy and behavior of private interest groups in the 1980's differed noticeably from those of the early 1960's. In the early 60s, the insurance industry was unable to halt or influence significantly the pension policy-making process. The isolation of the insurance industry and its overreliance on the Ontario government's capacity to halt pension reform led to its failure.

First, the insurance industry had to fight from a weakened position since it could not gain widespread support in the business community except for the Chamber of Commerce. Second, the anti-collectivist rationale of the insurance industry and its attempts to undermine the public plan by arguing that it was fundamentally unsound did not sway the opinions of those arguing for enhanced protection. While insurers stressed the individual's right to choose his own pension arrangements, they could not deny that a large cross-section of the workforce were not offered the opportunity to participate in private plans and would not in the foreseeable future, if ever. Moreover, the opponents of the plan could hardly argue that the project would put the Canadian economy under any threat.

Third, the insurance industry was unprepared and somewhat surprised by Ottawa's initiative. Headquartered in Ontario, and used to operate under provincial jurisdiction, insurance representatives found nothing better to do but to visit the ministers of Health and Welfare and Finance in order to get "assurances" that the government had no intention of going ahead with the plan.

Finally, rather than proposing alternatives , the insurance industry criticized the plan to the bitter end. Was the insurance industry frozen out of the process because of federal-provincial negotiations and were its interests sacrificed? It clearly was left out, but the defeat of the insurance industry was to a great extent pre-determined and the intergovernmental settlement reinforced a fait accompli.

In the 1980s, the business community was in a different position altogether. The insurance industry was not isolated as it had been in the 60s. The proposal for expanded coverage, either through increased state intervention or improved private coverage served to bring the different elements of the private sector closer together and forced them to close ranks.

Because the federal government waited five years to initiate anything, the private sector was given ample warning. If the private sector could do nothing to preempt public discussion, it was allowed to come to grips with what could come. Clearly there was an evolution in the thinking of the industry which in the mid-seventies did not yet see any need for change, but was ready to endorse a modest assortment of improvements by the time of the National Pensions Conference. This period of grace also allowed the different elements of the business community to come closer together, although differences would remain. The insurance industry went as far as envisaging mandatory coverage of the workforce and inflation protection, in order to ensure that the proposals for an expanded contributory plan would be defeated. Although other elements of the business community would not go as far, a modest package of reforms was prepared.

While the private sector closed ranks against the idea of expanded coverage, the federal government was torn apart over the pension issue. This also stands in complete contrast to what had happened twenty years earlier. As stated earlier, Walter Gordon who became the minister of Finance under Pearson was largely responsible for committing the Liberal Party to pension reform before the 1962 federal elections. Once in power, the Pearson government, perhaps too rapidly, prepared itself to pass the legislation. There is no evidence that serious resistance arose within the federal government. If there

was opposition within the bureaucracy or the government it never threatened the project, as the intergovernmental dispute did.

If cost-conscious actors were ready to initiate pension reform in 1963, it is because a closer link between contributions and benefits appealed to them. It also left ample room for the insurance industry to carry on its operations. Twenty years later, no such rationale could be used to persuade the cost-conscious actors in Ottawa. Not only would the state have to deal with the resistance of the business sector, since an expanded CPP entailed the restructuring of the pension field, but the alternative, mandatory private coverage would put heavy pressure on small businesses many of which were threatened by the recession.

In 1975, the Minister of Health and Welfare was not ready to give any credence to the CLC proposals. His successor, Monique Begin showed more enthusiasm for pension reform but was met with the resistance of other ministers who delayed the publication of the pension task force report. In 1980, the Liberal Party committed itself to pension reform and when it assumed power once again, it announced the National Pensions Conference and promised the publication of a White Paper soon afterwards.

At the Conference, it soon became clear that Finance and Health and Welfare had different expectations. While Begin talked exclusively about inadequate coverage, in his address to the National Pensions Conference, Finance Minister McEachen seemed to rule out the possibility of an expansion of CPP arrangements when he declared, "whatever Canadians decide ... private pensions plans will continue to play a vital role in the retirement income system."<sup>2</sup> As the federal government delayed the publication of its White Paper, which ultimately appeared as a Green Paper, the rift in Ottawa became obvious.

