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The Liberal Welfare State and the Politics of Pension Reform:
A Comparative Analysis of Canada and the United Kingdom

By
Edward K Duru

Thesis submitted for the Degree of PhD in Politics

Faculty of Law, Business and Social Science, Department of
Politics
University of Glasgow

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ABSTRACT

The provision of state pensions in the advanced countries face two significant and reinforcing challenges. Demographic change and global economic pressure impact the provision of public pensions by increasing social spending and depending on the method of financing, the base of government's revenues from which these programmes are funded. Countries belonging to the liberal welfare model, such as the UK and Canada, hold a common view on the primacy of the market and actively adapt measures that keep social benefits modest. Yet the reforms adopted by the UK and Canadian government reveal divergence. This presents a puzzle as the welfare state literature predict convergence. Canada with its small domestic market and open economy has greater exposure to risks of globalisation than the UK, but it is the UK and not Canada that adopted the more radical reforms. To explain this puzzle, this thesis examines four cases: two different pensions' schemes in each of the two countries – Canada and the UK. The thesis argues that the concentration of political authority is central to explaining the variation, although not the sole factor.
Abstract i

Contents ii

List of Tables iii

List of Figures iv

List of Abbreviations v

Acknowledgement vi

Chapter 1 State Pension A Diminishing Priority 1

1.1 Introduction 1

1.2 Contribution to the literature 30

Chapter 2 Welfare State Theory 37

2.1 Major Issues of Contention 38

2.2 Welfare State Theory and the Provision of Public Pension 42

Chapter 3 Situating the Politics of Pension Reform 83

3.1 State Pension: Historical Overview 84

3.2 State Pension Reform in an Era of Retrenchment 93

3.3 Pension Types and Reform Options 105

Chapter 4 Politics of 'Supermajoritarianian Consensus Building in Canada 114

4.1 The Welfare state the Making of a Nation 114

4.2 The Canadian Pension System 131

4.3 The Great Pension Debate in the 1980s 139

4.4 The 1989 Reform of Old Age Security - the End of Universality 149

4.5 The 1996 Canadian Pension Plan Reform 156

4.6 Federal/Provincial Policy Making - the Case of the CPP 165
Chapter 5 Majoritarianism in UK Policy-Making

5.1 The Welfare state and British Society
5.2 The UK State Pension System
5.3 Pension Debate in the 1980s
5.4 The 1986 Social Security Act - Radical Departure
5.5 Pension Reform Effort in the 1990s
5.6 The Concentration of Political Authority - the Case of SERPS

Chapter 6 Understanding Policy Variation in the Liberal Welfare Model

6.1 Strategies of Reform: Empirical Findings
6.2 The Canadian Case Study: Consensus in a Rigid Framework
6.3 The UK Exercise of Concentrated Power
6.4 Comparative Analysis: Political Institutions in Policy Making
6.5 Future Research and Policy Implications

Bibliography

Appendix I List of Interviews
List of Tables

Table 1-1  Four Case Study of Pension schemes Pre-reform – UK/Canada
Table 1-2  Foreign Direct Investment (FDI) Overview UK/Canada, selected years
Table 2-1  Three Worlds of Welfare State Reform
Table 2-2  Negative Externalities of Welfare Expenditure
Table 2-3  Positive Externalities of Welfare Expenditure
Table 2-4  Social Security and Pension Expenditure Compared
Table 2-5  Population and Percentage of Senior Citizens (July 2004)
Table 3-1  Pension Spending Canada/United Kingdom
Table 3-3  Policy Change
Table 4-1  Summary of Policy Change in Canada
Table 4-2  Political Party in Power Federal and Three Dominant Provinces
Table 4-3  Real Growth in total wages and salaries and real interest rates
Table 4-4  Retiree and Senior Citizens Organizations
Table 4-5  Comparison of Pre and Post CPP Reform; – Core Components
Table 5-1  Summary of Policy Change in Britain
Table 5-2  Summary of the UK State Pension components
Table 6-1  Values of the Key Variables in Case Study
Table 6-2  Summary of Policy Change – Key Components Compared
List of Figures

Figure 1-1 Demographic Projections
Figure 1-2 The Pension System
Figure 1-3 Trade Openness – Exports As A Percentage of GDP
Figure 1-4 Imports As A Percentage of GDP
Figure 1-4 Four Case Studies
Figure 4-1 Pension Design (Canada)
Figure 4-2 Poll on Confidence Levels in OAS/CPP System
Figure 5-1 UK Pension System
Figure 5-2 Pension Design Model UK
Figure 5-3 Comparison of Existing SERPS and New SERPS Proposal
### List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>Age Concern</td>
</tr>
<tr>
<td>ACA</td>
<td>Alberta Council on Aging Edmonton</td>
</tr>
<tr>
<td>ACPM</td>
<td>Association of Canadian Pension Management</td>
</tr>
<tr>
<td>ATF</td>
<td>Alberta Tax Federation</td>
</tr>
<tr>
<td>BSP</td>
<td>Basic State Pension</td>
</tr>
<tr>
<td>CARP</td>
<td>Canadian Association of Retired People</td>
</tr>
<tr>
<td>CCSD</td>
<td>Canadian Council on Social Development</td>
</tr>
<tr>
<td>CLC</td>
<td>Canadian Labour Congress</td>
</tr>
<tr>
<td>COSCO</td>
<td>Council of Senior Citizens’ Organizations, Vancouver</td>
</tr>
<tr>
<td>CPC</td>
<td>Canadian Persons Concerned Toronto</td>
</tr>
<tr>
<td>CPP</td>
<td>Canadian Pension Plan</td>
</tr>
<tr>
<td>DB</td>
<td>Defined benefit</td>
</tr>
<tr>
<td>DC</td>
<td>Defined contribution</td>
</tr>
<tr>
<td>DSS</td>
<td>Department of Social Security</td>
</tr>
<tr>
<td>DWP</td>
<td>Department of Work and Pensions</td>
</tr>
<tr>
<td>ERB</td>
<td>Earning-Related Benefit</td>
</tr>
<tr>
<td>FADOQ</td>
<td>Fédération de l'âge d'or du Québec Montréal</td>
</tr>
<tr>
<td>FF</td>
<td>Fully funded</td>
</tr>
<tr>
<td>FI</td>
<td>Fraser Institute</td>
</tr>
<tr>
<td>FPTP</td>
<td>first-past-the-post</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>HA</td>
<td>Help the Aged</td>
</tr>
<tr>
<td>IPPR</td>
<td>Institute of Public Policy Research</td>
</tr>
<tr>
<td>NAPF</td>
<td>National Association of Pension Funds Ltd</td>
</tr>
<tr>
<td>NDP</td>
<td>New Democratic Party of Canada</td>
</tr>
<tr>
<td>NPSCF</td>
<td>National Pensions &amp; Senior Citizens Federation</td>
</tr>
<tr>
<td>OAS</td>
<td>Old Age Security</td>
</tr>
<tr>
<td>PA</td>
<td>Pensions Act</td>
</tr>
<tr>
<td>PAYG</td>
<td>Pay-as-you-go</td>
</tr>
<tr>
<td>PC</td>
<td>Progressive Conservative Party of Canada</td>
</tr>
<tr>
<td>PQ</td>
<td>PartiQuébécois</td>
</tr>
<tr>
<td>QPP</td>
<td>Québec Pension Plan</td>
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</tbody>
</table>
List of Abbreviations

RTA  Retired Teachers Association (British Columbia)
SERPS  State Earnings Related Pensions Scheme
SSA  Social security Act
SSPA  Social security Pensions Act
SPC  Society of Pension Consultants
TUC  Trade Union Congress
Acknowledgements

I have been fortunate to have the good will and support of a number of people who have offered critical comments on all or part of my thesis. First of all, I have benefited immensely from my thesis supervisors Dr. Alasdair Young and Dr. Barry O'Toole. They have helped nurture an inchoate idea into a completed piece of academic work - hopefully the finished product will meet with their high standards.

I am grateful to the various individuals and organizations that granted me interviews during my field work, and in particular to Don Bellamy of the Canadian Pensioners Concerned who was very hospitable during my trip to Toronto. I thank the staff at the archives at the London School of Economics who allowed me to rummage through the Fabian collection there. I thank the University of Glasgow, Department of Politics who provided the financial support for the field trips.

My understanding of the political economy of the welfare state has grown steadily from the early days in Alberta and I am now beginning to appreciate all of it dimensions. A year at Dundee University in a masters’ program stirred me in the right direction and planted a seed that was further nurtured at Glasgow. Oddly, the cold corridors of the Adam Smith building can be a place of quite reflection, and indeed productive work.

And finally, a note of thanks to my family, without whose support this endeavor would not have been possible. Anna and Amarachi Naomi, this one is for you. External God, You provided strength when I had none of my own. The remaining faults, of course, remain mine.

viii
Chapter 1 State Pension: A Diminishing Priority

1.1 Introduction

The ability of affluent democracies to maintain one of the central pillars of the welfare state, the state pensions system, is frequently presented as being dependent in large part on a strong fiscal position and low public debt levels (Bonoli 2000:1, Pierson 2001:458). Both of these objectives, easily achieved under conditions of economic prosperity and stability, are increasingly being undercut by the liberalisation of capital and labour markets internationally; a phenomenon that is depicted as a process of economic globalisation (Krishnan 1996, Schulze and Ursprung 1999, Hay 2001, Gelines 2003). The challenge facing the state pension system is further complicated by an ageing population and prevailing conditions of economic austerity (a reduction in public spending - a monetarist policy orientation in response to difficult economic conditions), both of which directly impact the provision of pensions.

Since the 1980s, most of these countries began to adapt their income transfer provisions in line with this new reality. In the Anglo-Saxon or the liberal welfare states, the reform process itself raised new questions about the received wisdom of welfare state theorists: principally regarding the notion that countries with relatively liberal economic setup are more likely to converge towards a common neo-liberal policy response given the pressures they are facing (Chassard and Quintin 1992; Overbye 1996a). This meant the tightening of existing state social
provisions in order to achieve cost savings and to reorients welfare programmes towards a more or less market conforming stance. The liberal welfare model is historically in this sense an ideal candidate. The originals of its welfare state are deeply rooted in the shared belief in the efficacy of market forces - determining the price of goods and services including labour (commodification). The observed trends in welfare retrenchment so far run contrary to predictions. There have being divergence of policy response and some countries are showing puzzling capacity to moderate the external pressures. Within the liberal welfare model, the expectation that countries such as Canada, with its higher demographic projection and a smaller open economy should be more susceptible to radical reform measure than the UK for example appear misleading (Cameron 1978, Katzenstein 1985b, Pfaller, Gough and Therborn 1991). The story behind the new political economy of welfare state restructuring has become a source of interest and investigation (Pierson 2001, Bonoli 2002, Blackburn 2004).

Despite the recent proliferation of literature on the significance of economic globalisation on pension reforms, little has been written to advance an understanding as to how each welfare state regime in reality translate these externally driven constraints into the policy context of distinctive and complex institutional settings (Skyes et al 2001, Castle 2002, Clasen 2002). Though the pressure of economic globalisation is expected to force welfare states to converge towards a common neoliberal response, it will become clear from this thesis that national reactions to these exogenous pressures remain strikingly
divergent. This thesis evaluates the reinforcing influences of economic globalisation, austerity and population ageing on pension provision. It argues that it would be beneficial to identity then explain the interaction between these and the institutional factors that produce variance within the family of welfare state types.

In examining this central question, this thesis engages with the literature on pension policy reform, domestic policy making and welfare state retrenchment. It also provides a detailed consideration of the empirical estimates of the influence of interest and political institutions. Rather than trying to resolve this debate by arguing that one type of cause is more important than the others, the thesis combines them logically, identifying the conditions under which interests or institutions do or do not shape policy. The thesis argue that because national configuration of domestic institutions directly or indirectly shape the extent of which domestic and international pressures are translated into neoliberal policy reforms, the pace and depth of programmatic restructuring is different. It will become clear that given the evidence, domestic political institutions does offer a promising avenue from which to assess the depth and character of welfare state restructuring, although some thought is also given to the role of ideas and interest intermediation. As such the thesis builds on and extends theory developed by analysts such a Pierson (1998, 2001) and Swank (1998b) on how domestic institutions mediate the domestic policy impacts of external pressures.
The study thus follows a theoretical path much in ascendancy, although not without challenge.

In the following section, the initial framework for studying the pressures on the welfare state identified in the literature (a critical review of the literature is carried out in Chapter 2.2) is introduced. This is followed by establishing the criteria for the case selection applied in the thesis. The relationship between the three essential components: on the one hand the economic globalisation thesis, the ageing population and economic austerity arguments are carefully examined. The study squares these off with the independent variables under consideration: the state pension policy, concentration of political authority and interest intermediation in Canada and the UK. The section concludes by setting out the methodology for the study.

The Initial Framework for Studying the Pressures on the Welfare State
Since the pioneering typological work of Esping-Anderson (1990) on welfare regimes, a number of reasonable objections have been raised about the adequacy of his regime analysis in explaining observed variance amongst the family of welfare state types (Scharpf 1997b, Iversen and Wren 1998, Kitschelt et al. 1999a, Korpi 1999:35). Esping-Anderson’s work did not address the distinct reform dynamics within regime specific cases of which there are three principal ones. There are a number of reasons for this neglect. First there was a lack of consensus, during this period, of what social scientist should be looking for in
terms of the dependent variable. Second, the consideration of distinct reform
dynamics within regime specific cases is now considered an important part of the
research agenda on the politics of the welfare state in an era of retrenchment.
The desire to generate relatively parsimonious measures of outcomes that make
a serious enterprise of comparative explanation possible is driving the welfare
state scholarship in this new direction.

This move away from the single 'logic' of welfare state reform defined as the
assessment of the reform across three principal dimensions: re-commodification,
cost containment, and recalibration, creates new opportunities to recognise also
the existence of quite different setting for the emerging politics of restructuring
(Pierson, 2001 p:428). In Esping-Anderson's three worlds of welfare capitalism,
he identifies the liberal, conservative and social democratic models. Together
these welfare regimes form a complex relation between state, legal,
organisational and economic features systematically interwoven (Esping-
Anderson 1990). It is assumed that different welfare state configuration are the
products of complex conjunctural causation, with multiple factors working
together over extended periods of time to produce striking different outcomes.
And for this reason, a measurable shift in the value of one variable or another will
not have a simple, direct, linear effect on outcomes across all cases. In exploring
this argument, Pierson (2001) illustrates this point by arguing that the
concentration of political authority is an asset for those seeking reform. Whether
or not his assertion applies in all welfare regimes requires further exploration.
Huber and Stephens found the experiences of two pure Westminster cases, New Zealand and the UK, as particularly striking in terms of its government’s capacity to implement aggressive restructuring program (Huber and Stephens 1999).

Pierson argue that the examples provided in the Huber and Stephens study, illustrates the potential inherent in the liberal welfare model to implement radical reforms to existing welfare structures. A position that is supported by absence of institutional veto and where social actors are disorganised and popular support for the welfare state is (while still extensive) more limited than elsewhere (Pierson 2001).

The liberal welfare model contrasts with the conservative and the social democratic model in a number of distinct ways. In the conservative model, the electoral system, for instance, generate multiple veto points. There is a propensity of governments to operate from a proportional representation system rather than by a single-party government. Federalism and the institutional role of social partners within these countries, reinforce tendencies towards negotiated reform (Golden, Wallerstein, and Lange 1999:204).

The social democratic model, on the other hand, characteristically has generous transfer programmes covering a wide range of risks with high replacement rates. The political arrangement includes multiple features that create very strong pro-welfare state conditions. Unions maintain close relationship with electorally
powerful social democratic parties (Goul Andersen 1997, Rothstein 1998a). The formal political systems contain few checks on parliamentary majorities, but the frequency of coalition governments makes political authority less concentrated than in the Westminster setting. In addition, governments in this system operate in a context of well established and encompassing employer and union organisations, which represent both possible partners in negotiations (Pierson 2001). The bonds between employers and union organisations are quite strong.

In the liberal welfare regime, previous studies on the welfare state have provided very little information on how policy response in the crucial area of state pension system and changes to existing schemes reflects the more general analysis of the welfare typology and this is particularly important when there are variance in the political arrangements as we see in the two case countries. Thus, the thesis evaluates the relationship between the three essential aspects identified above: economic globalisation, population ageing and austerity on the one hand and on the other, the concentration of political authority and pension policy design in the reform of state pension system in Canada and the UK.

First, it analyses the ways in which political systems interact with the challenge of economic globalisation, austerity and population ageing in the context of state pension policy. Second, it shows how the political institutions and path dependent factors inherent in the design of the state pension system can either increase the likelihood of more radical reform or retard the reform measure.
Domestic institutions significantly influence the political strength and structures of opportunities of the interests ideologically opposed to neoliberal social policy response and by reshaping the decision making boundaries, the possibility of policy convergence predicted by the literature fails to materialise (Swank 2001 p.198).

Concentration of Political Authority

The focus on the role of institutions in mediating external constraints is not new. One of the persuasive proponents of the neo-institutionalist thesis, Paul Pierson argues that, although changes in the global economy are important in assessing the current challenges facing mature welfare states, it is primarily the social and economic transformations occurring within affluent democracies that produce pressures on these states (Pierson 2001: 410). According to this view, major reform is a political process, dependent on the mobilisation of political resources sufficient to overcome organised opponents and other barriers to change (Pierson 2001: 411).

Pierson (2001) has identified two factors that determine the capacity of reform to generate and sustain political mobilisation. First, the ‘electoral incentives’ to win politically is contingent on whether or not the provisions of the welfare state are universal or means-tested. This speaks to the role of voters as final arbiters of policy decisions. It is often argued that benefits of pension retrenchment are generally more broadly spread and uncertain, while the large constituencies for
pension have concentrated interest in the maintenance of pension provision. A large section of pensioners rely on the state pension system for a large share of their income. It follows that concentrated interests will generally be advantaged over diffuse one (Pierson 2001:413). With pensions more people are affected – less with means-tested than with universal pensions – but they individually benefit significantly.

Second, institutional arrangements tend to lock existing policy arrangements into place. This is what Pierson refers to as ‘institutional stickiness’ (Pierson 2001:414). There are two variants of the ‘institutional stickiness’ that reinforce the electoral obstacles to radical reform: formal and informal ‘veto points’, and ‘path dependent’ processes. Both Pierson (2001) and Bonoli (2000) make the point about the impact of formal and informal ‘veto points’ in their analyses. Their logic is simply that political systems require that policy reform be dependent on more than a simple 51 percent majority, allowing minorities opportunities to block reforms (see also Scharpf 1986, Tsebelis 1995). Veto points have also been identified at various levels of the policy-making process.

_Interest Intermediation_

Formally veto points can be granted through constitutional court or indeed by convention or a strict separation of powers between the executive and legislature. On an informal level, veto points can also exist if the political system is used to negotiate with trade unions before the adoption of changes in
economic and social policy, then, in that system, the approval or acquiescence of the labour movement can become a *de facto* veto point through which the legislative process has to overcome if it is to succeed (Bonoli 2000:43). In this regard the role of interest groups advocating on behalf of its constituents is important. While the literature downplays their real impact, the findings of thesis suggest that the patterns are a little more complex and dependent on whether or not the pension policy is universal or means tested.

**Decision Making Environment**

Path dependence refers to the organisational adaptations to previous arrangements which may also make reversal of certain policies unattractive (Pierson 2001: 414). It is not just that organisational adaptation that make a reversal of course difficult, institutional veto point as noted above make a change of course harder to achieve (Krasner 1989, North 1990). Major social arrangements, such as state pension schemes, have significant consequences, even if they are suboptimal ones – because individuals make important commitments in response to government actions (Pierson 2001).

An analysis of the contemporary debate enhances the development of a nuanced conceptualisation of the reform agenda by first setting out the dependent variable and second, by considering the distinctive reform dynamics of the liberal welfare state regimes. This allows the thesis to move away from the single logic of welfare state reform to focus within regime-specific cases and to examine a
number of crucial variables identified in the existing literature: namely, the effect of 3 mediating domestic institutions, the concentration of political authority, pension design, and interest group intermediation.

In Esping-Anderson’s typology of three worlds of welfare capitalism – liberal, conservative and social democratic, he admits that ‘to talk of a regime is to denote the fact that in the relation between state and economy a complex of legal and organisational features are systematically interwoven’ (1990:2). This will support the position already raised elsewhere that there exist a multiple interactive and cumulative effects of a number of interdependent causal factors that have potential in a conjunctural causation (Ragin 1987).

These include the politically salient features of the liberal welfare model addressed by Pierson and others (Korpi 1990, Esping-Anderson 1990, 1994; Pierson 2000). By drawing from the experience of the two case countries which are exemplars of the liberal welfare model, this thesis is able to offer a plausible explanation to the observed policy responses. This in turn informs our understanding of why Esping-Anderson’s typology, whilst useful, overlooks some of the key differences in the policy behaviour of family of welfare state types.

Returning to Pierson’s argument, it is useful to outline Pierson’s claims. These can be summarised in two broad ways as follows: first, concentration of political authority coupled with a party with a political ideology that favours private
provision is an asset for those seeking reform; there is a weakness of encompassing interest organisations. The political clout of labour unions is also relatively modest; the liberal welfare state is relatively small and because of this, the 'core' support group for social provision is relatively small. Pierson (2001:433) further asserts that reliance on means-testing may divide those who benefit from taxpayers. The institutionalisation of market alternatives weakens middle-class attachments to public provision. In order words, middle-class voters find market alternatives to state provision at a greatly subsided rate by the state. These features are supposed to set further apart families of welfare state types and provide an insight into the sources of policy variance.

**Integrating the three pressures on the reform process**

Establishing the approximate relationship between economic globalisation and welfare reform is a subject of much interest in recent welfare state analysis. Most analysts in the field tend to present the challenge facing the advanced welfare states as having to do with how these states deal with the dual pressures of economic globalisation and demographic change. The problem is further exacerbated by prevailing conditions of permanent austerity which impinge ultimately on finance and delivery on social programmes (Bonoli 2000, Scharpf and Schmidt 2000, Pierson 2001). In terms of costs, pensions generally constitute the largest single expenditure of social spending (Bonoli 2000). Consequently, the capacity to contain such costs would be beneficial to government budgets. Those who argue about the efficacy of the economic
globalisation thesis suggest that the liberalisation of markets, including labour markets reduces governments’ ability to generate revenues from existing state pension funding mechanism since this can be seen as raising the cost of labour (Howard 1997, Huber 2001, Hay 2002). In the liberal welfare model, there is already growing concern that these countries are moving further afield, by making the value of labour subject to market decisions. Part of the reason is that their political economies allow wage flexibility as a principal buffer against high unemployment. As such the deteriorating market position of low skilled workers is necessary even accepted by policy makers because the new global environment requires larger wage differentials (Iversen and Wren 1998; Scharpf 1997b). To maintain the spiralling wage differentials, governments make the exit options into the income transfer programmes, including pension schemes, less attractive.

Given this constrained fiscal environment, governments are under strong incentives to take action (Longman 1987, Walker 1994, Thurow 1996, Bonoli 2000:2). The analysis of public policy disagrees profoundly with this causal relationship. The heterogeneity of views is aggravated by a tension involved in assessing globalisation’s implication for policy process. Divergent perspectives are grounded in different methodological assumptions as well as the distinct national prisms through which they are viewed. It is argued that the impact of economic globalisation is mediated through economically relevant structural conditions and policy legacies that are country specific (Scharpf 2000). The
prevailing view was that national economic boundaries were still effectively controlled under the international economic regime of 'embedded liberalism' (Ruggie 1982: 379-415).

*Economic Austerity*

Prior to the pension reforms, both case countries were experiencing budget deficits, Canada to a higher extent than the UK. At the time both countries were dominated by right-of-centre majorities committed to retrenching in the area of pensions. The population projections suggested substantial increases in pension expenditure. This is consistent with initial socio-economic explanation of welfare retrenchment which would argue that cutbacks are likely in those countries experiencing serious financial problems in sustaining welfare expenditure. Yet a closer examination reveals relatively little correspondence between the seriousness of economic and financial problems experienced by these governments, and their actions in the area of welfare.

State pensions remain important in the welfare state menu for several reasons. Most people eventually grow old and therefore most would take an indirect interest in the subject. It is to be expected that pension reform impacts the economic circumstances of a large section of society, and by implication the legitimacy of democratic polities. This is reflected in the fact that one of the fundamental principles upon which legitimate democratic government rests is the granting of consent by those so governed. Governments are therefore expected
to pursue policies that reflect on aggregate, the preferences of the largest number and they are in turn held accountable for policies that fail to meet with that standard. A government that fails to abide by this principle stands the real chance of losing its office.

The provision of retirement income through state pensions directly impacts the public purse and itself is acted upon by the domestic balances of power, the state of the nation's economic health, the demographic distribution of the population and the general attitude of citizens towards the provision of retirement income and the taxation necessary to support it.

The provision of state pension accounts for over 40 percent\(^1\) of the social welfare spending in both Canada and the UK. An increasing number of the elderly receive one form of pension benefit or another. While the number of the elderly who will be solely dependent on state pension benefits as their primary source of income is expected to rise, income to fund state pension is projected to be tightly constrained facing intense pressure for austerity (Blackburn 2003). This has risen from a growing skepticism about the unlikely return to an era of high economic growth, fiscal pressures on welfare states are certain to intensify. This tension has prompted both governments to take action.

Demographic projections

\(^1\) The Government of Canada official department website and the UK government, Department of Works and Pensions have this figures available (October, 2005)
Although, there is widespread agreement among demographers about the fact that the proportion of older people in western societies is going to increase over the next decades, this projection must be viewed with caution. What they say about future development is dependent on three important assumptions: fertility rates, life expectancy, migration and the current age structure. All three are volatile and difficult to predict (World Bank 1994b). As the table below show there exist substantial differences between countries in the expected transition pattern. In both countries the demographic structure of the population around the year 2025/2030 is likely to be very different from what it is at present. The demographic projection (see Figure 1.4) below show that population ageing, which has already begun, would accelerate in 2011 when the first baby-boom cohort (born in 1946) reaches the age of 65. This rapid ageing is projected to continue for sometime until 2025 when seniors in the UK will reach 23.9 percent and 25.2 percent in Canada. This is likely to have huge policy implications, particularly in the area of pensions.
State Pension Policy

Pension policy opens a window of opportunity to examine the existing theory about the restructuring of the welfare states in light of the foregoing pressures. Pensions are simply defined as retirement income. State pensions are retirement income provided by the state, often through general tax revenues. There are several types of pension schemes, but they can be divided into two categories: state pension and private pension systems (one could add to this, the occupational pension schemes which are administered privately rarely ever by the state - see the flow graph Figure 1-1 below. Benefit eligibility for these schemes could based on universality or means-testing. The table below does not
provide the full range of pension schemes available in both countries; rather it highlights the key schemes discussed in this chapter.

Figure 1- 2 The Pension System

<table>
<thead>
<tr>
<th>First Tier Provision</th>
<th>UK</th>
<th>CANADA</th>
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<tbody>
<tr>
<td>Basic State Pension (BSP)</td>
<td>Old Age Security (OAS)</td>
<td></td>
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</tbody>
</table>

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<tr>
<th>Second Tier - Voluntary or Private Pension Schemes</th>
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<tbody>
<tr>
<td>UK</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>SERPS/S2P</td>
</tr>
<tr>
<td>both are state run</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Third-Tier Schemes - all privately run UK/CANADA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Several options available through investment companies/businesses</td>
</tr>
</tbody>
</table>

(Notes) Since the 1997 CPP Reform, CPP Pension Fund is now administered by a quasi-independent board. State Earning Related Pension Scheme (SERPS)/Second State Pension (S2P) Canada Pension Plan (CPP) and Quebec Pension Plane (QPP).
Together these three tiers make up the retirement income system for the retired.

The motivation for the ongoing reform effort has thus been economic as well as ideological. The objective of the reform was principally to reduce the financial liability of state funded scheme. Beginning from the 1980s, both the British and Canadian governments began to retrench, that is to scale down the various aspects of their respective pension systems. The process of reform is not straightforward as this stylised analysis in the introduction would suggest. It involves difficult political choices in a rather heavily contested policy area.

This thesis considers four of the state pension schemes in the UK and Canada. Table 1-1 illustrates the key characteristics of the four pension schemes on which the reform is evaluated. The UK Basic Pension, like the Canadian Old Age Security is a basic pension scheme. In Canada prior to 1989 it was more or less universal except that in the UK eligibility for benefits is means-tested.

The Canadian Old Age Security (OAS) is universal and fully funded from general revenues therefore no contribution is required. In terms of reform barriers, politically the BSP and OAS receive strong and broad public support. The benefits from the OAS are universal, while payment to or from the BSP is means-tested so tend to attract weak attachment from the middle-income population. This is important in terms of mobilising political support against radical reform.
The BSP also faces one additional barrier, a formidable one and this has to do with the double payment problem which arises when there is a switch from a pay-as-you-go (PAYG) financing method to a fully funded model. In reality, while contribution rebates would have to be granted immediately, the state would still be liable to fund current pensions and those of people near retirement age (Bonoli 2000:72) However, because the OAS unlike the BSP, is fully funded from general revenues, it does not suffer such similar outcome.
The two other pension schemes: the State Earnings Related Pension Scheme (SERPS) and the Canada Pension Plan (CPP) are more complicated. First, the SERPS system is an earnings related pensions' scheme and covers a large section of the population. It is not a flat-rated benefited but rather base on earnings contributions. Unlike, the BSP, the SERPS scheme receives strong and broad base support. An examination of the UK reform will show that to reform the SERPS scheme, the Thatcher government had to weaken this broad based support. Both the SERPS and CPP would suffer from a double payment problem if it were to switch from the pay-as-you-go (PAYG) model to a fully funded method. There is also the added moral dilemma of justifying cuts in benefits when contributors feel a sense of entitlement after years of making qualifying contributions.

Case Selection
The selection of the two case countries is justified on the grounds that they both belong to the liberal welfare state type. The crucial aspect of the country selection is the concentration of political authority. By selecting two liberal welfare states, Canada and the UK, this thesis provides a much narrower analysis of variance within welfare regime type and therefore able to test Pierson’s claims on the centrality of political authority. The thesis focuses on 3 pressures on the welfare state: an ageing population, economic globalisation and austerity. These 3 pressures are examined in the context of 3 mediating institutions: concentration of political authority, pension design and interest intermediation. This is important
because each welfare world is composed not only of particular types of welfare states, but also of distinct political settings. The second crucial reason follows from Pierson’s speculation (stated above) that concentrated political authority is an asset for those seeking to adapt radical reform (Pierson 2001:430) It is suggested that countries with small open economies are also more likely to face pressure to reform – the selection of Canada is appropriate in this regard. Canada has a relatively small economy, it political configuration in terms of the 3 pressures and mediating institutions make it a good candidate for this study. Greater trade openness increases the likelihood of more radical reform; greater concentration of political power increases the likelihood of more radical reform. In terms of trade openness both imports and exports measure as well as foreign direct investment (FDI) figures are used to enhance reliability of figures. Both case countries are quite open to the international economy, although Canada is more exposed to this pressure than the UK.

In light of this, the thesis tests two parallel predictions: the first based on concentration of political authority and a second on trade openness.
Figure 1-3 Trade Openness – Exports as a Percentage of GDP


Figure 1-4 Trade Openness – Imports as a Percentage of GDP

Canada and the UK present an interesting paradox on the account of both of these: trade openness and concentration of political authority. First, the UK unlike Canada is regarded as operating a system of government that concentrates political authority at the centre given that it is a unitary state. This would lead to the expectation that pension reform would be more radical in Canada than in the UK, at least on the count of its size, demographic projections and trade openness (see Figure 1-2 and 1-3). The opposite was found.

Table 1.2 Foreign Direct Investment (FDI) Overview UK/Canada, selected years

<table>
<thead>
<tr>
<th>Year</th>
<th>Canada Inward Flow as percentage of GDP</th>
<th>UK Inward Flow as percentage of GDP</th>
<th>Canada Outward Flow as percentage of GDP</th>
<th>UK Outward Flow as percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>12.4</td>
<td>17.5</td>
<td>8.7</td>
<td>21.3</td>
</tr>
<tr>
<td>1990</td>
<td>19.7</td>
<td>20.6</td>
<td>14.8</td>
<td>23.2</td>
</tr>
<tr>
<td>2000</td>
<td>29.8</td>
<td>30.5</td>
<td>33.3</td>
<td>62.4</td>
</tr>
<tr>
<td>2005</td>
<td>31.6</td>
<td>37.1</td>
<td>35.3</td>
<td>56.2</td>
</tr>
</tbody>
</table>

Source: UNCTAD, World Investment Report, 2006
Figure 1-3 and 1-4 show marginal difference in levels of import and exports in both countries as a measure of their trade openness. Import and Exports are expressed as a percentage of GDP over the period of reform starting from 1980. Table 1.2 shows higher rates of inward investment for Canada than the UK at the start of the 1980s. This presents an interesting puzzle: essentially the Canadian evidence discounts trade openness as a potential explanatory tool. This strongly suggests that the other proposition, the concentration of political authority, is important because Canada’s political system has more veto points than the UK’s. The question that arises is this: how much of the policy response is dependent on this causal relation in these two case studies? The thesis reassesses orthodox views, from the viewpoint of a theory of comparative institutional advantage, and suggests ways in which the variance in reform of state pension system can be explained in the new politics of the welfare state (Hepple 2005).

As already noted Canada and the UK are both grouped under the liberal welfare regime type (Esping-Anderson 1990). Their political systems are similar in many respects. They both operate Parliamentary systems of government. Canada and the UK entertain ever present nationalist threats directed at the central government. In Canada these nationalist squabbles can be found in the political landscape of the French speaking majority in Québec, and in the UK, by Scottish and Welsh nationalism and in the politically unsettled Northern Ireland. In this respect, there is noticeable centrifugal force compelling national actors to satisfy divergent regional preferences in the social policy arena, even where decision
making is either unilateral or shared, since such action could dampen potential conflict between centre and periphery (Beland and Lecours 2005). This is rather important for Canada, particularly in terms of decision making in the pension field. Both countries operated state pension schemes that were structurally and financially similar, or at least were until the start of the reforms in each country in the 1980s. The foundation of their welfare system shared similar roots in the Elizabethan Poor Law traditions that date back to the fifteenth century. The state pension system itself was first established in UK in 1911 and for Canada in 1927.

The key difference between the two countries can be found in the constitutional arrangement that makes Canada a federal system and the UK a unitary state. The federal constitutional arrangement has helped to alleviate the burden of administering Canada, but it is equally apparent that it brings other problems in its wake that are not found in a state organised along unitary lines. The UK has an un-codified constitutional system while Canada operates under the Constitution Act of 1867, which was repatriated from London in 1982 following what was largely an incomplete amendment process that has endangered for Canadians a continuing constitutional quagmire. Nevertheless, the Canadian constitution is a codified legal document that clearly sets the legitimate claims of each branch of government and the relations between the state and the citizens. The state is supervised in the proper performance of its tasks by a Supreme Court.
As an additional test, the thesis considers four specific pension policies, two in each country: the first two basic state pension systems. The first basic pension provision, usually provides subsistence benefit which is often state funded and intended to meet the most basic needs. The second level, above the basic state pension, is an occupational pension scheme tied to the employment status of the contributor (this reflects previous earnings). A third tier provision is usually private and voluntary (very few people take up the third option which can add to basic income). The specific pension schemes examined are the – the Old Age Security (OAS), the Canada Pension Plan (CPP) in Canada and in the UK the Basic State Pension (BSP) and the State Earnings Related Pension Scheme (SERPS). All these schemes were restructured starting in the 1980s. This thesis therefore underlines specific ways in which the institutional variables shape the Canadian and UK reform of these schemes and help to explain the differences between them.