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2. Canada, Department of National Health and Welfare, National Pensions Conference Proceedings, p. 48.

As far as the alignment of forces within the federal government was concerned, the Department of National Health and Welfare was isolated. It had to confront not only the objections of the Department of Finance, but the skepticism of the Department of Insurance and the Federal-Provincial Relations Office. The former was naturally inclined to argue for the improvement and further protection of private pension benefits through regulations. The latter was aware of Ontario's opposition and the inevitability of confrontation if Ottawa sanctioned the expansion of CPP benefits. When the Green Paper was finally released in December 1982, improved coverage through an expanded CPP or mandatory private coverage had been unequivocally jettisoned by the federal government. Once that decision was taken, the federal government never looked back. Still, by 1983 the federal government was not yet ready to go ahead and a Parliamentary Commission was established to buy even more time.

As Ottawa was striving to reshape the retirement income system, so were a number of provinces trying to come to grips with the situation. For the provinces the stakes were high and their participation a necessity and thus, from a federal perspective, the room for maneuver was limited further.

In 1963, the capacity of the federal government to implement a contributory plan, as long as it did not supersede a provincial plan, was clear. Ottawa was taken by surprise when the Quebec government announced that it intended to establish its own plan, but quickly came to terms with the fact that it would have to accommodate the provincial government. If Ottawa was ready to live with a Quebec plan it needed Ontario's endorsement if a national plan was to have any relevance and chance of survival. The greatest threat to the creation of the Canada Pension Plan did not arise in Ottawa, nor did it come from the insurance industry, but out of the resistance of the Ontario government. When Ottawa failed to gain its support it was left with no other choice but to turn the tables on the Davis government and isolate it. By promising the provinces control over the CPP funds, their acquiescence was won.

When the federal government promised to remedy the shortcomings of the retirement income system in 1981, it was fully cognizant of its jurisdictional limitations. Ontario, Quebec or an alliance of

provinces could stop Ottawa. Moreover, the provinces were unlikely to endorse pension reform if it threatened to sever its access to the pension fund. Many provinces decided to initiate their own policy review. British Columbia, Ontario, Saskatchewan, Quebec and Nova Scotia all sponsored major studies. In the end, only Saskatchewan was ready to argue forcefully for an expansionist position. Although the Cofirentes+ report proposed a mildly expansionist formula, Quebec never argued strongly for that solution, while the Nova Scotia government published its position once the decision not to expand coverage had been taken.

In fact, it is rather remarkable that the obstacles to an expansion of the CPP forced decision-makers to choose the most difficult route, the regulation of employer-sponsored pensions, which reduced Ottawa to the rank of co-equal among eleven governments. It is somewhat of a paradox, that in the 1980's the greatest advances came in the area in which the greatest potential for failure existed, not only because eleven jurisdictions had to be brought together but also because the private sector might have tried to use all its might to defeat the proposal.

These inherent difficulties were made evident in two instances. When Ottawa announced in 1982 that an extra year would be needed to allow a Parliamentary Task Force to probe further into the reform package proposed in the Green Paper, the private sector was allowed to focus its attacks on the proposal for mandatory inflation protection. The inherent weaknesses of the excess-interest formula allowed insurers and employers to undermine the proposal. The greatest drawback of this complicated formula was the unpredictability of the costs which could swing wildly from one year to another. Consequently, the private sector did not have to lead a frontal charge against inflation protection, a strategy which could have been damaging to its public image; rather, it was enough to undermine the proposal by exposing its weak flank. By 1984, the excess-interest approach was dropped by both Ottawa and Ontario. However, inflation protection survived. The private sector had only partly met its objective.

The private sector was more successful in forcing the retreat of the Manitoba government on the

inflation question. In this case, the difficulties of divided jurisdiction are clear. The NDP government of Manitoba, unwilling to wait for its sister provinces decided to amend its pension legislation in 1983. The legislature was presented a draft bill which obliged employers to offer inflation protection. But under intense pressure, the item was withdrawn from the bill. The Manitoba government was persuaded that it could not afford to be the only province to force higher pension costs on its industries. Manitoba employers would have been the only ones forced to meet the higher costs and their competitiveness would have been undermined.