Methods

There is an expectation that countries such as Canada, with its smaller and open economy should be more susceptible to radical reform measure than the UK for example (Cameron 1978, Katzenstein 1985b, Pfaller, Gough and Therborn 1991). Faced with comparable external pressures and distinct internal political institutions, the British and Canadian governments responded in a strikingly divergent fashion. To identify and explain this policy variance, this thesis relied on material taken from primary and secondary sources. The primary sources
consisted of interviews and government documents. The interviews focused on ascertaining the influence of interest groups. Claims made by groups were either confirmed or refuted by primary document sources which revealed how the government responded to specific demands. Most of the primary sources were drawn from extensive field work in Canada and the UK. This included semi-structured interviews with 34 politicians, senior officials and interest group representatives involved in the reform process.

The primary documents also included memo from the department of works and pensions, Human Resources Development Canada, the parliamentary committees' reports, and parliament debates recorded in Hansard about the UK and Canada. It was necessary, for example, to ascertain the relative impact of labour and interest group effects on the reform efforts in both countries.

In terms of the organizations interviewed, there were similarities between these groups in both countries and so it was easy to select corresponding organizations. The UK Trade Union Congress (TUC) and the Canadian equivalent of Canadian Labour Congress (CLC); Age Concern and Canadian Association of Retired People are two such examples.

The interview methods applied the process of triangulation. The process of triangulation involved the selection of questions specific to claims made by contending interest groups and clarifying this through interviews with the
respective departments in question. This is further traced in the accompanying documents located in the library. The interview materials were transcribed using codes to identify sources and respect anonymity.
1.2 Contribution to the literature

The thesis deals with the academic inquiry into questions raised elsewhere in the welfare state literature: this informs the core of the research hypotheses. The received wisdom contained in the typology of the welfare states has proved less revealing in light of the scope of transformation in the postwar welfare state. Monolithic regimes (family of welfare state types) are being converted into potentially pluralistic ones, internal institutions defined here as pension design, interest intermediation and concentration of political authority: coupled with the political will to change is creating new opportunities to revisit the prevailing explanations that first appeared in the 1990s. The empirical findings of this study show that there has been rapid divergence in the fate of liberal welfare countries, demonstrated, for example, in the observed outcomes of the UK and Canada state pension reforms.

The liberal welfare model, to which Canada and the UK both belong, is less homogenized. The literature recognizes the variations within it. Differences in the size of the welfare state, the universality of programmes of benefits and the funding mechanism that finance benefits payments are key features. In the liberal welfare model, the role of the state is limited, encompassing interests have a diminished role, the private market make a bigger contribution to financing and provision, benefit levels are generally low and means-tested. It is also the case that all liberal welfare states almost exclusively operate a two party government with decision making conducted through the electoral partisan politics. The
decision making process tend to render external players less effective because of the absence of veto points. Despite the foregoing arguments about the commonality of shared interests and experiences, this is not an argument that is satisfactory in the long run. This study therefore raises further questions about the causal relationship between the institutions identified and its' interaction with the external pressures discussed earlier.

The answers to these questions have helped the study to achieve its objective: that is to contribute to clarifying our understanding of the pension reform efforts in the two case countries. In a more direct way it addresses the question of 'how'? How does reform proceed? What shapes policy response and determines winners and losers? In other words, what are the political mechanics of getting to the end goal of a successful reform? A good starting point will be to examine the institutions of the state, that is, whether the state is a federal or unitary or, parliamentary or presidential. It may also be useful to consider the actors and factors that may impede or enhance the formation of state pension systems, in term of their interest representation. Questions may be raised about the formation of the public pension system and how the state institutions interact and intersect with factors within and outside of it to shape what policies are adopted in support or opposition to it. Is there any discernible difference between the so-called 'expansion' and 'retrenchment' phases of the welfare state?

This study's hypothesis is grounded on two promising avenues of explanation.
First, the existence of veto points can act to dampen the impact of concentrated political authority if and when contending centers of political influence disagree on the right course of reform. In the case of Canada, for example, the existence of veto points within the Canadian federal system while potentially can retard progress on reform, has turned out to be rather consolidatory because key players (provincial governments) decide to agree on points of difference and has been since the establishment of the Canadian Pension Plan (CPP) in 1965. This is so because there has been no clear veto power for any of the provincial governments (except Ontario and Quebec) which will enable them to act alone. To carry its full impact, veto points, in the liberal welfare model, must be singular in application and impact. This is not the same as concentration of political authority in the central government - rather it assumes de-concentration of political authority since sub-national governments will be acting in their own rights against other equally powerful centres. Such an arrangement fosters cooperation as a result of the interaction between government preferences and the institutional framework within which they are situated.

The second avenue of explanation is that interest intermediation can be effective even in countries where avenues for input into policy are limited for external actors as in the liberal model. To achieve this, particular interest must attain universal appeal in specific pension policy areas. This particularly true if the scheme is universal rather than means-tested.
This hypothesis does thus promote the role of interest intermediation (although strongly influenced by the median voter thesis) to a dominant rather than a subordinate position because of the latent potential for mobilizing support from the deep reservoir of support as argued by Pierson (2004). Following from Pierson's argument, he suggests that encompassing interest organisations are relatively weak – this contrasts marginal from this thesis observation of the policy cases. Policy changes, he argues are executed almost exclusively through electoral and partisan politics and that the concentration of political authority makes reform easier.

The findings of this thesis support the claims made by Pierson, however, with the following caveats. The strength of concentrated political authority and the weakness in interest intermediation never unfold exactly as Pierson suggest, although he provides a close approximation of contextual framework from which to develop an understanding of the restructuring process. In the UK as in Canada the outcome of the reform suggest that mediation by other institutional factors played a role also – this would probably explain why countries tend to adapt a mix of pension benefit packages. While interest groups do not have a seat at the decision making table in the liberal welfare model as Pierson argues, the specific orientation of the reform program could galvanize opposition support and make the reform objective difficult even for government acting from position of superior capacity. The role of interest groups in such cases maybe exaggerated and indeed masks the true level of strength.
The single plurality electoral system enhances the political power of the party in government. It creates electoral majorities and in the case of the Westminster model, the capacity of the governing party to dominate policy making also. The empirical evidence from the Canadian federal system suggest that while the single plurality electoral system inflates the electoral support of parties in power, it has little or no currency in pension policy making there.

To estimate the relationship between the 3 independent variables: the concentration of political authority; pension design, and economic globalisation and the mediating domestic institutional is the central concern here. Economic globalisation and demographic change are treated as independent variables. While economic austerity is treated as an intervening variable. The variable controlled for in this study is the welfare state type and the crucial aspect of the distinct variable is degree of political concentration granted by the institutions of government. The selection of the variables has been carefully evaluated to allow the study to control for most non-institutional variables, thereby enabling the impact of political institutions to be highlighted.

Externally demographic change is providing reforming governments the incentive to cut social spending. The demand for pensions, for example, is largely determined by the size and composition of the population\(^2\). Thus, demographic

\(^2\) Population changes as a phenomenon essentially is reacted to by government and cannot itself be affected by policy and planning. But population change can equally be regarded as being to some extent a dependent rather than an independent variable in the planning process. Consequently, projections can be
change is depicted as an essential variable. The UK population is ageing. Although the population grew by 8 percent in the last thirty years or so, from 55.9 million to 60.2 million in mid-2005, the change has not occurred evenly across all ages (Office for National Statistics, [ONS], 2006). The proportion of the population aged 65 and over has increased, it represents 18.7 in 2005 (ONS, 2006). By 2025 as Figure 1.3 show, the population of those of pensionable age in the UK will be about 23.9 of the total population (ONS, 2006). Canada’s population is ageing fast and senior citizens would outnumber children in about a decade, according to Statistics Canada (Statistics Canada, 2005). By 2025, the number of people aged 65 and over would be about 9.4 million representing approximately 25.2 percent of the total population. Comparatively, Canada’s population projection for seniors is 1.3 percent higher than the UK projections. The World Bank confirms these projections and predict a percent increase of about 25 percent (World bank 1994). This is likely to have substantial policy implications, particularly in the area of pensions.

The point here of course is not just on economic growth but growth in the numbers of the elderly. Myles and Pierson (2001) state that with rather few exceptions, the size of the welfare state for the elderly in the next century will be larger than it is now if for no other reason than that benefits will rise more quickly than the capacity of policy makers to cut entitlements (Pierson 2001). If this is true, states may respond by taking radical steps to address the fiscal stress. This

used to estimate the likely demographic impact of planning decisions and policy changes, as well as the planning and policy implication of demographic change.
would mean that issues relating to state pension would remain a higher policy priority rather a diminished one.

**Structure of the thesis**

The rest of the thesis consists of six chapters. The second chapter explores in greater detail the welfare state literature and provides a critique of the existing explanatory framework. It also lays out the major contending issues identified in this thesis. In the third chapter, the analysis of welfare state development, and different types of pensions. It will consider the reform options available to policy makers and their minders. The concept of concentrated political authority will be considered in light of the policy process. In addition all the independent variables already mentioned in the introduction will be examined. This will then lead into the central analysis of the case countries in chapters 4 and 5. The sixth and final chapter will summarise the key arguments. It will postulate a plausible explanation of the empirical findings and look forward to future research possibilities.

In order to evaluate critically the reform trajectory between both countries, it is important to identify the essential aspects of the relationship between pension reform and economic globalisation, demographic change and austerity. The national institutional settings provide a backdrop for translating external constraints into political action.
Chapter 2 Welfare State Theory

2.1 Major Issues of Contention

2.2 Welfare State Theory and the Provision of Public Pension
2.1 Major Issues of Contention

Two important themes from the first chapter are carried forward here: first, that interest representation and political institutions hold an important key in our understanding of the policy variance in the state pension reform effort in the two case countries in light of international economic pressure (Immergut 1992; Huber et al. 1993; Pierson, 1994, 1996). Second, that existing welfare state theory is limited in explaining the retrenchment logic and in particular fails to engage sufficiently with the policy variance observed in the liberal welfare model of which Canada and the UK are both examples.

This chapter provides the theoretical background for analysing the pension reform and leads to the discussion of the major challenges confronting the UK and Canadian governments in the provision of public pension examined in Chapters 4 and 5. The first part considers the major issues of contention of the welfare state. The second part of the chapter engages with both the domestic policy making and the welfare state retrenchment arguments. Specifically the thesis questions a number of theoretical assumptions. For example, the thesis raises questions about the inadequacy of the 'logic of industrialization approach' as a plausible explanation (Bonoli, 2000). In the second part, the three broad schools of welfare state theory as it relates to the expansion of the welfare state is contrasted with the pension reform literature. It argue that the similarities between welfare state expansion and retrenchment serve also as a point of departure.
Pressure Points

The reform of the state pension system is an integral part of the retrenchment\(^3\) of the welfare state. The liberal welfare model, like most of the other welfare state regime types, suffer from a number of challenges - most of which have already been briefly discussed in the preceding chapter. From the point of view of this thesis, there are at least two central concerns: one relates to the policy process itself leading to reform and the other regarding the plausible theoretical explanation for the observed variance in policy outcome. These two challenges are not exclusive problems but rather mutually intertwined.

First, these challenges are contentious from a policy process point of view because there is a lack of agreement on the effect of the key variables considered in the literature. Despite this disagreement concerning the root causes, it is generally accepted that the welfare state now faces a context of permanent austerity. The transformed global market, a sharp slow down in economic growth, the maturation of governmental commitments, and population ageing all generate considerable fiscal stress (Pierson 2001)

In addition to this overarching fiscal stress, systematic challenges relating to the reform process itself are identified, such as the long-term financial sustainability.

\(^3\) The term retrenchment and reform is used synonymously in the welfare state literature. In ordinary usage they do not mean the same thing. Retrenchment entails a process of policy changes that result in reduction of generosity, coverage or quality of social programmes. While reform, although involves a process of policy change is not always the case that such change will result in reductions of programme benefits. However, it is generally accepted that in the current climate, pension reform is more likely than not to involve the reduction of benefits. For the liberal welfare model, this is true because it has entailed a process of re-commodification. It is used here in this thesis to convey this sense of loss of entitlement observed in the case countries.
contextual effects, the impact of political decision making, pension design and finance, path dependence, cultural attitudes towards the state's involvement in pension provision, the electoral/partisan environment and interest intermediation.

The process of reforming state pension systems is generally associated with retrenchment. It involves changes to policy that result in reductions in the level, coverage or quality of social programmes (Bonoli 2000). Retrenchment can be moderated by other measures which are geared towards meeting changing social needs. In practice, retrenchment alters the existing distributional equilibria (Bonoli 2000).

The climate in which reform takes place is as important as the reform itself. For example, under conditions of permanent austerity a distinct set of political problems arise. The range of political actors represents the differing political cleavages and strategic alliance. This strategic alliance reshapes the relationship between opponents and supporters on the one hand and government and citizens on the other and what is desirable and achievable under the circumstances. In part, this stems from the mounting concern in the wake of shift the global economic both in terms of pressures and concerns over competitiveness and because economic shifts have altered domestic balances of political power (Pierson 2001:193). A central objective of this thesis is to help to deepen understanding of forces shaping the reform of the liberal welfare state. It does this by paying close attention to the ways in which different national policy
patterns are embedded in, and help to shape, distinctive national variety.

It is expected that the national variance is also shaped by the demographics of each state. Pensions are directly exposed to the twin pressures of economic and demographic change. The sharp slow down in economic growth over the 1980s reduced governments’ ability to generate revenues – either through the traditional method via taxation or indirectly through labour market flexibility and increased productivity. On the other hand, population ageing is resulting in increased pension spending. This provides governments with strong incentive to take action. In the Section 2.2, these theoretical factors are considered further.
2.2 The Welfare State Theory and the Provision of Public Pension

Section 2.2 provides a critical review of the welfare state literature as well as the literature on domestic policy making. The evidence reviewed in this chapter suggests that the single logic of welfare state reform have become less credible. The study of the welfare state suffers from a crucial dependent variable problem: this problem stems in part from the limitation of theory and the lack of available data. Attempts at accounting for the different hues of welfare state regimes, have being a subject of a simple dichotomy of 'more' versus 'less' (Pierson 2001: 421). This single logic implies that change is measured along a single continuum, stretching from the homeostasis or even expanding welfare state on one end, to significant erosion or dismantling on the other. Although the existing typology does not accurately depict the distinct processes, it seems clear that it serves as a useful heuristic device from which to assess the trend of reform across regimes. This is important because the context in which reform occurs involves a range of actors with complex motives, and the various forms of the dependent variable makes explanation on a single continuum futile.

Disaggregating these reform dimensions enhances our chances of predicting or even making sense of relevant political processes, enabling a more minute account of actor interests and political activity. Government departments acting on behalf of national or subnational governments are actors in their own rights conforming to specific institutional norms of behaviour (Scharpf 1997). Interest groups can also be considered as actors representing specific or a multiplicity of
interests. Individual citizens, whether as pensioners or tax payers have interests too. These actors may have concerns about distinct dimensions of reform; particular actors may have multiple priorities but partly conflicting objectives. The existence of multiple priorities creates opportunities for issue-linkage and negotiated change. The actors preferences in pension policy is structured to some extent by the institutional design of the relevant programmes, so that a combined focus on political and pension policy improves the explanatory capacity of this thesis.

Analysts elsewhere (Myles and Pierson 1997; Bonoli 2000) have stressed the centrality of distinct political and policy configuration – distinct regimes. They have called for the recognition of the existence of quite different settings for the emerging politics of restructuring.

Our Starting point - welfare state development theory
The pioneering research by Esping-Andersen laid a solid foundation upon which to begin the study of welfare state development (1990, 1994, 2001). His regime analysis was the first systematic analysis of the welfare state and it stands alone in drawing together the disparate perspectives namely: the logic of industrialisation, the power resource and the new institutional approach.

The industrialisation nexus
Esping-Andersen’s regime analysis assumes an interconnectedness of state,
economic, legal and organisational features. He makes three principal points about the welfare state regimes. First, he builds on Richard Titmuss’s (Titmuss 1950) idea of social rights: he argues that the basis of social rights rests on the degree to which such rights permit individuals to maintain a living standard independent of pure market forces. This, he referred to as decommodification. Therefore any effort by government to reverse or create dependence on pure market forces is regarded as commodification (re-commodification). Second he contends that welfare states are seen as having come about as a response to stratification in capitalist societies. Welfare states in turn are themselves a system of stratification since the social rights thus confer to citizens rights to resources. Third Esping-Andersen attributes the differences between welfare states to the nature of class mobilisation, class-political coalition structures and the historical legacy of regime institutionalisation. The three worlds of welfare capitalism identified by Esping-Andersen are: the liberal welfare model, the conservative model and the social democratic model (Esping-Andersen 1990:32).

Esping-Andersen characterises the liberal welfare model as one with limited provision of income benefits. Another characteristic is that income transfers to low earners, state dependents, and working-class are modest. Reform has been circumscribed by adherence to work-ethic norms and the regime minimises decommodification and encourages a strong market-oriented welfare system for middle and upper-income groups (Esping-Anderson, 1990). The schematic
diagram below provides a general overview of these models.

Table 2-1  Three worlds of welfare state overview

<table>
<thead>
<tr>
<th></th>
<th>Liberal</th>
<th>Social Democratic</th>
<th>Conservative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Support For</td>
<td>Moderate</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Welfare State</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment Pressure</td>
<td>Moderate</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Reform Agenda</td>
<td>Re-commodification/ Cost containment</td>
<td>Cost Containment</td>
<td>Recalibration</td>
</tr>
<tr>
<td>Line of Conflict</td>
<td>Neoliberal retrenchment vs. compensated commodification</td>
<td>No dominant cleavage Negotiated, incremental adjustment</td>
<td>'Stand Pat vs. Negotiated Reform</td>
</tr>
<tr>
<td>Distinct Key Variable</td>
<td>Concentration of political authority</td>
<td>frequency of coalition slides concentration of political authority</td>
<td>Vulnerability of centrist reform</td>
</tr>
</tbody>
</table>

Source: Pierson, 2001:455

Unlike the social democratic and conservative models, in the liberal welfare state adjustment pressures have been moderate and so has been support for existing programmes (Pierson 2001: 455). There are several reasons for this. As already noted above, the level of support can be linked to a culture of reliance on self-financed family support and care, supplemented by charity and occupational provision. It is a stigmatised, underfinanced and low-quality public social service. It has a high level of income inequality and relative poverty a central role of means-tested benefits, a low social expenditure as a proportion of GDP and low replacement levels of income by state benefits and pensions

Esping-Andersen (1990) *Three Worlds of Welfare State Capitalism* Oxford: Polity Press provides a comprehensive treatment of this subject as it relates to the other three models of the welfare state. Norman
1990, 1996, Sykes et al 2001, Pierson 2001). Because of the low social expenditure as a proportion of GDP and low replacement levels, the liberal welfare model does not have the added pressure to reform its' pension system in comparison to the other two. Bonoli argues that the 1986 reform of the UK's State Earning Related Pension scheme (SERPS), for example, was quite radical for a scheme that was in terms of spending levels, already too low by international and European standards (Bonoli 2000).

The final point relates to the key variable in this study. It is generally accepted that the concentration of political authority is the distinct variable. The choice of this variable emphasises the impact of political institutions in contemporary welfare state theory over competing theories, for example, the 'the logic of industrialisation and 'politics matter' (Helco 1974, Skocpol and Amenta 1986, Immergut 1992, Huber et al, 1993, Pierson 2001). The industrialisation thesis argues that welfare states developed along the lines of advancement in industry. The disjuncture that grew both within the family and in the market place with increased urbanisation and industrialisation, meant that the traditional social cohesion and the labour market arrangements which supported workers and families in old age could no longer foster such support relationships as the one that preceded it. This made room for the growth of the welfare state, and in particular the establishment of various pension schemes (Cutright 1965; Wilensky 1975; Myles 1989; Esping-Andersen 1990).

The 'logic of industrialisation' approach notable in the work of Cutright (1965), Wilensky (1975) and Esping-Andersen (1990) takes the view that the welfare state is a by-product of economic development. This view takes a functionalist approach and is supported by statistical analyses covering a large number of countries. Wilensky for example, conducted a quantitative analysis of data covering sixty-four countries. His findings concluded that 'economic growth and its demographic and bureaucratic outcomes are the root cause of the general emergence of the welfare state' (Wilensky, 1975: xiii).

The assumption that social policy would respond to the needs generated by industrialisation is underscored by the prevailing convergence theory. The initial statistical data gathered using this theoretical approach supported the correlation between economic development, measured by per capita GDP, and the level of social expenditure. However, this would soon be dispelled as more comparative information came to light. It became clear that country variations went beyond what could be explained by differences in levels of economic development (Bonoli 2000:30). Thus the 'logic of industrialisation' approach was deficient in accounting for differences in the rates of entitlement and the degree of distribution or coverage. In other words, the measurement of 'welfare effort' of a country, based solely on expenditure had little or no value as far as comparing countries goes (Esping-Andersen 1990). The account of the welfare state, based on an industrialisation nexus does not fully engage with the current climate of retrenchment because policy makers are exposed to a changed political
environment in which dissatisfied voters are likely to react negatively to perceived loss of benefits due to cutbacks.

*Politics Matter*

The *politics matter* argument, also variously referred to as the *power-resource model* attributes the advancement of the welfare state on the ideological persuasion of political parties and agents. In this view the dichotomy of right/left party orientation is positively viewed as determining the type of welfare state that developed.

The ‘Power-Resources’ model, rather than focusing on ‘welfare effort’ sought to delineate and identify factors that influenced the development of the welfare state. The hypothesis is that the strength of the labour movement and of left-wing parties is a key determinant of the level of welfare state development in a country. It follows from this premise, that successful mobilisation of the working class is the essential factor in explaining the different levels and models of social protection. Authors focussing on the Swedish case argued that left-wing parties can, once in government, prompt the adoption of generous and universalist social policies which were favourable to working-class interests (Castles 1982, Korpi 1983, Esping-Andersen 1985).

The empirical work of Francis Castles shows that strong parties of the right have hindered welfare state expansion, while the existence of social democratic
parties has served as a stimulus (1982:85). With regards to pensions, a strong correlation has been shown to exist between the power of the left and his index of pension quality, which takes into account a wide range of variables (Castles 1982).

The 'power-resources' model illuminates our understanding on variance. It does this by identifying the nature of class mobilisation, class-political coalition structures and how this interaction shapes policy direction. It soon begins to falter, however, in light of the current climate of blurring distinction between Left and Right economic policies. As the case of New Labour public sector managerialism in UK will show, the 'power-resources' model does not have an answer to this emerging indistinctiveness of left-right economic policy orientation. It remains a useful but significantly diminished explanatory tool. Much attention is been given to a rival model, the New Institutionalist approach in explaining how the development of the welfare states comes to differ.

_The new institutional explanation_

The New Institutionalist approach highlights the impact of political institutions, in particular the concentration of political authority. To understand the differences in the development of the welfare state, this approach rests its arguments on a three key factors. First, it argues that countries which developed a strong state apparatus relatively early are associated with high levels of social protection. Second, they point to the fact that existing social policies have a substantial
impact on future development. Third, countries in which political institutions allow minorities substantial access to power are less likely to develop big welfare states (Bonoli 2000).

The evidence for these claims is spread across a large section of the welfare state literature. Skocpol and Amenta (1986 p.147) identify the impact of existing policies on current politics, through a mechanism of ‘policy feedback’. The logic of ‘policy-feedback’ is not dissimilar from the ‘path dependence’ situation whereby policies persist or lock-in place and exit from a current policy path is inhibited.

In relation to the third point above, that is, substantial capacity of minorities to influence policy by way of veto points, Immergut (1992), Huber et al (1993) and Bonoli (2000) support the theory that constitutional structures have a substantial impact on the level of state welfare of a country. They argue that in countries in which interest groups are allowed substantial access to the policy-making process, and in which minorities have the opportunity to prevent the adoption of legislation given the existence of veto points solidaristic welfare reforms are more difficult to implement. Bonoli (2000) compares the different approaches to the reform of the state pension system in the UK, Switzerland and France.

The new institutionalist approach offers a more promising line of inquiry because it establishes a framework that allows the study to examine the current reform
Adopting welfare development theory in a different environment

The example provided above show that the absence of radical reform in France and Switzerland, is explained by the fact that, given the availability of referendums veto points interests groups that opposed pension reform were able to prevent reform, and in the case of France this led to the withdrawal of the 1995 pension bill, which would have affected how the regime general was administered and electoral defeat of the right-of-centre coalition government in 1997. The converse of this position would be that the ability of governments to enact legislation that is favourable to them will be enhanced by the absence of minorities with access to political power. Huber et al (1993) found a correlation between various indicators of size of welfare states and power concentration with the executive branch of government.

While these three strands of contemporary welfare state theory reveal the broad determinants of welfare state expansion, there are fundamental problems in applying their findings to current change which is the primary concern of this study. On the surface, the theories of expansion, while not entirely dissimilar from retrenchment, limit their capacity to explain the observed reform efforts. The accounts of current change tend to find ways to incorporate the constraints imposed by the national as well as the international economic order and where applicable the affects of supranational institutions.
Paul Pierson pursues this very line of thinking when he said that the differences between expansion and retrenchment in social policy are substantive (1996:155-6). He writes:

"Retrenchment is not simply the mirror image of welfare state expansion. Why should we assume that theories designed to explain outcomes in a particular context and involving the pursuit of particular goals will still apply once the political environment and the goals of key actors have undergone radical change? The question of whether theories of welfare state expansion offer insights into the retrenchment process is still open, major modifications are probably required" (Pierson 1996:156)

By implication, what Pierson is suggesting is that the two trends require distinctive conceptual frameworks. He acknowledges that the external economic dimension is important, but he believes that it is the internal events that shape the state's response. For example, the resilience of the welfare state in Europe as well as in North America supports Pierson's argument. It was expected that the welfare state may have collapsed given the demise of the left since the 1980s. Rather what has been observed is the growing and widespread support for the welfare state in countries where there have been traditionally weak labour movements. Pierson offers another explanation. He states:

"The sources of the welfare state's political strength are diverse, but are of two basic types: the electoral incentives associated with programmes which retain broad and deep popular support and the institutional 'stickiness' which further constrains the possibilities for policy reform. Together, these features have created tremendous resilience in the face of two decades of welfare state 'crisis'" (Pierson 2001: 411 see also 1994, 1996)

According to this view; the primary place to begin the search for answers would be within the states. He actually insists that while the external influences are important, they themselves are reshaped by the social and economic
transformation occurring within affluent democracies that produce pressure on
the welfare states (Pierson 2001: 410). To be sure, however, the retrenchment
theory claims appear substantive and valid. First, the overall economic context of
social policy-making has changed. Both Canada and the UK operate under
conditions of intense economic competition in open rather than closed
economies. This simply means that the relatively high degree of control over their
economies, for example through Keynesian demand management, is no longer
available. In contrast, the current international trends of economic and political
integration mean that governments negotiate from a position of diminished
strength (Scharpf 1997a, Bonoli 2000)

Second, while welfare state expansion was popular and had far reaching effect,
retrenchment is generally unpopular (Pierson 1996, 2001) Why? Social
programmes have modified the socio-economic and political context in which
they operate. As a result of the welfare state, a certain level of state-guaranteed
economic security has become the norm in most western societies. When
governments decide to reduce the levels of benefits, they are likely to encounter
powerful resistance from relatively large sections of public opinion. According to
Pierson, social programmes have created their own constituencies, which include
a large part of the electorate (pensioners, social workers, families, middle classes
and so forth) (Pierson 1996). These groups will tend to defend the gains they
have by opposing and mobilising against cutbacks. The different levels of public
support for expansion and retrenchment will thus generate different patterns of
coalition formation. Any theory that wishes to explain the current trend will need to amend the traditional welfare state theory to take this into account.

The third point follows slightly from the second above. It posits that welfare retrenchment constitutes an alteration of the distributional equilibria because it involves transfers of resources between sections of the population (Bonoli 2000: 35) It has the potential to create winners and losers. Unlike other areas of social policy, public pension suffers from a limited scope for efficiency savings. There is no room to recoup cost savings for example in the administrative side of things, because the spending there is already too low. So reduction in pension spending is financed by reductions in the level or coverage of current schemes, leaving some groups of recipients or potential recipients worse off as a result. This zero-sum game plays out in the backdrop. The resulting pattern of advantage and disadvantage/winners and losers will shape the position of various groups in the political arena, and will obviously have an impact on policy outcomes (Bonoli 2000: 35)

These issues raise crucial challenges for this thesis. It has already been noted in the introduction, that this study engages with the retrenchment side of welfare state theory. This is approached by applying Pierson's new institutionalist hypothesis to two carefully selected case studies. The focus is on the unique concentration of political authority thesis using the Canadian federal system in comparison to the UK unitary state. The validity of the claim that political
institutions is important to our understanding of the policy variance in the state pension reform effort in the two case countries in light of international economic pressure is evaluated. This claim should actually be in two parts. The first is on the impact of political institutions and the lesser one is on economic globalisation. The latter part of this claim qualifies the former because the policy response in both of my case countries over the reform of their respective state pension systems have always been framed in terms of financial sustainability in context of permanent austerity (Pierson 2001).


5 The term globalisation is highly controversial and complex. Within the political science, economics and political economy sub-disciplines, it is being contested. The term used in this thesis is economic globalisation. It is a deliberate attempt aimed at giving meaning and to differentiate from the rather crude term globalisation. See Jessop’s sound advice on the usage of the term globalisation (1998) In his contributory chapter in S. Aronowitz and P. Bratii’s (eds) book ‘Rethinking the State: Miliband, Poulantzas and State Theory’ (Minneapolis: University of Minneapolis Press), Jessop explains: “Globalisation is generally better interpreted as the complex resultant of many different processes than as a distinctive causal process in its own right. It is misleading to explain specific events and phenomena in terms of the process of ‘globalisation’, pointless to subsume anything and everything under the umbrella of ‘globalisation’ and unhelpful to seek to link anything and everything to ‘globalisation’ as if this somehow conveys more insight than alternative rubrics could” (1998:1) So it is possible to look at the different angles of this phenomena as in – changing modes of regulation ‘From the Keynesian Welfare national state to the Schumpeterian workforce post-national regime’ in G. Lewis, S. Gewertz and J. Clarke (eds), Rethinking Social Policy (London: Sage/Open University, 2000); new conditions and processes of capital formation ‘European financial integration and uneven development’, in R. Hudson and A. Williams (eds), Divided Europe: Society and Territory (London, Sage, 1999); new communication technologies; new politico-spatial alignments and conflicts ‘Imagining globalisation: power-geometries of time-space’ in A. Braih, M. Hickman and M. MacanGhaill (eds), Future Worlds: Migration, Environment and Globalisation (Basingstoke: Macmillan, 1999) new cultural formation and relations (Jameson and Miyoshi 1998) Jameson, F. and Miyoshi, M. (eds) (1998) The Cultures of Globalisation (Durham, NC and London: Duke University Press) and so forth. In this dissertation the term economic globalisation will be applied in the sense captured by Jessop (1998) and Tickell (1999)
Hirst and Thompson (1999). The contribution of the referenced analysts would be considered in the pension policy section to follow.

There are at least two schools of thought regarding the influence of economic globalisation on the retrenchment of the welfare state. For the purposes here, it is summed up as either a positive or negative externality. The following summarises the negative aspects of economic globalisation:

- the welfare state represents a drain on competitiveness in an era of globalisation and the competition state (Cerny, 1990, 1997)

See Table 2-2 (below)

Table 2-2 Negative Externalities of Welfare Expenditure

<table>
<thead>
<tr>
<th>Expenditure/taxation (indirect effects)</th>
<th>Cost/Supply of Capital</th>
<th>Cost/Supply of Labour</th>
<th>Productivity of Capital and labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Borrowing crowds out investment</td>
<td></td>
<td>3. Direct taxes increase labour cost and reduces supply</td>
<td></td>
</tr>
<tr>
<td>2. Social costs encourage capital flight</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social programmes (direct effects)</td>
<td>4. PAYE (pay-as-you-earn) pensions reduce savings</td>
<td>5. State pensions and unemployment and sickness benefits reduce labour supply</td>
<td>6. Public Sector social provision less efficient</td>
</tr>
</tbody>
</table>

Source: Adapted from Gough (1996:217)

- however, institutional and cultural structures of the welfare state have become entrenched and embedded as to make its reform and retrenchment an iterative and incremental yet cumulative
process, which just began (Pierson 1994, 1996, 2001)

The positive externality contrasts with this view and argues that the:


The key arguments are presented below in Table 2-3

Table 2-3  Positive Externalities of Welfare Expenditure

<table>
<thead>
<tr>
<th>Cost/Supply of Capital</th>
<th>Cost/Supply of Labour</th>
<th>Productivity of Capital/Labour</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maroecoeconomic effects</strong></td>
<td>1. Macroeconomic stabilization effects</td>
<td></td>
</tr>
<tr>
<td><strong>Social Programmes (direct effects)</strong></td>
<td>2. Public social provision boosts consumption</td>
<td></td>
</tr>
<tr>
<td><strong>Welfare Outcomes (indirect effects)</strong></td>
<td>3. Support for women's employment increases supply of labour</td>
<td>4. Human capital enhanced through education and training</td>
</tr>
<tr>
<td></td>
<td>5. Social inclusion tempers criminality:crime deters investment</td>
<td>6. reduced costs of health 7. Contribution to internal work-place flexibility (trust and reduced transaction costs)</td>
</tr>
</tbody>
</table>

Source: Adapted from Gough (1996: 217)

- Economic globalisation may be over exaggerated and that the aggregate empirical evidence in fact masks the actual degree of retrenchment and once we control for demographic and other 'welfare inflationary' pressures, observed welfare expenditure is
in fact substantially below that we would anticipate (Esping-Andersen 1996b, 1996c, Rhodes 1996, 1997b).

- Depending on the pension design (for example, PAYG) the payroll tax needed to finance the state pension scheme could be negligible (Myles, 1994).

- Aggregate evidence masks the degree of real retrenchment since the market-conforming nature of that process has served to increase welfare pressures by effectively trading inflation for unemployment. This is necessary since in certain climates, the social trends make pressures on the cost of social provision intense and unrelenting. This gives rise to political cleavages which are likely to become more complex requiring reforming governments to seek coalitions that back reforms that trades economic performance with emerging social demands.

Consequently, although aggregate spending has proved 'sticky', once we control for increased welfare demand we observe both a narrowing of the scope of social provision and retrenchment in terms of the value of benefits to claimants (A. Martin 1997, Rhodes 1997b, Ferrera 1998).

These bullet points highlight the nexus of economic globalisation and public pension retrenchment. The first point, simply suggests that globalisation imposes pressure for welfare retrenchment. The second point to the potential
competitiveness-enhancing role for the welfare state. The third bullet point acknowledges the attenuating and/or mediating role of institutional factors. Similarly, there exists a divergent view over the strict composition of welfare inflationary pressures in contemporary society – with some attributing these to long-term demographic trends – the fourth bullet point. The fifth raises the possibility that pension design could attenuate negative payroll tax effects. The sixth bullet point gives reference to those who attribute the inflationary factors to short-term political considerations. Yet there is also a real possibility to combine two or more of these factors.

In terms of the negative externalities presented in Table 2-2, it does appear that the economic case for the net competitiveness-corrosive externalities is impressive at this stage of the analysis. The two most compelling cases are first, identifying a tendency for government borrowing to inject inflationary pressures into the economy, and second, suggesting that direct and indirect taxation burden associated with social provision increases the cost of labour.

Interestingly, however, both of these tendencies are likely to be unevenly distributed amongst welfare states. Arguably, the presence of encompassing labour-market institutions and a social democratic tradition of coordinated national wage bargaining attenuates pressures for wage-push inflation that may be present in more liberal welfare regimes (Hay 2001). Moreover, as noted above, tax-induced additional labour costs tend to have a minimal impact on
economies which compete in capital-intensive and quality competitive sectors. Labour costs represent a tiny fraction of the overall production costs and it is quality and innovation rather than cost that are most likely to confer a competitive advantage.

There are several implications from this situation. First it does suggest that the balance between competitive-enhancing and competitive-corrosive externalities is likely to be mediated by institutional factors. Principal amongst these are the degree of encompassment of wage-bargaining regime and what might be termed the 'regime of competitiveness' of the economy as a whole. For economies competing solely on the basis of cost in low-skill, labour-intensive industries, the welfare state is a clear burden on competitiveness, whilst for those seeking to pave a high-tech, high-skill route to competitiveness in capital-intensive sectors, any such negative externalities are significantly attenuated.