It is fair to say that the private sector has had some impact on pension reform and profited from the prolonged delay by the federal government, brought about not so much by jurisdictional difficulties but internal division and economic recession, to battle inflation protection. At the same time, and in sharp contrast with the events which preceded the enactment of the CPP, the private sector was ready to discuss improvements to benefit standards. In 1964, insurance representatives which formed part of the Ontario delegation designated to negotiate with Ottawa undermined their own efforts when they forced the federal government to turn towards Quebec to strike a deal. In comparison, at the National Pensions Conference and thereafter, Ottawa's retreat on coverage was facilitated by the insurers and employers willingness to accept more modest improvements of private pensions.

Unlike the major confrontation which preceded the introduction of the CPP, the improvements made in the 1980's were the product of an adjustment process by which a majority of governments narrowed the range of options under consideration. CAPSA played a crucial role by finding some common ground which could serve as a basis for an intergovernmental settlement. The sections of the Green Paper dealing with proposed changes to pension standards were a carbon copy of the CAPSA proposals. As the Manitoba Superintendent of Insurance indicated at the time, negotiations could have started in 1983, but Ottawa refused to move in the darkest hours of the recession. Ottawa was not even ready to increase GIS benefits, a measure supported by most, including business groups and free from provincial interference.

In the spring of 1984, the provinces and Ottawa engaged in formal discussions at the ministerial level. It is impossible, at this stage, to know exactly the content of the talks and the exact nature of negotiations' dynamic. The evidence which we have been able to gather indicates that the private sector and the Ontario government had hoped to achieve perfect symmetry and went as far as attempting to get all the provinces to use exactly the same wording. In this respect, and because inflation protection was not included, the talks were not completely successful. However, the numerous other items on the agenda, from vesting to survivor benefits were all approved and enacted by a majority of provinces.

Even if the reforms came through the regulation of private pensions, the longest and most difficult route to change, by 1986-1987, Ottawa and the majority of provinces had enacted new legislation. It must be emphasized that inflation protection has not been withdrawn from the political agenda altogether. The federal government, which had endorsed inflation protection in 1984, dropped the idea once the Conservative Party took charge in September of that year. The Ontario government, always considered a conservative force on pension issues was isolated and unable to get other governments to share its views on this issue. Oddly enough, the Ontario government has now become a leading advocate of inflation protection and the province has become the battleground where the fate of inflation protection will be decided. Thus, while there is some support for the thesis that federalism is a conservative force, the antithesis, namely that the seeds of radicalism in one jurisdiction can then spread to other provinces, coexist in this area. If Ontario, where 70% of all employer pensions operate, implements inflation protection, the other provinces may have to acquiesce and bring similar legislation to preserve the competitiveness of their industries. Now that the economic recovery has produced unprecedented profits, the issue has assumed a high profile and the political costs of retreating are likely to be extremely high.

### *Conclusions*

In this thesis, a dichotomy between politics as it relates to the enactment of policies designed to protect the elderly from poverty and the politics of the income replacement apparatus has been

uncovered.

The state has assumed almost all the responsibilities as far as sheltering the elderly from poverty is concerned. Although the birth of public pensions was painful and long in coming, since 1927, there has been very little debate and conflict about state responsibilities in this respect until the Conservative government attempted but failed to curtail the indexation of OAS benefits in 1985. Socially and politically, public and collective measures to protect the elderly from outright poverty are widely supported. Even Canadian business interests do not question the role of the state in this respect. The failure of the Mulroney government in regard to the deindexation of OAS benefits has paradoxically solidified the integrity of the program.

The resistance to measures designed to provide replacement income has been much stronger although not necessarily successful. Each time that the state has considered further intervention the room for maneuver has been reduced, so that pension politics has evolved, in the eyes of those opposed to public intervention, from a positive-sum game in the 1960's to a zero-sum game in the 1980's. While the state considered and was able to implement a contributory plan in 1965 because it interfered little with the activities of the business interests in this area, in the 1980's, further expansion of the CPP/QPP was resisted both inside and outside the state because it called for a drastic restructuration of pension arrangements.