Given the increasingly pervasive orthodoxy, we might expect to find little in the way of hypothesised competitive-enhancing externalities associated with inclusive social provision (Hay 2001) Yet what is most striking given the ascendency of the conventional wisdom, is the sheer range and diversity of factors, even in quite mainstream economic analysis, pointing to the potential contribution of the welfare state to competitiveness in export markets. Table 2-3 illustrates this point.
Referring to the first point on the table, microeconomic stabilisation effects imply that high levels of social spending will tend to promote economic stability insofar as they have the countercyclical economic effects. This is particularly true for the case with unemployment benefits which (higher underlying rates of structural unemployment notwithstanding) will tend to bolster demand in times of recession. Similarly, transfer payments to the working class are more likely to stimulate consumption (and hence demand) than tax concessions to the middle classes. Consequently, redistributive welfare regimes, especially those prepared to inject demand into the economy during times of recession are likely to facilitate macroeconomic stabilisation across the economic cycle.

The second point on the table relates to public housing provision for instance. It has been argued that the subsidisation or direct provision of housing frees capital for consumption, thereby raising the aggregate level of demand within the economy. There is positive externality with regards to the support for women’s employment in the labour market. The provision of nursery places and pre-school care is likely to facilitate access (especially that of women) to the labour-market and hence to improve the supply of labour with consequent benefits for the productivity of the economy.

Human capital is enhanced through education and training. Gough (1996) points out that most contemporary variant of competitiveness-enhancing view of the welfare state focus on its supply-side contribution. In an era of heightened
competitiveness, it argues, the skill level of the economy is crucial. Here the welfare state has a central role to play, ensuring flexible high-quality training and re-skilling programmes oriented directly towards the delivery of skills required by the economy. The implications of such a theory are that welfare retrenchment, though frequently couched in terms of competitiveness, may come at a considerable price in terms of the ability of the national economy to compete on any basis other than cost alone in international markets.

Another prediction in the welfare state literature examined in this thesis, is that trade openness leaves particularly small size economies vulnerable to the impact of globalisation. However, the idea that growth in government spending closely follows the expansion in trade is challenged. This seemingly positive association, one that also holds for international capital liberalisation, has been argued to reflect a causal relationship between trade openness and welfare spending (Cameron 1978, Katzenstein 1985b). The basic premise for this line of argument is that integration into the international economy promises large potential welfare gains especially for small countries, but that such integration exposes economies to the boom and burst of the world markets while undermining the capacity of governments to counteract these business cycles. According to proponents of this view, governments solve this dilemma, by accepting high trade exposure, while simultaneously adopting comprehensive social programmes to compensate people for increased levels of labour risk refutes this view (see also Ruggie 1982, Iversen 2001). He insists that there are no compelling theoretical reasons to
expect trade openness and welfare spending to be linked (Inversen 2001:47). On a separate study of 16 OECD countries 1960-1993, Rodrik (1998) found a positive cross-national relationship between trade openness and public spending (Rodrik 1998). Drawing from that work, it is seen that on trade openness and spending scale, as well as on FDI flows, Canada appears higher on that scale than the UK.

Finally it has been the view of some, that welfare enhances flexibility via greater trust and reduced transaction costs. Inclusive welfare, according to Hays, particularly where associated with encompassing labour-market institutions, encourages relations of cooperation and trust (Hays 2001). Most crucially, this facilitates internal flexibility – in which workers adapt themselves and their working practices to new demands and new technology – as opposed to external flexibility (i.e., recourse to labour market). This fosters cooperative relations between managers and labour with consequent reductions in the rate of labour turnover. The added effect of this is in rewarding the economy with higher levels of investment in human capital as workers are likely to depart with their newly acquired skills to the competition.

The analysis so far, portrays economic globalisation as a form of dualistic history - the one old (optimistic view), and the other new (pessimistic view). The old one is commonly associated with Keynesian macroeconomic policy. In that environment, capital was endogenous to the state the welfare state provided a
series of positive externalities, principally wage restraint, in return for investment incentives and a social wage.

The 'new' is a distinctly post-Keynesian ideational environment with heightened capital mobility, when positive externalities have given way to negative externalities. Thus it is said to represent a burden on competitiveness.

*Pension Reform*

The dependent variable, that is, the type of welfare state, is also dependent on a number of other variables, such as whether or not the state operates from a low or high level of concentrated political authority, interest intermediation, pension policy design, enhanced electoral effects, and the political culture in state and civil institutions. By taking these into account, the thesis is able to achieve what Pierson has called a 'nuanced conceptualisation' (Pierson 2001).

In that respect, it follows Pierson's (2001) analytic logic that the current economic environment is fundamentally different from when the welfare state was first established. As such the existing explanations are inadequate to account for the divergence. Currently, the welfare state faces a period of retrenchment defined as a downward pressure to reduce public sector spending. State pension which constitutes the single largest spending of welfare states face huge pressures. As already noted, the source of this pressure is diverse. Bonoli, for example, asserts that state pension is directly exposed to the 'twin pressures of economic and
demographic change' (2000:1). The reduction of levels, coverage and quality of benefits is now a common policy objective.

The research in pension policy provides us with a very useful reference for understanding the range of welfare state type because state pension is the backbone of the welfare state given its sheer size and spending output. The scholarship in this area, to a large extent overlap with the more general effort aimed at classifying welfare states (Palme 1990: 147; Bonoli 2000).

Retrenchment is difficult to measure and is understood as being different from restructuring, although in some instances they have been used interchangeably. Restructuring may not necessarily involve cutback while retrenchment invariably does. If, for example, the sheer cost of administering the social welfare programmes in our two case countries is considered it is hard to see the difference in their spending levels – this will confirm Esping-Andersen’s criticism of the ‘welfare effort’ as a poor explanatory tool. Table 2-1 below shows a relatively similar welfare spending levels between the two countries. However, when the size of the population of each country is fully factored in and the retirement age cohort is taken into account, it can be seen that Canada’s spending is slightly higher. Canada’s overall spending per head is greater.

When looking at these figures, it is important to remember that spending figures alone do not tell us a lot about the reforms. Consequently, in order to gain some
insight into what has been happening to pensions, a look at the legislative changes adopted in both countries and an assessment of the likely implications for pension coverage, level and quality of state pensions is more useful. The question we are addressing here is whether or not the concentration of political authority as in a unitary rather then the Canadian federal system offers any new insights as to the reform trajectories.

Table 2-4 Social Security and Pension Expenditure between Canada and UK

<table>
<thead>
<tr>
<th>Total Social Security Expenditure Percentage of GDP</th>
<th>Pension Expenditure Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>16.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>21.1</td>
</tr>
</tbody>
</table>


The retrenchment of state pension is politically relevant. It demands a different set of political accountability audit. It entails a process of mobilising political resources sufficient to overcome opponents and barriers to change. Given what has largely been accepted as an era of permanent austerity, governments everywhere were pushing forward reform programmes to reduce their financial liability for the state funded pension schemes (Bonoli 2000, Pierson 2001).
Domestic policy making

The liberal welfare model is impacted upon by the political strengths of the welfare state. The political dimension of decision making in this area is dependent on how the diverging preferences expressed by different groups in society are aggregated. The capacity for influencing policy in the domestic arena is to a large extent determined by a range factors: power resources to purchase political support for its cause, the appeal it endangers in the public and more crucially the extent to which political institutions allow non-governmental actors opportunity to influence policy-making.

Pierson presented a strong arguments about the reformatory scope of the liberal welfare model (2001) There Pierson's argument is summarised thus: a weakness of encompassing interest organizations, policy changes are executed almost exclusively through electoral and partisan politics; the concentration of political authority enhances the pace of reform; international economic pressure is moderated by internal social and economic transformation and therefore has a mute affect on the intensity of policy change. The thesis tests this claim by examining efforts of interest groups over the changes made to the four pension schemes. While the core assertion made by Pierson and others appears to stand, it was demonstrated that interests groups can have impact if the eligibility for schemes are universal rather than means-tested. The reason for this can be traced to the electoral and voting pattern of political actors. These factors are
considered in turn.

The electoral system in market democracies can enhance the decision making processes. This is manifested in electoral system. The electoral incentive in this political system tends to give voters the chance to validate the government on its policies. In the case of the welfare state, many studies have shown that it enjoys deep and popular support (Flora 1989). In addition Table 2-2 is used to illustrate the population figures (Table 2-2 below) the number of people employed in the delivery of social welfare is very high.

Table 2-5  Population and Percentage of Senior Citizens (July 2004)

<table>
<thead>
<tr>
<th>Country</th>
<th>1994</th>
<th>2004</th>
<th>Percentage of Population 65 years and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>28,999,006</td>
<td>31,974,363</td>
<td>13 per cent</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>57,862,100</td>
<td>59,834,900</td>
<td>12 per cent</td>
</tr>
</tbody>
</table>

Source: Statistics Canada website (National census 2004).

As a consequence, popular support generally appears to go beyond the confines of narrow economic self-interest. Pierson (2001:413) has argued that the support for the welfare state is intense as well as broad. According to this view, intensity of preference matters because it is associated with higher rates of political mobilisation and voters’ actual choices at election time (Pierson 2001). There are
two sources for the voters' intense preferences.

The first, relates to the fact that most beneficiaries of the welfare programmes simply want to keep it. For a great majority of this group the benefits they receive from the state are their only source of income in retirement. Consequently voters are more likely to react negatively to potential losses than to reward potential gains. For this reason, voters are more likely to punish politicians for unpopular initiatives. The second point, claims that while the benefits of retrenchment for welfare state opponents are generally diffuse and often uncertain, the large core of constituencies for welfare state have a concentrated interest in the maintenance of social provision. It follows that such concentrated interest will generally be advantaged over diffuse ones.

Voters can hold politicians to account for decisions that they see as being potentially negative. In chapter 1 it was suggested that Pierson's argument that voters exhibit a 'negativity bias' to potential losses than commensurate potential gains holds true here as well. A numbers of things need to be noted. First that the political strength of the welfare state stems from the electoral incentives associated with programmes which retain broad and deep popular support. Second, voting can be strategic. In practice, politicians are more than likely to weigh each policy decision against its complementary political cost. This exercise of aggregating interests means that some votes may carry more weight than others.
Krehbiel (1998) and Brady and Volden (1998) came up with the concept of the ‘Pivotal Voter’ to capture the essence of this voting behaviour. They claim that in any collective choice situation where it is possible to allocate preference in a rank order, for example on a continuum, the pivotal voter’s choice is what will determine if a particular set action proceeds or falters. In this respect, the pivotal voter seems to hold a disproportionate amount of power and the final choice selected would depend on the voter/actor. Politicians and election strategists would be looking in that direction. The pivotal voter is not necessary the voter who takes the middle road. His position on the rank of preferences depends on the institutional environment governing choice. What this simply means is that if there are limits imposed on the pivotal voter by institutional factors, such limits as multiple veto and super-majoritarian systems, the choice of the pivotal voters will generally be closer to the prevailing choice rather than around the middle ground.

The reason, the pivotal voter is likely to favour the prevailing policy is that in the era of welfare state retrenchment, politicians who seeks to modify particular social welfare leave themselves vulnerable to attack and defeat. Therefore a much broader consensus, rather than a ‘minimum winning coalition’, is required to achieve desired outcomes (Weaver 1986, Pierson 2001). According to this view, politicians are encouraged to seek grand coalitions likely to consolidate reform effort and continuity. This means that Politicians will be seeking to extend the range of actors. To achieve this in practice, the pivotal voter is much more
likely to hover around the status quo. Another important reason why the pivotal voter will locate at the status quo is that the capacity of the government to enact reform at a much reduced political cost will depend on their credit worthiness on the issue in the eyes of the voters. At least this gives the voters some assurances that the government with this political capital is unlikely to embark on policies that negatively impact programmes.

In the liberal welfare model of which Canada and the UK are both examples, the pivotal voter behaves slightly more transiently. According to Pierson (2001) the pivotal voters are likely to possess weaker attachment to social provision, and to be more susceptible to alternative political appeals – such as demands for lower taxes. As a result, political parties are provided with a rich opportunity to reconcile political success and a relatively aggressive, even openly hostile stance in relation to significant components of the welfare state. There are number of reasons for this behaviour. The scale of welfare state expenditure is comparatively smaller than in other welfare state models. There is over reliance on means-testing which implicitly divides those who benefit from taxpayers. Huge inequality has been observed amongst the social categories of voters – demonstrating a bias in the electoral turnout during election, marking even a diminished turnout rate for those economically vulnerable. The role of unions as powerful political actors is modest. The institutionalisation of market alternatives, often subsidised by the state, weakens middle-class attachment to public provision.
Although not exclusively linked to the retrenchment argument, it can be argued that the retrenchment process faces the second half of the source of the welfare state’s political strength: which stems from the ‘institutional stickiness’ of existing policy arrangements. Evidence to support this position has been found in the formal and informal institutional veto points and path dependent process, which in many cases tend to lock existing policy arrangement in place. Scharpf (1986), Tsebelis (1995) and Bonoli (2000) all found that political systems that make policy reform dependent on more than a simple 51 percent majority, and which include the allowance of minority veto, will tend to create the opportunity to block reforms.

Beyond the handicap of the institutional veto, there is also the thorny issue of path dependence. Path dependence is essentially a way to capture the potential irreversibility of certain courses of political development. In such situations while a complete U-turn is not usually possible, it is still possible to make amend incrementally. There are several reasons why path dependence is so sticky. The reason is simply inferred that policy makers rarely inherit a blank state from which they can remake policies as the situation demands, but rather they carry the dead weight of previous institutional choices which can seriously limit their manoeuvrability. It is the case that individuals and organisations adapt to major social arrangement. These major social arrangements have major consequences. Often these involve large cost incurred for set-up or fixed costs,
learning effects, coordination effects or adaptive expectations (North 1990, Pierson 2001). The work of North do suggests that over time, as social actors make commitments based on existing institutions, the cost of 'exit' rises. Having said this, North makes it clear that path dependency does not hold policy positions in permanent frost but rather change can occur in incremental rather then a radical fashion.

For example, the dynamism of the path dependence thesis can constrain the shift to a private scheme from a pay-as-you-go (PAYG) system (Myles and Pierosn, 1996). Furthermore, it has been observed is that, voters tend to display a negative bias towards potential losses and rarely commensurate potential gains (Offe 1991). The path dependent theory is a strong one. The public pension scheme in the UK and Canada operate under a PAYG financing method. The PAYG method of finance assumes a collective/solidaristic mode because of the way in which one generation of workers pay, through payroll tax deductions, the benefits of the retired. The cycle is repeated over time. In breaking this cycle, one creates a double payment problem whereby present contributors will still be forced to save privately for their own retirement while at the same time financing the benefits of existing retirees. This path dependence thus contributes significantly to the difficulty policy makers have in shifting from a PAYG to a fully funded private scheme. However, the idea that path dependence can somehow neatly predict the future is a misconstrued one (North 1990, Tsebelis 1995, Huber and Ray 1999, Pierson 1994,1996,2001). The findings of this study will
show that even in the area of state pension reform specific national settings can foster variance in the reform of public pension despite the fact that both of the case countries operate a PAYG financing method.

*Interest Intermediation*

Interest group participation in the domestic policy making arena is an important part of the equation that need to be considered. Analysts dismiss the political relevance of interest intermediation in the liberal welfare tradition. The claim is that interest groups are generally weak and marginal. By foreclosing input from these groups granted by the institutional framework, reforming governments find their preferences are much within reach (Pierson 2001, Swank 2001).

In the case study countries, the observed patterns of policy response demonstrate that the political conflict between advocates of moderate restructuring and radical retrenchment are more equally matched. For example, the UK embarked on a much more radical reform than did Canada. In the UK the growing income gap amongst seniors is widely reported (Hill 1998, Blackburn 2003,). In Canada, there is a deliberate effort to shore such wage gap (Myles and Quandgro1998, Battle, 1998) with supplementary income. As the case study chapters 4&5 will illustrate the reason for this has something to do with the manner in which interest are represented.

Another example to illustrate the government freedom to institute measures close
to their preferences relates to the levels of commodification of labour (see Esping-Andersen 1990). The liberal welfare states which include Canada and Britain in comparative terms are already two of the most 'commodified' in the OECD. This raises questions as to why they are embarking on further retrenchment. Part of the answer may lie in the political weakness of those who might resist commodification.

The impact of organized interests on pension policy reform was captured during interviews conducted during this study. The initial observation was that these groups representation were moderated by the respective institutional provisions obtainable in each country. These actors pursue particular agendas on behalf of their organisations, such as provincial governments, departmental ministries, civil servants, unions, societies, and so forth. But these roles are institutionalised, and therefore, institutional 'rules of the game' define competences, veto positions, and modes of interactions that circumscribe the repertoire of permissible moves as well as the outcomes associated with particular constellations of moves, and they may also define institution-specific norms of appropriateness that may modify or even supersede preferences rooted in organisational self-interest (Scharpf 1997b).

By implication, the institutional rules acts as a gatekeeper, allowing some actors in and shutting others out. Institutional rules do this by the incentive they offer those who approach the gate. Some are deterred by the obstacles leading to the
gate, and others by the price of entry. To take the economic metaphor one step further, some might even suggest that the economic condition favours only monopolies. For instance, we should expect the adoption of major policy changes is generally more difficult in the competitive Canadian political system with its multi-actor and multi-veto characteristics than is true in the single-actor 'Westminster model' that is obtained in the United Kingdom (Lijphart 1984, Scharpf 1988).

The above examples show that the relative strength of actors to influence major policy changes can be constrained or enhanced by the system of government. But how decisions are made reveals something about the institutional environment itself. It is given that one of the central functions of democratic institutions is to aggregate the competing and diverse interests within it. There are at least two competing views. Interest intermediation can be considered in terms of : corporatist and pluralist system of interest representation (Pratt 1996, Swank 2001). The corporatist model of interest intermediation generally provides an institutional mechanism whereby factions of labour affected adversely by different aspects of globalisation and domestic change to articulate preferences and press claims on national policy makers to maintain social protection (Swank 2001, Katzenstein 1985, Lehmbruch 1984) In corporatist countries, there is a wide acceptance of economy-wide bargaining in which broadly organized and centralised labour movements have regularly exchanged wage restraint for full employment commitments and improvements in social protection (Katzenstein...
1985) Such national bargains or social pacts have attempted to forge politically acceptable national policy strategies for equity and efficiency (Rhodes 2001).

Neither Canada nor the UK operates a corporatist system of interest representation and therefore it is easy to dismiss that as an explanatory framework. The pluralist model is more closely associated with what is obtained in the case countries. The pluralist model, suggests that interest intermediation is voluntary, competitive and unorchestrated. Pluralism facilitates a process of representation whereby groups vie to influence the policy agenda through various means (Schmitter 1982). It implies that at the national level, at least, there is conflict between groups. Each group has its own issues and interests to advance.

The process of interest representation can be envisaged as a dynamic atomistic environment in which individual groups engage in one-on-one relations with the offices and legislature whose decisions affects their interests. This grouping imposes the so-called ‘iron-triangles'; the tight-knit alliances between key legislators, influential groups and the leaders of agencies, over policy decisions. How effective this is in explaining the cases in Canada and the UK will be considered more fully in the case country chapters 4 and 5. For now, the evidence is that both Canada and the UK operate under different political environments – specifically there is varying degrees of political concentration and that interest represents also do differ - if only to reflect the political structures of
The organisation of formal policy making authority in the political system should influence the political capacity of focal groups and, in turn, shape the ways in which national policies respond to international and domestic change. The work on the welfare state (e.g. Huber, Ragan, and Stephens 1993; M. Schmidt 1996b) suggests that the 'dispersion of policy making authority' shape the development of welfare state.

Federalism and bicameralism constitute potentially important 'institutional' veto points that allow conservative interests the opportunity to oppose welfare policy development and slow policy change. Unlike in the social corporatism model the institutions do not create collective veto points through a means of encompassing representation; rather there is a dispersion of policy making authority with attendant weaker welfare state clienteles, groups, and coalitions as well as broad policy making orientations and climates that are conducive to retrenchment (Swank 2001).

Pierson (2001) has argued that the partisan-institutional setting shifts the pivotal voter to the right in the liberal model, whereas more generally, the pivotal voters

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are expected to be closer to the welfare state status quo than the median voter. Yet not only is that median voter likely to be comparatively far to the right in the liberal model, but the pivotal voter may actually be to the right of the median (Pierson 2001). During its eighteen years in government the Thatcher government, for example, never received more than 44 percent of the vote, but the Conservative government exploited the first-past-the-post electoral system and a divided opposition to translate a plurality of votes into comfortable parliamentary majorities.

Pushing this illustration further, the evidence does suggest that in light of the diminished electoral support, the government faced limited risk at the polls. However, in the area of welfare provision in general, for example the NHS, government was far less aggressive because of concerns over the popular middle class vote. The Canadian institutional arrangement gave Jean Chrétien no such unfettered control over CPP reform. In the Canadian context, an embedded federalism and well-organised, relatively encompassing interlocutors with whom to negotiate and implement a more consensual process of retrenchment, made the UK option unattainable.

Another interesting aspect of the partisan-institutional setting relates to the political party system. Herbert Kitschelt (2001) provides an alternative hypothesis in his recent typological comparative approach to the study of party systems. His main distinction, for the purposes of this thesis, is between the largely Anglo-
Saxon liberal welfare states, which typically have two-party systems that are highly polarised in relation to economic issues (macro-economic policy, but also the funding of social programs) and various other non-liberal party systems where accommodation and moderation is more typical. In relation to economic globalisation, the key research question for Kitschelt is whether these distinctive party systems respond to its pressures for programme retrenchment differently; he hypothesises that the two-party polarised system characteristic of liberal political economies will be most responsive to retrenchment demands. Canada does not fit into the two-party model assigned to the liberal settings by Kitschelt; its party system has long been dominated by relatively non-ideological brokerage parties, and political success has required that they accommodate regional, linguistic, religious and cultural pressures effectively (Haddow 2004 :403).

The thesis so far, has followed the logic established earlier, that the reform of state pension alters the 'distributional equilibria', between winners and losers more broadly. More crucially amongst the different social economic class and between regions as the case study countries will show. This cultural distinctiveness is very pronounced in both countries – after all, the UK comprises of three or more nations, separate and perhaps distinct nations. Canada's provinces and territories are on the other hand, distinct in terms of language, ethnicity – a multicultural mosaic and religion for example (Lijphart 1971, McRae 1974, Kymlicka1989).

This chapter has set out to examine the nature of the relationship between the
dependent variables and the observed pension reform effort. It has demonstrated that the way in which these variables often involve in pension policy reinforces their relative strength as a plausible explanation which accounts for the variation in policy direction in both countries. This explanation goes beyond the existing theoretical explanations provided. It does this by comparing both the internal dimensions of reform within the case study countries itself and across them. It contends that the existing theoretical conceptualisation, while holding some basic strength that collaborates with the starting hypothesis, misses the nuance of the internal political dynamic within the liberal welfare model realised in this thesis.

Evidence from the case study chapters 4 and 5 demonstrates the validity of North’s claim that path dependence impinges upon governments in cases where veto points exist. In other words it does not have universal application (North 1990). There is opportunity to investigate path dependence in cases of pure Westminster’s parliamentary model. This chapter presented the argument that attention ought to be paid to the little studied relationship between economic globalisation and pension reform. It has been argued that the national translation of this ‘exogenous’ pressure is dependent upon institutional advantages inherent within the countries and not necessarily present across regime type. The UK state pension systems for example differ from Canada with regards to the decision making and the methods of financing as table 1-1 above shows. It is expected that given this difference the trajectory of reform would reflective of this.
Chapter 3  Situating the Politics of Pension Reform

3.1 State Pension Historical Overview

3.2 State Pension Reform in an Era of Retrenchment

3.3 Pension Types and Reform Options
3.1 State Pension Historical Overview

The state pension schemes in both Canada and the UK are part of a system of income transfer developed to cope with the social disjuncture that emerged as a result of mass industrialisation and the diminishing role of the crafts and artisan economy. The supportive position of the individual and the family as the primary source of welfare assumed a subordinate role to that of the state. It is important to highlight also, the implication of development and design on the pension system and subsequent efforts of reforms. All the welfare state regimes manifest this inherent development and design issues. In the conservative and social democratic welfare states, the programmes are less vulnerable to cuts than the liberal welfare states. One way to explain this is with reference to their higher degree of middle-class integration built into the development and design (Bonoli 2000). While the target of current retrenchment has being on the residual elements of the welfare state, the losers of program reform had little potential for political mobilization, and were de facto unable to influence policy making – this is specific to the liberal model.

Development in pension systems

Asa Briggs writing in the 'The Welfare State in Historical Perspective' defined the Welfare State

"as a state in which organised power is deliberately used (through politics and administration) in an effort to modify the play of market forces. Which can be schematically characterised under three main headings: - first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain social contingencies (for example, sickness, old age and unemployment) which lead otherwise to
individual and family crises; and third, by ensuring that all citizens without
distinction of status or class are offered the best standards available in relation to
certain agreed range of social services' (Briggs in Pierson and Castles, 2000:18)

All three objectives identified by Briggs are now met in varying degrees by the
state. The provision of pension benefits under the rubric of the welfare state has
been closely linked to the rise of industrialisation and capitalist accumulation – or
what has been referred to as Fordism7 (Myles, 1989). The provision of a public
pension system and other social programmes for the elderly made possible the
spread of the retirement principle by which individual are permitted, required, or
induced to leave the labour force prior to actual physiological decline (Myles,
1989:1). The requirement to work until such a time that the individual becomes
disabled or can no longer give of their skills had slowly been reshaped by an
emerging industrial age.

The labour market which was seen as a pool of journeymen, craftspeople and
the like, with a self-sustaining system of employment faced a new challenge in
the controlled factory floors of industry. Prior to the genesis of mass production in
large factories (Fordism), the majority of the labour force owned their own
workshops and passed them on to the younger generation within their own
families. The emerging factories that employed the journeymen or craftspeople
as it were did not abolish the traditional age-graded system of craft production

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7 Fordism is generally associated with the American car manufacturer Henry Ford. It was a term coined in
the 1930s to focus on the extent to which new American production techniques (in particular, moving
assembly-line and product standardisation) and their attendant social relations signalled the beginning of a
new epoch in capitalist development
but rather brought it into the factory floor. The skilled craftsman worked along with the unskilled workers. Surviving this new arrangement was the pre-capitalist ethos that required employers to assume responsibility for the protection and support of their older workers – not necessarily in the financial sense. As a result most of the skilled older workers continued until death or disablement (Myles, 1989).

In other words, there were no financial retirement plans for the older worker. The economic ‘boom and bust’ made steady work difficult to maintain. An increasing number of the aged were thus becoming poor and unemployed. Capitalism itself as it developed began to face some challenge, including the productivity of the older worker.

The phenomenon of population ageing which begun to appear in Europe in the nineteenth century and in the twentieth century became characteristic feature of all industrialising countries (Sauvy 1948, Myles, 1989). The notion of a nation of elders began to gain rapid salience in the discussion about the threats to economic prosperity. By the Second World War, the problem of population ageing had become firmly linked to the problem of productivity. One report by the League of Nations in anticipation of labour requirements after the war, argued that maximum production was thought to be reached by ‘men under the age of 35’ (Myles, 1989).
The attack on the older worker continues in the work of Ben Franklin in his now famous aphorism "time is money" (Myles, 1998). The older worker was seen as a cog in the wheel of capitalism. Under the merchant capitalist of pre-industrial period the trader who purchased finished products and sold them in the market cared less about how much time was required to produce the goods purchased. The price paid to the direct producer was unaffected by it. The question of whether it took the older worker ten hours to produce what the younger worker could produce in eight was inconsequential.

This was no longer the case under a new labour market where labour itself became the commodity to be bought and sold. Gosta Esping-Andersen’s pioneering typology of the welfare states was in part based on the distinction he made in the degree of commodification of labour present in the various welfare states (Esping-Anderson, 1990). The entrepreneur no longer purchased actual labour (a finished product) but rather the workers’ time (potential labour). The critical problem with such a system was that of converting this potential labour into actual work. How much each worker produced during a fixed period of time – what is now referred to as productivity – became the crucial measure of a firm’s viability in a competitive marketplace. Under these circumstance the risk faced by the older worker or slower worker became apparent. The introduction of wage contract exposed the vulnerability of the older worker.

The new system of production based on wage labour allowed purchasers of
wage labour to organise both the labour process (the way work is done) and the labour force (who works) to ensure maximum advantage. The changing dynamics of the workplace were little understood by the new industrial class who continued for some time to manage the factory floors based on the old system of the traditional workshop. All this was about to change at around the turn of the twentieth century by a long-term process of capital concentration and centralisation. The small units of production were to be transformed into new, few, large and increasingly corporate enterprises. The changed workplace called for new systems of management of labour within it – those who were responsible for ensuring its success were not the entrepreneurial risk takers. The class of men of power that emerged had new powers in their capacity to manage, not dependent on the ownership of capital or the risk-taking synonymous with the entrepreneurial adventurer. Their asset was their capacity to manage – that is, to systematically apply rules of rational calculation to the maximisation of corporate profit. It is here that the term Taylorism makes it contribution to the new organised labour process.

Taylor argued that efficiency could be had not only by the reconstituted labour process but also a reconstituted labour force – one selected according to ‘scientific’ principles rather than by custom and sentiment (Taylor 1911). Under the new regime, personnel policies were to ensure that only those fit for the job were to be selected and fitness was increasingly associated with speed. The contribution of organised labour played a part in this ensuing battle. Earlier the
labour movement had won concessions for higher wages and a shortened workday. In exchange the employer demanded the speed up of work to gain ground on the shortened workday. New technology also played a key role in the workplace transformation. The costs of new technology can only be justified if they are operated at a high speed to defray capital investments. The combination of these factors added to the challenge faced by the older worker. Soon, the demand for retirement as a means of absolving the enterprise of responsibility to provide work and income for the elderly worker began to grow.

A number of key events helped consolidate the general trend towards the establishment of an obligatory retirement based on chronological age. First, managers in the new corporate enterprises could manage perhaps more effectively the stock and flow of labour supply. Internally within firms, younger workers had better opportunities for promotion and hence the boosting of morale. The second key event was the depression which created excessive labour, which could have been reduced by retirement of the older worker.

However, until the 1930s, other considerations competed with the retirement principle and the benefits that presumed to flow from it. Some of the managers began to resist the Taylorist principles, perceiving them as a threat to their autonomy. The managerial resistance was reinforced by the opposition of organised labour. Most managers were not applying the principles laid out by Taylor. As a result some of the older workers were retained. Another mitigating
factor was the growing militancy within the reorganised firms amongst the younger workers. The young and increasingly militant labour force found the older worker brought stability and conservatism to the resistance. To move the momentum to the next level, the new managerial class sought to gain political support by way of the institutionalisation of retirement. However, to institutionalise retirement it was first necessary to institutionalise the retirement wages. This required some consensus between the three parties – the state, employer and employee. The consensus was not easily reached. First there was the prevailing idea of the limited role of the state. Second, there was the problem of the very notion of retirement wage for able-bodied persons under capitalist thinking.

Prior to the World War II public systems of old-age support were intended to supplement, not replace, the market wages of older workers and their families. Possible expansion of social provision was considered an affront to the great victory of the ‘bourgeois’ revolution that gave rise to the present period. For the State to assume responsibility for the economic well-being of its citizens (especially those still able to work) was the very antithesis of the emerging capitalist order.

Much of the period leading to the emergence of the new order was spent coercing the non-entrepreneurial class to respond to the wage incentive. Under the circumstances, the key to a successful crafting of a pension system was to
make the income received by retired workers less eligible than that of the poorest worker in the labour force – the doctrine of less eligibility, which formed the basis of the UK poor-law reforms of 1834 (Myles, 1989). The reform of the inchoate welfare state that followed was aimed at remedying the appalling conditions of the aged and invalided and their families. The adoption of the retirement principle made welfare reform inevitable.

Broadly speaking then, state pensions as they exist today, started after the Second World War. Guided by the new Keynesian economic theory, governments everywhere began to assume increasing responsibility for distributing the national income. Part of the reason for this renewed vigour, has to do with the climate that obtained at the end of the hostilities, which dealt with the collective experience of war that reinforced social bonds. Additionally, most countries had to confront the need to rebuild devastated economies with very limited resources.

8 Keynesian economic theory purports that recurrent depressions and the occasional inflation were not necessarily consistent with the assumption of the invisible hand dealing fairly with society. Keynes argued that it was not unreasonable to expect that some monetary institutions could be found that could eliminate or mitigate the boom and burst cycle. The demand theory that he proposed entailed two key principles: first, government must manage the economy and secondly, it must manage it by manipulating demand. He noted that during periods in which the level of employment declines, the government should run a budget deficit to provide unemployment relief. He believed that such actions would increase people’s ability and willingness to consume, thus extricating the economy from recession. The creation of unemployment insurance, social security and welfare sharply reduced the economy’s tendency towards instability. Keynes economic theory however suffered significantly in the late 1970s and 1980s because of the neoliberal opposition of the supply-side theory (See Hailstones T 1982 Viewpoint on Supply-Side Economics Virginia: Reston Publishing Company) The short approximation of the supply-side argument is simply that the deterrents, that is, increases in taxes, interest rate hikes, inflation, outweighed the incentives created by demand. Following from this, the fact that social security expenditure accounts for a substantial figure in current budgets, the debate on pension reform is connected to that broader ideological question and that is: how much public expenditure can the State incurred to maintain stability or should it? (See Dunnett, A 1998 Understanding the Economy 4th ed. London Pearson Hall)
The frameworks under which the national arrangements for pension schemes were ultimately constructed were broadly comparable and can be characterised as follows:

- A context of full employment
- A reference based on a male breadwinner in a steady job enjoying a full employment career, and whose life cycle was divided into three periods: education, employment and retirement
- A non-contradictory conception of social protection and economies (Hughes and Stewart, 2000 p.1)

Within this framework, many of the countries in Western Europe and North America implemented similar pension regimes. The difference in the emergent welfare state types are discussed at length by various authors (Karim-Claude 1973, Esping-Anderson 1996, Pierson and Castles 2000, Bonoli et al 2000). In the liberal welfare state, the design of the public pension system had seriously considered limiting role of public pensions in place the private initiative and to ensure strengthening of the general work ethic. The pension system that developed from this idiosyncratic view only provided a minimum benefit sufficient to meet basic subsistence. Eligibility for benefits were either universal or means-tested with funding for such programmes provided through the state or payroll deductions.
3.2 Pension Reform in an Era of Retrenchment

This section begins from a basic premise: that the aspiration of the post-war social contract was challenged by the changes in the international economic environment starting from the 1980s. The challenge to the welfare state had to do with the normatively salient goals of full employment, social security and social equity (Scharpf 2000). The present section, considers more broadly the pressures on pensions regimes in the 1980s.

Both the international economic environment and the political institutions are treated as independent variables, which influences the policy responses of the two case countries. It postulates the proximate causes of these variables in the reform orientation. So far, this thesis has argued that the actor’s incentives to pursue particular goals; their perceptions and preferences are constrained by institution-specific norms of appropriateness. It implies that institutional settings influence the orientation of the policy objectives. In Canada and the UK, the crucial variable being considered is the concentration of political authority. In the case of Canada, the federal system of government which allocates decision-making authority equally between the provincial and federal governments in the field of pension policy creates multiple-veto points that can retard the policy process. The UK’s majoritarian form of government is less constrained by the existence of multiple-veto points. The central government in Westminster is able to proceed with policies they consider to be sound.
The explanation to account for the variance in policy response in both countries cannot be that simply settled. It recognises also that the economic and political impetuses in both countries are different. Scharpf (2000), for example, it has being argued that the decade after 1970, all advanced welfare states faced broadly similar changes in their international economic environment which made it difficult to maintain the promises of the post-war social contract, yet these challenges produced startling country-specific response. The question then is: what were the challenges and how did the two liberal welfare states respond? Was the response moderated by the institutional conditions? In what ways are the post-war aspirations for full employment, social security, and social equity impacted by this?