#### *The Non-Governmental Conflict*

The analysis has led us to identify the evolution of the constellation of non-governmental groups which have occupied opposite positions on the pension landscape. Most interesting is the fact that on pension matters, the business community has only mobilized itself once to stop state intervention. Orientation groups have shown little if any interests and accept the role of the state as guardian of the elderly poor. They even expressed their disagreement with the deindexation measures of the Mulroney

government.

On the other hand, when their interests have been at stake, public intervention has been combatted. They scored their first victory when they successfully argued for the curtailment of annuities sales by the federal government. However, they failed to stop the creation of the CPP/QPP. In some measure, this can be attributed to the isolation of the insurance industry on the matter.

It is only because the different elements of the business community all felt threatened that a coalition was put together in the 1980s. Even then, they were unable to hide serious internal divisions. They combined their efforts to undermine the most ambitious proposals, but chose not to reject more moderate proposals. a strategy which had produced a backlash twenty years earlier. However the intervention of non-governmental groups does not account for the success or failure of state initiative, they usually contributed to tilt the balance in one direction or another.

On repeated occasions orientation groups have successfully pressured the state to intervene. Unions and Social Reformers were responsible for putting the pension issue on the political agenda and pressuring the state to intervene in the first half of the century. In the late 1970s, they again succeeded in forcing a debate on the fate of the retirement income system. Women's groups have been particularly successful in pointing at the poor treatment of women in the system. Finally, the public lobby played a major role in forcing the federal government to maintain the integrity of the Old Age Security.

#### *The Intragovernmental Conflict*

Our analysis of pension politics from the Second World War to the early 1970s challenges Bryden's conclusions about the level of intra-state conflict within the federal government. The creation of the OAS, the GIS and the CPP/QPP were not preceded by intense conflict within the federal government. Rather, by the end of the Second World War, Keynesianism and Beveridgeanism provided the context

which inspired social policies, including pension policies. Within the federal bureaucracy and among politicians, this group came to assume a predominant position and was able to override the resistance of those who may not have sanctioned this brand of government intervention. It is obvious that tough bargaining took place and that compromises had to be reached but they pale in significance when compared to the deadlock which gripped Ottawa in the 1980s.

The proposal to extend the reach of the public contributory plans, endorsed by 1981 by the Department of National Health and Welfare went far beyond what many considered as the appropriate level of state intervention. A further expansion of the CPP would have led the state to determine the appropriate level of retirement income of most Canadians. Not only was the ambitious proposition brought forward at a time when Keynesian economics was being questioned as the proper guide to state intervention anymore but also because the side effects of the reform - the attrition of the private insurance network, the transformation of capital markets and the added pressure on small businesses - were too far reaching. Thus, while the suggestion of extended coverage seemed to bring divergent business interests together, it tore the federal government apart. In the end, the federal government only agreed to bring changes which did not entail any major transformation of the retirement income system and would allow the private and public systems to operate side by side.

#### *The Intergovernmental Conflict*

One of the objectives of this analysis was to assess the relevance of federalism. It has been argued in the literature that federalism has biased pension politics by injecting the extraneous concerns and interests of the provinces and hampered the process by adding a supplementary set of actors. This analysis leads us to conclude that the impact of federalism is neither uniform nor unidirectional. Moreover it does not necessarily have a conservative impact and has not seriously biased the outcome.

The provinces each have a stake of their own in the pension field and they have become bona

fide decision-makers. In the 1960s, Ontario and Quebec had devised their own strategy on the matter. In the 1980s, they were joined by other provinces which refused to rely exclusively on Ottawa's advice and leadership. Quebec has gone furthest in using the large fund of capital to foster its own brand of nation-building. The other provinces, even those which had been reluctant to endorse the plan (Ontario and Manitoba) or would be ideologically inclined to do away with it (British Columbia) have become its hostage.