First, the 1980s marked the beginning of a transformed global economic order. The public pension system was impacted upon by the shift in a number of ways, least of which has already been covered in chapter 2.2. A crucial challenge was the state's ability to sustain the goal of full employment. The context of this shift is important to our understanding of the economics of the new politics of the welfare state. The Bretton-Woods system of fixed exchange rate, which had operated since 1944, collapsed in 1971 (Dunnett 1998). The Bretton-Woods system subsumed the previous Gold Standard of exchange - which required the value of each country's currency to be linked to gold – in theory, linked at an immutably fixed exchange rate. The Gold Standard was designed to promote stability in international monetary relations so as to encourage trade between
nations, as well as to ensure that balance of payments disequilibria would be eliminated in the long run. At the start of 1931, the inter-war depression began to bite deeply. The maintenance of the gold parity would have resulted in domestic deflation. This would have worsened the situation which had already severely depressed the domestic economy. At the commencement of World War hostilities in 1939 many countries were generally experiencing a slump in their production output. International trade was also very low. In order to boost international trade, many countries, including the UK and Canada, had to devalue their currencies. This response provoked retaliation by other countries (Dunnett 1998 p.146). The confidence in the international monetary order was further shaken by the beggar thy neighbour series of competitive devaluations that followed.

The Bretton-Woods system of exchange was formulated to address this crisis of confidence. In practice, it was a system of fixed exchange rate. Countries were required to fix the value of their currency to the US dollar. The value of the dollar was in turn linked to gold at a fixed rate of $35 an ounce (Dunnett 1998). Under the terms of the exchange arrangement, countries could not undertake to unilaterally devalue their currency unless to address a fundamental disequilibrium – usually this will include situations in which balance of payment deficit could not reasonably be financed out of reserves, or by borrowing from the International Monetary Fund (IMF) - nor could the situation be dealt with through domestic deflation and unemployment. On both of these accounts, there was
considerable latitude as to what may be considered ‘reasonable’. So countries were able to a limited extent to adopt measures to fit ‘reasonably’ within the Bretton-Woods guidelines.

Since its inception in 1944, the Bretton-Woods exchange rate mechanism heralded a period of unparalleled economic growth yet there were deficiencies in the system. First, the US dollar was the only intervention currency and second, it was linked to gold. This meant that an increase in the price of gold could only be brought about by devaluation of the dollar. This was not acceptable. Thus, the price of gold remained fixed. This method was not the right solution, since the cost of mining under the prevailing atmosphere of creeping inflation meant that the mining firms could not keep up with supply at the depressed prices.

Over time, the shortfall in gold supply did not increase at the same pace as the volume of world trade. This was referred to as ‘insufficient liquidity’—a situation in which the central banks ran short of reserves (Dunnett 1998). To counter this problem, two options were suggested. First, the IMF could move to increase the credit allowance granted to the central banks; unfortunately, this still did not solve the problem. The second option was for central banks to hold other assets, instead of gold as reserves. The American dollar and the British Sterling were the natural choice for most central banks. There are at least two reasons for this: first Britain was the leading trading nation besides America. Second, both America and Britain had a balance of payment deficit problem. This made both currencies
readily available. However, over time, a different type of crisis began to brew. This concerned, not the supply of gold, but the potential for capital loss should America devalue the dollars given the weight of her deficit. Hence central banks became unwilling to hold dollar thus creating another crisis of confidence.

From 1972 onward, the exchange rate mechanism shifted to a floating currency method, in large part due to the aforementioned crises. The distinctive feature of the floating exchange rate is the lack of declared parity which was the hallmark of the previous exchange mechanisms. Because of the flexibility of the floating exchange rate, in theory, it does mean that it did not require intervention on the part of the authorities.

In the period leading to the decline of the Bretton-Woods regime, the volume of currency trading internationally had increased sharply. Hence when finance ministers came to an agreement to let their currencies float, the expectation that exchange rates would correspond closely to the actual value of currencies as determined by trade flows and inflation rates was unmet (Scharpf 2000). The reason for this had to do with the rampant speculative currency transactions. From then on, the shift was to the domestic level where policy choices taking place could have immediate repercussions on the exchange rates of national currencies and hence on the competitiveness of exports and the level of inflation.

The 1973 Organisation of Petroleum Exporting Countries (OPEC) decision to cut
oil production within the OPEC cartel resulted in a new crisis in the nascent macroeconomic policy environment. This was a major blow because it increased fourfold the price of crude oil in the winter of 1973-74 (OECD 1980:120). For the industrial economies this meant a massive cost push which generally accelerated the rise of inflation. More crucially, it created a huge diversion of purchasing power, reflected in an increase of current-account surplus of OPEC countries from $8 billion in 1973 to $60 billion in 1974 (OECD 1980:125). This situation presented a major problem for both sides of this transaction. For OPEC member countries, it meant that the new acquired wealth will need to be recycled back as additional industrial imports or the surpluses thereby attained would be fuelled into currency markets offshore. In the first instance the recycling of surpluses and industrial imports was not immediate – that is, not fully realised in the short term.

Subsequently some of the surpluses were shifted into offshore dollar markets where they increased the volume of assets available for speculative transactions as well as for loans. As odd as the scenario may appear, this situation presented to be a tempting bait for both industrial and developing countries who were hungry for low interest credit to boost the falling aggregate domestic demand.

For most industrial economies, Canada and the UK included, whose welfare states were already fledgling – and built on promises of full employment, social security and social equality - the situation was much more desperate. First, the slow recycle of excess surpluses meant that in the industrial economies,
aggregate demand fell. If nothing was done, the result would be a sharp rise of
demand-deficient unemployment, particularly for countries with nascent fiscal
and monetary retrenchment to fight inflation. Both Canada and the UK had
committed to practicing Keynesian demand management by switching between
fiscal and monetary reflation or deflation. Essentially then, they were caught
between a rock and a hard place – that is a veritable dilemma. Under this new
condition, if they chose to fight unemployment through demand reflation, they
would generate escalating rates of inflation; and if they chose to fight inflation
through restrictive fiscal and monetary policies, the result would be mass
unemployment (Scharpf 2000: 29).

In theory, the prevailing Keynesian model which was the tool of macroeconomic
policy intervention in both the case countries was sufficiently robust to deal with
the dilemma, that is by way of ‘Keynesian concertation’ (Scharpf 1991). This
represents a quid pro quo where the government and central bank would prevent
job losses through demand reflation while the unions would reduce inflationary
cost pressures through wage restraint. To achieve this however, the existing
institutional conditions need to be examined.

According to the modern version of Keynesian macroeconomic theory, a variant
of monetarism, the falling aggregate demand and job losses could be mitigated,
perhaps avoided if constraints on nominal aggregate demand were compensated
by declining labour costs and prices, so that real aggregate demand could be
maintained (Carlin and Soskice 1990). Monetarist policy, however, assumes an exclusive responsibility for price stability, while employment is controlled by wage-setting institutions (Soskice and Iversen 1998; Inversen 1999). Scharpf (1991, 2000) has argued that union wage restraint, which was a necessary precondition for the success of Keynesian concertation strategies, depended on the institution of wage setting: highly unlikely in fragmented wage setting institutions.

In light of the above categorisation, the UK and Canada can be described as a variant of the fragmented wage setting model, which contrasts with the coordinated collective-bargaining system obtainable in countries such as Switzerland, Germany, Denmark and the Netherlands, whereas the statist model operates, for example, in France and Belgium. In the fragmented wage setting system, the institutional support for collective action in wage bargaining is diminished (Scharpf 2000). In the UK, for example, the 1979 government of Margaret Thatcher was able to use a variety of measures and the sheer threat of mass unemployment to weaken the strength of the unions despite their potent strike which toppled the previous Labour government in the Winter of Discontent -1978-1979. Labour unit cost in national currency actually fell from 1982 to 1983 and increased much more slowly than before during the rest of the decade. This allowed the government to let the effective exchange rate of the pound slide by more than 20 percent between 1981 and 1988 (Scharpf 2000), which also reduced relative unit labour costs by the same amount. From 1975,
governments in Canada, as in the UK, chose to fight inflation at the expense of employment through restrictive monetary and fiscal policy (Battle 1998).

The central focus of the discussion so far in this chapter has to do with the macroeconomic environment, particularly as it relates to the exchange rate mechanism and the OPEC oil embargo. This is important because the capacity of industrial economies to maintain their post-war social contract aspirations depended on their ability to carry through economic policies that responded to domestic priorities – of full employment, increased demand, low inflation, and competitive wages.

Under conditions of effective control of economic boundaries, national governments and economic actors, could ignore the exit options of capital owners, tax payers and consumers. As a consequence, the governments were able to raise taxes and support public services and transfers at the expense of captive tax payers. Thus, economic decision making, more or less, was subordinated to political constraints. Increases in wages, and non-wage labour costs, although borne by competing firms, were usually passed on to the consumers without endangering the profitability of capitalist production (Scharpf 2000). Furthermore, national governments were able to determine and vary the minimal rate of return that investors could expect on long-term investment, since governments’ deficit spending could be accommodated by an expansion of domestic money supply, most of this through a dampening of macroeconomic
fluctuations through Keynesian demand management, to achieve and maintain full employment and relatively robust economic growth.

Public sector deficits were low and state expenditures were not exceeding available revenues. The relative stability and growth seen in the first decade of the twentieth century and immediately after the post war period, was in the early 1970s confronted with cost-push inflation and demand-deficient unemployment which the existing fiscal policy instruments proved inadequate to resolve (Scharpf 2000: 238-279). The new solution designed to address the dilemma made necessary by collapse of the Bretton-Woods settlement, effectively took away from national governments the ability to manipulate their economies and this disadvantaged investors. National government control over revenues was more or less limited by the more porous economic boundaries which the new system of exchange controls demanded.

The UK welfare state, like that of Canada, was not designed to deal with substantial unemployment. These economic conditions created in countries where the Beveridge model was in use, flat rate benefits that were far from income-maintaining except for those in the lowest wage brackets (Woodwards 2004). Governments in the UK and Canada were under strong normative and political pressures to avoid unemployment in order to protect workers from poverty. The challenges of the 1970s and the 1980s narrowed policy options. Monetary reflation was no longer feasible, because the cost of public sector
deficits had greatly increased, and because rising of business profits had now become a precondition for maintaining private sector employment. The objectives behind the reform measures were to restore the compatibility of social policies with the changing economic and demographic conditions. In addition there are pressures on government to reduce, or at least not increase, rates of taxation. To do otherwise would put the competitiveness of their national economies at risk, with potential serious consequences for their countries' prosperity (Rhodes 1996, Gough 1996).

Pierson (2001) has argued that a combination of factors has provided the backdrop for the intense pressure for austerity and the enduring popularity of the welfare state. These have included changes in the global economy, the sharp slowdown in economic growth, the maturation of governmental commitments, and population ageing. Moreover, in this view, there is little reason to expect these pressures to diminish over the next few decades.

The finance of state pension schemes through payroll taxes, as is the case of the pay-as-you-go (PAYG), depend on high wage growth, high fertility and high rates of labour force participation (Myles and Pierson 2001). The first and third of these points have been challenged by the economic events at the beginning of the 1980s. The growth of the welfare state that was achieved during the post-war period is being adjusted to accommodate current realities. The case study countries seem to have responded differently? This thesis considers this more
specifically in the case study chapters 4 and 5, but provides a more generic overview here.
3.3 Pension types and reform options

The thesis points out that the Canadian as well as the UK pension systems operate within relatively similar context. Pensions are provided on the basis of universality or means-testing. The public pension system consists of two general types: the basic level pension and the occupational pension schemes. The capacity of the central government to act unilaterally in the implementation of new pension policy is greatly restricted at two levels: through constitutional arrangement granted for decision-making and by the pension design itself. Both case countries face policy specific problems in terms of decision making. In the case of Canada’s occupational scheme as we shall see in chapter 4 requires the assent of 2/3 of the provincial governments representing 2/3 of the Canadian population before any amendment can be made to the occupational pension plan. In the UK decision regarding changes to the occupational scheme is entirely within the hands of the central government.

This implies that institutional factor ultimately moderates the terms of action taken. The design of the pension system provides problems in terms of entitlement claims that come with contributions and the financing of the scheme itself. The following section focuses on types of pensions and problem of reform. The different types of pension have already being outlined in figure 1.2 and table 1.1 in chapter 1. They are highlighted here for explanatory purposes. The first basic level pensions in both countries are universal requiring minimal contribution by those of working age. In Canada the central government finances the basic
state pension. In the UK it is jointly funded through payroll deduction by way of the national insurance scheme (NI). The second level scheme is an occupational pension. In both countries contributions are made through payroll deductions. Employers pay into the pension scheme as well.

The design of public pension schemes is informed by particular political and economic idiosyncrasy. In the liberal welfare we have noted that welfare state provisions are residual and aimed at encouraging private markets in pension provision. Each of the pension policy examined in this thesis is faced with particular problems. In both countries the first level and second level pension schemes are financed on a pay-as-you-go basis, although there has been significant shift since the reforms.

The welfare state literature suggests that pension schemes once established can tend to lock in place existing programmes and make the introduction of new ones difficult. This ‘freezing’ in place type of effect is referred to as ‘path dependence’. The PAYG model is an exemplar of this ‘path dependence’ tendency. Both case countries operate PAYG pension schemes so it is important to assess their impact. Furthermore, as Bonoli (2000) has pointed out, state pensions have received broad support and reform involves, in most cases, the alteration of benefit levels, this distorts the ‘distributional equilibria’ and thus reform will be resisted by those seeking to preserve the existing social order. In order words, public pension programmes have created their own constituencies, which include
pensioners, social workers, civil servants, workers and organised interests – these will mobilise to oppose detrimental change.

The rising cost and demand for pensions are not the only problems driving pension reform. The debate is also about the difficulty with particular method of financing, and distributing benefits: the pay-as-you-go (PAYG) defined benefit plans financed through payroll taxes (Weaver 1986, Bonoli 2000, Myles and Pierson 2001, Cesaratto 2003). Myles and Quadago (1996) identify two principal post-war pension designs, namely: the Beveridge model and the Bismarck model. The Beveridge model consists of means-tested benefits funded usually from general revenues. Because of the method of financing, cuts can be easily justified as satisfying the fiscal realities.

The Bismarck model which is earning-related insurance based model, is much harder to rationalise because the right to pension is based on employment. One way to explain the value of these classifications is to consider that redesigning a public pension system hinges critically on prior assumptions concerning the juridical and moral basis on which the right to a pension is granted. Niemela and Salminen (1995) distinguish among three traditional bases on which the right to a pension has been justified: need, citizenship, and employment. Each of these models contains both a juridical and moral rationalisation embedded within it.

Politicians seeking to restrain the growth of pension spending have at least to
consider two important facts: first, they need to craft rhetoric to legitimatise not only cuts in general but also the distribution of those cuts. That is who gets what and by how much? Second, they must devise cuts in a way that minimises voter backlash. In other words, they ought to employ 'blame avoidance' strategies.

Myles and Pierson (2001) have argued that the key variable shaping broad reform outcomes is the scope, maturity and design of these PAYG pension schemes. All four pension schemes considered in this thesis, save the CPP which has more recently (1997) shifted to a partial funding method, are organised under a PAYG financing structure. So the key arguments presented here would apply to it.

Payroll taxes are presented as constituting an increasingly problematic base for pension finance and particularly difficult for those on low wages (Myles and Pierson 2001). Cesaratto takes a more economic analytic view on the funding mechanism. He describes the PAYG method of funding as a 'progressive income taxation' which is the fairest financial source of PAYG (Cesaratto 2003). Although, he concedes that PAYG does not require much economic theory in order to explain it, he argue that the PAYG is a result of a political decision to transfer part of the current income from one section of the population to another. The motivation of that political decision, he argues has to be explained in the context of the historical and institutional circumstances (Cesaratto 2003).
This does not mean that PAYG is devoid of any economic analysis. It means that the starting point of the inquiry ought to focus on the 'motivation' for a PAYG as noted above. That motivation stems from the intention of government ministers, on the advice of policy experts to extract maximum advantage of the rapid increases in high wage growth, high fertility and high rates of labour force participation. Myles and Pierson (2001) provide a useful framework to help in the analysis. They see two distinct clusters of welfare states that adopt the PAYG. One cluster is the long established and mature welfare state; the other, the 'latecomer' state. The 'latecomer' states did not have significant PAYG earning related programmes at the end of the 'golden age'. These two clusters essentially followed different paths to reform.

Following from the general notion of 'path dependence' what Myles and Pierson (2001) argue is that those states that had a mature PAYG scheme found it difficult to reach comparable levels of cost reductions. The principal problem was the thorny double payment problem. With the latecomer states, the PAYG has not yet matured and therefore the cost of shifting from a PAYG to a fully funded scheme was much less. To illustrate this point, the UK is an example of a latecomer state. Its SERPS programme was passed in 1975 and the first contribution was in 1978. Thus, in 1985, when the Conservatives began considering reforms, the new SERPS system had been in place for only seven years. Canada, on the other hand, is considered a mature PAYG state. The CPP was first established in 1965. The 1997 reform was a modest transformation to a
partial funded method. It appears that the window for full-scale privatisation had long closed. Additionally, given the institutional veto available it was possible for the left-leaning Parti Quebecois working in tandem with the social democratic governments of British Columbia and Saskatchewan could potentially block reform initiative under the legislation creating the plan (Author Interview 2004/5). The Quebec government at the time had opposed any significant cuts in benefits (Quebec 1996). This is an important insight in as far as it reflects the governments' policy in the debate.

There remains a combination of options available to politicians wishing to effect change in the PAYG system. 'Policy by stealth' is one such method, where the government tries to conceal and diffuse responsibility for cutting benefits by making the effects of policies difficult to detect (Battle 1990, Arnold 1990). However, as hard as government try to avoid blame, such reform strategies deny governments the right to claim legitimacy in the eyes of the citizens given that state pensions are one way a citizen makes claims on the government. So the issue of justice, fairness and honouring the implicit post-war social contract comes to play here. There are at least two principal pension designs: the Beveridge and Bismarck model.

Unlike the Bismarck model, the liberal welfare regime is not designed to preserve pre-retirement status. The system operates income transfer on a means tested basis for those who have been unable to build up a sufficient amount of savings
to finance their own retirement.