The resistance of the provinces has delayed the nation-wide implementation of the means-test pensions, retarded the creation of the OAS and lengthened the decision-making process which led to the creation of the CPP. On the other hand, the actions of the British Columbia government in 1927 ensured the viability of the federal government while Quebec's intervention in the 1960's made the CPP structure slightly more progressive.

Federalism has not overshadowed the social and political dynamic and biased pension politics. Divided jurisdiction complicates the policy-making process and has influenced the nature of policy programs. The presence of the provinces was one of the factors militating against the introduction of a contributory plan in 1951, while the accord between Ottawa and Quebec made the CPP/QPPP a more progressive plan. However, it did not prevent the federal government from entering the area of contributory pensions in the 1960's nor was it the determining factor which led Ottawa not to champion a contributory plan in the 1980's.

Much has now been written about the crisis of welfare state, the overload or embedded state, and the loss of confidence in the usual recipes to deal with problems such as poverty and income security. But it is only too easy to judge failures in the welfare field by this yardstick. This thesis has shown how the refusal to expand the CPP had a lot to do with an unwillingness to undermine specific structures. It also demonstrates that there is still considerable room for changes and improvements in the welfare field in spite of the multiplicity of commitments already made by the embedded state. Pension reform in the

80s, has improved marginally the situation of the elderly poor, and met the challenge that the new status of women in our society represents. The integrity of our pension apparatus in the future has also been secured.

Pension reform in the 1980's could be viewed as a failure because public commitment was not significantly increased. It can easily lend itself to the interpretation that the crisis of confidence in the welfare role of the state and the impact of divided jurisdiction have undermined real advances. We offer a different interpretation. On the one hand, the creation of the Means-Test Pensions and the Canada/Quebec Pension Plans were the two great breakthroughs in the pension field. On these two occasions the State decided to increase its responsibilities significantly. The implementation of the Old Age Security and the regulation of pension benefits standards in the 1980's must be understood as measures of consolidation and adaptation to a changing context and new demands.

**APPENDIX 1****GLOSSARY<sup>1</sup>**

**Actuarial Assumptions:** Factors which enter into the calculations of pension costs, e.g. mortality rates, employee turnover, salary levels, investment earnings, etc.

**Ad Hoc Adjustments:** Adjustments of pensions-in-pay or of accrued benefits on an irregular, non-contractual basis.

**Annuity:** A payment of money under a contract commencing at a predetermined time or event and made annually or at a more frequent intervals, either during the continuance of a given life or a combination of lives, or for a specified number of years.

**Average Industrial Wages (AIW) or Average Wages and Salaries (AWS):** Average earnings for the Industrial Composite as measured by Statistics Canada and reported in catalogue 72-002 Employment, Earnings and Hours. The Industrial Composite does not cover all employment. Firstly, only firms hiring 20 or more employees in any month of the year are included in the survey. Secondly, agriculture, fishing, trapping, non-commercial services, and public administration and defence are not covered. In 1976, the Industrial Composite was estimated by Statistics Canada to cover some 53% of total estimated employment.

**Benefit:** A general term applied to any form of payment which may be made to a person under the terms of a pension plan, depending on the circumstances.

**Benefit Formula:** A provision in a pension plan which establishes the method whereby the amount of an employee's pension is to be calculated, the amount being determined by multiplying either some fraction of the employee's earnings, or a fixed dollar amount, by the years of service under the employer's pension plan. For examples see Unit Benefit, Career Average, Flat Benefit and Final Average Formulae; see also Defined Benefit and Money Purchase Plans.

**Best Average Benefit Formula:** A benefit formula where the earnings component is the average level of earnings during a certain number of the highest paid years.

**Career Average Benefit Formula:** A benefit formula where the earnings component is an employee's average earnings during the whole period of his coverage under the plan. For example, the pension might be one-fiftieth of each year's earnings (i.e. 2% of his average earnings over all the years of coverage under the plan multiplied by the number of years of service).

1. Canada, Department of National Health and Welfare. "National Pensions Conference Handbook". 1981 (Mimeo).

**Cash Withdrawal (Return of Contributions):** The taking of a refund of his contributions by an employee whose membership in a contributory pension plan has terminated.

**Compulsory Plan:** A pension plan which eligible employees must join as a condition of employment.

**Contributory Pension Plan:** A pension plan under which both the employees and their employer make contributions. The employee's contributions are usually related to their earnings.

**Deferred Annuity or Deferred Pension:** A life annuity payable at some future date to an employee whose membership in a pension plan has terminated before the normal pensionable age (often age 65) of the plan. Payments usually commence when the former employee reaches that normal pensionable age.

**Defined Benefit Formula:** A generic term for any benefit formula which specifies, for a given level of income and period of service, the amount of pension that may become payable. See Defined Benefit Plan for an example. Career Average Benefit, Flat Benefit, Best and Final Average Benefit Formula are all of the defined benefit type.

**Defined Benefit Plan:** A pension plan which provides a pension whose amount is determined by a Defined Benefit Formula. An example of such a plan is a Final Average Plan where the pension is equal to the number of years of service, up to 35, multiplied by 2% of the employee's average salary over the last five years of service (i.e. a maximum pension of 70% of average salary over the last five years of service).

**Defined Contribution Plan:** A pension plan in which there is an undertaking to set aside funds on a specified basis (such as 5% of pay). Contributions may be made by the employer and employees or by the employer alone. The amount of the pension payable is determined by the size of the capital sum available in respect of an employee when his pension is purchased. The size of the capital sum in turn reflects the pension contributions made by and in respect of the employee and the income which the contributions are deemed to have earned.

**Demigrant:** A benefit payment under a benefit system covering the entire population with eligibility for benefits being determined on demographic criteria such as age, residence, etc., but not dependent on income either before or after the age of entitlement. For example, the basic benefits payable under the Old Age Security Act are demigrants.

**Employer-Sponsored Plans:** All pension plans offered by employers, whether in the private sector or the public sector, including governments, government agencies, etc. (In order that the plans may be registered for income tax purposes, employers must make contributions to such plans).

**Final Average Benefit Formula:** A benefit formula where the earnings taken into account are the average level of earnings in the last few years before retirement. The number of years used in calculating the average varies, usually in the range from three to ten years. See also, Final Earnings Benefit Formula.

**Final Earnings Benefit Formula:** A benefit formula where the earnings taken into account are those in the pay period (usually a year) immediately before retirement. See Final Average Benefit Formula.

**Fixed Benefit:** A pension whose amount is not increased for longer service or larger income. Usually payable only to those with a minimum of period of service. A minimum pension resembles a fixed benefit.

**Flat Benefit Formula:** A benefit formula which provides a fixed (or flat) amount of pension for each period such as a month's or year's service, irrespective of the level of earnings of a plan member.

**Fully Funded:** When applied to a pension plan, means a pension plan that at any particular time has sufficient assets to provide for the payment of all pension and other benefits required to be paid under the terms of the plan in respect of service rendered by employees and former employees prior to that time.

**Funding or Funded Ratio:** The ratio of the assets in a pension fund to the total liabilities of that fund.

**Income-Tested Pension Plan:** A public pension plan whose benefit payments are lower the higher the income of the recipient, e.g. Guaranteed Income Supplement payable under the Old Age Security Act.

**Indexing:** The automatic adjusting of pensions-in-pay, or accrued pension benefits, in accordance with changes in an index such as the Consumer Price Index. This is to be distinguished from Ad Hoc Adjustments.

**Inflationary Earnings:** That portion of the return earned on the investment portfolio of a pension fund that is in excess of the rate of return assumed in the absence of inflation.

**Locking-In:** A requirement under legislation that an employee's and his employer's contributions on his behalf made to the pension plan after a certain date cannot be forfeited or paid as a cash withdrawal if the employee, on termination of employment, has attained a certain age and/or has completed a certain period either of service or of plan membership. For example, under the federal Pension Benefits Standards Act, contributions made since September 30, 1967 are locked-in after the employee has attained 45 years of age and has completed 10 years either of service or of plan membership.

**Means-Tested Pension Plan:** A public pension plan whose benefits are reduced as the current income and asset position of the recipient increases, e.g. the Old Age Pension Act of 1927, and the Old Age Assistance Act of 1951.

**Money Purchase Plan:** The most common form of defined contribution plan described above under which contributions made at the rate specified in the plan are placed to the credit of each member and the pension is whatever amount those contributions plus their earnings will provide.

**Normal Pensionable Age:** The earliest age at which a member of a pension plan may receive an unreduced pension or annuity on terminating employment for any reason other than disability.

**Pay-As-You-Go or Pay-Go:** When applied to a pension plan, a system of financing under which payments are made from ordinary current revenues or other sources external to the plan, there being no assets set aside explicitly for meeting its obligations.

**Pension:** An annuity, or in some cases a similar but non-contractual payment, paid to a retired employee. The term 'pension' is also applied rather than 'annuity' to the regular payments made under public pension plans where no contract has been entered into for the payment of a specific amount of annuity. See Annuity, Joint and Survivor Annuity.

**Pension Benefits Standards:** The requirements which a pension plan has to meet under the federal Pension Benefits Standards Act and similar provincial legislation.

**Portability:** The word portability may be used in two quite different senses. The first refers to the vesting provisions (defined below) which grant to an employee the right to the portion of the deferred pension benefit that has accrued under the benefit formula. The second use is in relation to arrangements for the transfer of pension credits whereby an employee's pensionable service with a prior employer can be included in calculating the pension to be provided by a subsequent employer.

**Private Sector Plan:** An employer-sponsored pension plan which is offered by an employer in the private sector.

**Public Pension Plan (State Plan):** A pension plan such as OAS or CPP/QPP provided by a government in its role as a government rather than in its role as an employer.

**Registered Pension Plan (RPP):** An employer-sponsored pension plan which, on meeting the requirements of the federal and provincial governments, has been accepted for registration (thereby qualifying for favourable tax treatment) under the Income Tax Act.

**Registered Retirement Savings Plan (RRSP):** A savings for retirement plan approved under the Income Tax Act whereby taxes are deferred on the contributions and the income they earn until the savings are withdrawn.

**Survivor Benefit:** When applied to a pension plan, the sum of money paid in the event that a member of the pension plan dies before his pension has commenced.

**Universal Pension:** A public pension plan covering the entire population subject to certain conditions.

**Updating of Deferred Pension:** The periodic increase by an employer, usually in accordance with either a price or wage index, of the amount of a deferred pension to which a former employee is entitled.

**Vesting:** The employee's right, on termination of employment before retirement under a pension plan, to all or part of the benefit that has accrued to the employee under the normal retirement benefit formula of the plan up to the date of termination of employment. The resulting benefit is usually paid under the plan as a deferred annuity at either the normal pensionable age or the normal retirement age. In the most limited context in which the expression is used, vesting means the acquisition by an employee, in the case of a defined benefit plan, of a legal claim to a deferred pension calculated according to the benefit and vesting formula of the plan. In the case of a defined contribution plan, vesting means the employee's acquisition of the legal claim to the percentage of the pension fund attributable to the employer's contributions in respect of that employee stipulated in the vesting formula. Although vesting must be 100%, or full, for employees who have attained age 45 with 10 years of service or participation under plans subject to the federal and six provincial statutes on pension benefit standards (see Locking-In) full or partial vesting may occur earlier, depending on the provision of the individual plan. Vesting more generous than required by legislation depends on the plan provisions. For example, if an employee with seven years of service leaves a contributory plan with a "five year full-vesting" provision, he usually has the choice of receiving a return of his own contributions (usually with some interest) or a deferred annuity based on the seven years of service. Under a plan providing for Immediate Vesting an employee is immediately entitled to a full or partial benefit (Partial Vesting) accrued to him under the benefit formula and the vesting provisions of the plan. The expression of Graded Vesting is used to describe an arrangement whereby there is a gradual progression from no vesting to full vesting, of benefits accrued under the benefit formula. Graded vesting, for example could provide 19% of the accrued benefit after one year, increasing uniformly to provide at the end of 10 years 100% of the benefit accrued according to the benefit formula. See Delayed Vesting, Full Vesting, Locking-In.

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