Changing the benefit formula was another problem. Here the idea is to modify the variables that determined the amount of pension paid. It is usually the custom to calculate the benefit level by taking into account the reference salary, the qualifying period and the accrual factor. Governments can influence pension expenditure by changing any of these variables. Changes to the BSP in the UK would be an example of the change to benefit formula.

Another problem would be to change the indexation mechanism. Indexation concerns both the value of the flat-rate and earnings-related benefits, as well as the calculation of the reference salary in earnings-related benefits systems, and in this respect is an option available in all systems. Typically the reform of the BSP and OAS would be another example. In both countries, the reform of the basic state pension involved a move from wages to prices as a basis for indexation of pensions.

The last concern considered relates to the increase in the retirement age. This is a straightforward way of increasing revenues because it increases the size of the working population by returning older workers, and decreasing expenditure by reducing the number of beneficiaries. The UK government adopted this measure and equalized the retirement age for both men and women starting in 2010 and 2020 (Blackburn, 2004).
The obvious downside to the deferred retirement age option is that it may delay
the replacement of older workers at a time when the economy is no longer able
to create full employment. That means that younger workers may find it difficult to
enter and remain in the labour market. In many sectors of the economy,
Taylorism is still an acceptable management practice. The idea that
flexibility/productivity can be somehow equated to age is not an antiquated
notion, but a present reality.

All of these design models present unique opportunities for reform and both
operate in the UK and Canada. This design analysis will be discussed further in
the case study chapters 5 and 6.
Chapter 4 Politics of ‘Supermajoritician Consensus Building in Canada

4.1 The Welfare State – the Making of a Nation

4.2 The Canadian Pension System

4.3 The Great Pension Debate in the 1980s

4.4 The 1989 Reform of Old Age Security – the End of Universality

4.5 The 1996 Canadian Pension Plan Reform

4.6 Federal/Provincial Policy Making – the Case of CPP
4.1 The Welfare State – the Making of a Nation

The reform of the state pension system in Canada has historically proceeded incrementally (Banting 1997, Myles 2000). It has resisted the more radical approach to restructuring observed elsewhere, for example, the UK. This stands in sharp contrast to the formulated hypotheses intended to account for the convergence towards neoliberal policies in the advanced welfare states in light of external and internal economic pressures. One such formulation suggests that given the small size of her economy and its trade openness, Canada would be expected to pursue radical reform measures. It has also been suggested that with a weakness in interest organisation, the lack of power to veto changes and the capacity of organised interest to pursue negotiated reform through interest intermediation, meant that the reform of the welfare state, within the liberal welfare model, ought to be easier and quicker to achieve (Pierson 1994, 1997, 2001 Bonoli 2000). How these assertions apply in the context of pension reform in Canada is the focus of this chapter. The present chapter describes the Canadian case study. It evaluates the reform of the OAS and CPP in greater detail. It presents the two different planes of decision making accorded to these two public pension schemes as a result of the Canadian federal system. It would draw material from the field work as well as from other document sources.
Table 4.1 Summary of Policy Change in Canada

<table>
<thead>
<tr>
<th>Canada Pension Plan (CPP)</th>
<th>At Apogee</th>
<th>After Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dates</td>
<td>1965</td>
<td>1997</td>
</tr>
<tr>
<td>Universality</td>
<td>Universal</td>
<td>Universal</td>
</tr>
<tr>
<td>Pay-As-You-Go (PAYG)</td>
<td>PAYG</td>
<td>No. Partial Funding</td>
</tr>
<tr>
<td>Level of Entitlement</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Contribution Rate</td>
<td>5.8%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Minimum Age of Entitlement</td>
<td>60 for both Men/Women</td>
<td>60 for both Men/Women</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Old Age Security (OAS)</th>
<th>At Apogee</th>
<th>After Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dates</td>
<td>1951</td>
<td>1989</td>
</tr>
<tr>
<td>Universality</td>
<td>Universal</td>
<td>Means - Tested</td>
</tr>
<tr>
<td>Pay-As-You-Go (PAYG)</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
<tr>
<td>Level of Entitlement</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Contribution Rate</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Minimum Age of Entitlement</td>
<td>65 for Men/60 for Women</td>
<td>65 for Men/60 for Women</td>
</tr>
</tbody>
</table>

Source: Adapted from Government of Canada, Department of Finance 2001

Table 4.1 above summaries the pre and post reform measures of the two pension policies considered in this study. In chapter 6, the thesis compares this with the results obtained in the UK drawing conclusion about the severity of each reform measure.

Two important issues have emerged from the analysis so far. The first is that the concentration of political authority and the absence veto points enables
government to limit the strength of outside actors in policy making. The second is that trade openness poses a direct threat to reform. It is acknowledged that while policy decisions could occur quickly in unitary states, it travels poorly in federal states because of the decision making rules, which in this case are evenly split between the federal and ten provincial governments. In the Canadian case study, this thesis shows that decision rules for the non-contributory OAS operate in a similar fashion to the UK state pension schemes – managed by the central government - unlike the management of the CPP. Therefore, the opportunity for radical reform will be constrained by the institutional context as well as by strategic political interests at the federal level for the OAS and a combination of federal and provincial bargaining with respect to the CPP. This will result in dramatic variance in policy orientation, first within these programmes, and second in comparison to the UK. It is to be expected that the ten provincial governments, and to a lesser extent, the three territorial governments, will come to the triennial negotiating table from unique positions of strength, setting the stage for federal/provincial diplomacy. With the exception of the federal and the Ontario government, which exercises a veto over changes to the CPP, the remaining nine provinces are handicapped by the judicial interpretation of competence.

This section begins with a discussion of the welfare state in Canada. It considers briefly the development and retrenchment of the welfare state there, highlighting the incremental changes that have taken place within the OAS and CPP. It
contrasts the political dimensions of the changes within each of the schemes. The decision making rules, which establish the competence of the two levels of governments in pension policy making constitutes the primary institutional context for the case study.

Welfare State and Nation Building
The purpose here is not to explain the Canadian welfare state, rather it is to identify and describe the crucial aspects that shaped the subsequent development and retrenchment of the state pension schemes.

The Canadian welfare state as it relates to the provision of public pensions has a common heritage with that of the U K which takes root in the Elizabethan ‘Poor Law’ traditions (Gifford 1990, Banting and Boadway 1996, Pratt 1996). The liberal welfare state, of which Canada and the UK are exemplars, were reluctant to accept the premise that national government has a positive obligation to address the concerns of needy and economically insecure elderly persons.

Despite the existence and continuation of poor-relief in both countries, it was believed that poverty was largely due to idleness. Poverty was not a condition to be pitied and relieved, but a moral failing to be despised and condemned (Blake 2003:6). Those at work were expected to be thrifty and save for their retirement in order to avoid the workhouse in old age. In pursuit of this social doctrine, the conditions of the workhouses were made even harsher in order to discourage the
idle. The Poor Law Reform in the UK, for example, was designed to relieve temporary distress but not to end poverty (Blake 2003).

In Canada, opponents of this manifestation of the Protestant work-ethic were able to argue that the extent of poverty amongst the elderly was so great that it was not simply a question of one's inability to save for their old age but rather that the economic situation was rather severe – so through no fault of their own the elderly poor arrive at the workhouses (poorhouses). Bryden (1974) reports that the Elizabethan poor law was not accepted in any of the Canadian colonies except New Brunswick and Nova Scotia, where it was indifferently applied. Yet the English thinking and experience affected Anglophone Canadians. Therefore, in the ad hoc expedients devised to deal with welfare problems, one is able to detect the influence of the principles of both poor law doctrine and the efficiency of institutional care (Bryden 1974). Quebec applied a system of poor relief that departed from the English precedents, with it is adoption of principles inherent in the social doctrine of the Roman Catholic church (Bryden 1974).

Traditionally, it was families which constituted the primary source of financial support for the elderly. Individuals were expected to cater for their own families and the extended ones, including parents and sometimes grandparents. For some time this system of financial support worked well, as most of the population in Canada (two-thirds) lived in rural communities and small towns (Gifford 1990). The rural family had a valued place for its older members, sharing in the work of
the farm, the home, and child-rearing. However, the trend had changed overtime, and more people were taking up residence in the sprawling big cities. The older members of the family fared less well in the cities. A Montreal businessman, Sir Hubert Brown Ames, studied a working class district of Montreal in the 1890s and found that jobs were far and few between, particularly so in the winter months. Some employers took advantage of the oversupply of surplus labour to reduce wages for those in employment. So for those who had work, most were poor (Gifford 1990).

A 1891 Ontario Royal Commission report identified this problem and recommended the establishment of poorhouses in every Ontario county to take care of the homeless people most of whom were destitute elderly (Bryden 1974, Guest 1980, Gifford 1990). The stigma of, and the attitude towards, the elderly poor with no pension, no housing programmes, and no health insurance were to give rise to brewing political discontent.

Rebellion of a growing mass of urban working class against a possible penniless future in workhouses was enough to cause unrest in Canada throughout the 19th century. Elsewhere, in the industrialised west, for example in the newly united Germany, Prince Otto Von Bismarck wanted to stem the envisioned socialist revolutionary trend by establishing a social security system. Pension legislation passed in Germany in 1889. By 1900 ten European countries, Australia and New Zealand had introduced public pensions for their citizens (Gifford 1990, Blake
In Canada, Morden Lazarus writing for the Canadian Labour Congress (CLC) charted the chronological events leading to the establishment of the Canadian public pension system from the earliest times (Lazarus, CLC Department of Education). There he argued that Canadians were becoming aware of events in Europe and with the Trade and Labour Congress (TLC) acting as the principal protagonist, started to agitate for such a public pension system as early as 1905 (Lazarus CLC, Gifford 1990). Although there is some dispute regarding the political influences behind the Canadian public pension system, it is generally agreed that the work of a number of individual political actors and organised interests were to be credited (Bryden 1974, Gifford 1990, Pratt 1996).

One such notable political actor was the Conservative Member of Parliament for Stormont, Ontario, R.A. Pringle, who moved in the House of Commons that the government give early consideration to the subject of improving the conditions of the aged, deserving poor and providing for those who were helpless and infirm (Gifford 1990) Mr. Pringle’s motion was supported by the Labour MP, Alphonse Verville from Montreal who at the time, was also president of the TLC.

The incumbent government of Sir Wilfrid Laurier accepted to consider in some detail the issue raised through the Royal Commission. Sir Laurier did, however, later betray his commitment on this matter, by neglecting to consider the 1889
report of the Royal Commission on the Relations of Labour and Capital (Gifford 1990). The report looked at the condition of those too old to work and recommended a system of government annuities.

The issue was forced upon subsequent governments by the active agitation of dedicated interests, including British Columbia (BC) Nanaimo MP, Ralph Smith, who favoured a universal pension scheme, and the TLC who proposed a national pension plan. The issue of annuities was raised again in the 1912-13 parliamentary session. Again these efforts were thwarted by the then Finance Minister W.T. White who refused to accept that a problem existed to which a public pension could solve. His view was contrary to the view of the government's own appointed House Committee findings (CLC Education Department).

The CLC took credit for the shift in the government's stance on this issue and in the subsequent passing of the Annuities Act of 1908 (Lazarus CLC). The Annuities Act of 1908 would serve as the precursor of the present day Old Age Security Pension (OAS). Prior to the establishment of the OAS in 1951, a number of Royal Commissions were to pass several volumes of recommendation for a Canadian public pension scheme. Most of the recommendations, for example the one by the Commission on Industrial Relations 1919, called for an immediate inquiry into state insurance against unemployment, sickness, invalidity and old age. This was after a serious industrial strife in Winnipeg. The Winnipeg General
Strike in May and June 1919 was a reaction to both rising inflation and unemployment following the war.

Those involved were mostly soldiers returning back from the war and unable to find work. It also included unions who were fighting to obtain wage increases to correspond to the rising costs in the standard of living. At that time, the great majority of workers was earning about 25 cents per hour and had to work long shifts. Most of the working poor also supported large families. The idea of being thrifty under these conditions was generally misplaced as most of the workers did not even reach old age (Statistics Canada – historical data, 2004).

Another significant pressing issue at that time had to do with a customs scandal and a constitutional issue that forced an earlier election in the fall of 1926. The September election ousted the Conservatives and replaced them with the Liberals. The new Liberal government was elected in part as a result of their support of the pension issue. In 1927, two Labour MPs, J.S. Woodsworth and A.A. Heaps, introduced legislation to help the unemployed, and made provision of old age pensions a condition of helping Mackenzie King’s minority government hang on to power (Gifford 1990, Gray 1998). The subsequent legislation established Canada’s first pillar pension scheme.

Despite early opposition to the legislation, by the Canadian Senate, on the grounds that a state pension of $20 per month would weaken family solidarity
and discourage thrift, the governing Liberal Party senators came under pressure both internally within party and externally from the public. The internal squabbles were dealt with fairly quickly by the discipline of the party whip. The bill became law. The newly established Old Age Pension Act came into being in February of 1927. It provided pension benefits of $20 per month for persons aged 70 and over. It was initially financed jointly by the provincial and the federal governments. However, it would later be taken up by the federal government's and solely funded through general revenues in the following year.

Following the passage of the pension measure, the provincial governments took the necessary steps to adopt this law within their own legislation. The province of British Columbia was the first to pass the required provincial legislation in 1927. Ontario and four more western provinces would adopt the bill into law by 1929 and thus were able to join the new pension plan. The Maritime Provinces and Quebec committed themselves by 1936 (Byrden 1974, Gifford 1990).

The creation of this first pillar of state pension scheme was an important achievement. The emergent Canadian welfare state nestled between what Titmuss described as a ‘Residual’ and the ‘Industrial Achievement Performance Model’ (Titmuss 1951). Titmuss characterises the ‘Residual’ welfare state as being dominated by individuals naturally meeting their needs through the channels of the private market and the family and where public welfare benefits are offered begrudgingly and only as a last resort. The ‘Industrial Achievement
Performance Model' is marked by a general acceptance of various types of social welfare institutions including state funded but in which the definition of need remains focussed on recipients' merit, work performance, and productivity (Titmuss 1951). The Old Age Pension Act provided a means tested benefit and was so meagre that a person had to be virtually destitute to get it (Lazarus CLC).

As a vehicle of nation building, although the emerging Canadian welfare state was largely politically incoherent, it showed promise. As it was, huge differences existed within the regions and across provinces. While some provinces were quick to adopt the 1927 pension legislation, others got on board at a later stage. Interest organisations were significantly weak or non-existent nationally. Except for the work of the National Pensioners and Senior Citizens Federation (NPSCF) and the TLC, pension advocacy rested in the hands of a few politicians – the likes of J.S. Woodworth and A.A.Heaps. Pension benefits were subject to stringent means testing. This would suggest that the welfare state was still in a residual mode.

Still, despite the limited application to the new programme, the federal government had taken a bold step in accepting full responsibility for elderly peoples' welfare and income security. With it, the creation of a recognisable social grouping: the pensioners and the attendant bureaus and agencies which had the potential to be the focal point of future pension advocacy (Pratt 1998). This was achieved through the broad language in which policy enactment was
framed - giving administrative officials (civil servants) an open opportunity to shape the course of future pension policy and hence being themselves a focus of intense network lobbying. More recent understanding of the policy making process would suggest that such input is not only necessary but essential (Montpetit 2003). The democratic accountability debate does place demands on governments to improve public input into the policy process in the social policy arena. For example, the government had provided 12 months of public consultations leading to the 1997 CPP reform.

The TLC was active in lobbying the state as well as other interest organisations in the early days. For example following the enactment of the 1927 Old Age Pension Act, the TLC unions in Quebec urged for the implementation of the federal pension plan. They worked in tandem with the Confederation of Catholic Workers of Canada (Confederation des Travailleurs Catholiques du Canada; CTCC) in pushing the Quebec provincial government to accepting the 1927 pension legislation in 1936 (Lazarus CLC). According to a CLC paper, the open proclamation that the social legislation like pension was consistent with the papal encyclical *De Rerum Novarum* by the Montreal Labour Council (CTCC) had the effect of undermining the stiff opposition by Quebec catholics, the clergy, and politicians (Lazarus CLC).

By the end of 1936 all the ten provincial governments had accepted the implementation of the Old Age Pensions Act. The great depression had
exacerbated the number of the elderly dependent on the new pension scheme whose number was estimated at 500,000 by the end of the 1920s (Gifford 1990). This new social grouping began to organise ways to improve their circumstances in the 1930s. The British Columbia Old Age Pensioners' Organisation (OAPO) was founded in 1932 the first federation of community-based seniors' groups formed anywhere. An Alberta federation followed in 1935 (Gifford 1990). However, the bulk of policy articulation and outcome monitoring was provided by the National Pensioners and Seniors Citizens Federation (NP&SCF) and by the Canadian Labour Congress (Pratt 1996).

There was progressive acceptance by all the three main political parties in Canada on the desirability of the public pension. As a consequence the pattern of the establishment of public pension in Canada has followed a wave of political initiative, demonstrating a consistent logic based on experience. The bedrock of Canadian pension programmes, the Old Age Security pension, was established in 1951. The Old Age Security pension was a universal non-contributory pension. Before the establishment of the second pillar pension, namely the Canadian Pension Plan in 1965, the monthly OAS benefits amounted to $75 per month (HRDC 1996). It was adjusted annually to cost-of-living increases by a maximum of two percent. The benefit levels were clearly inadequate and provincial governments worked on providing additional supplements. The Ontario government, for example, passed the Ontario Pensions Benefits Act in 1963. This required every employer with 15 or more employees to adopt at least a
minimum pension plan by the January 1, 1965, with the contributions vested in the employee (Bryden 1974).

The federal government began seriously to look into a second public pension scheme about the same time as the Ontario Pension Benefits Act was announced. Senate David Croll headed an appointed Senate committee to look into the issue of aging. The final Report of the Special Committee of the Senate on Aging was published in 1966, the year the CPP was introduced. The 92 recommendations scripted into the report highlighted the problems faced by seniors in housing, employment incomes, health and other needs (Bryden 1974, Lazarus CLC).

The Canada Pension Plan (CPP) was introduced in 1965 to provide an earnings related pension amounting to 25 percent of earnings up to a maximum ceiling. In 1973 the ceiling was $5,600 and in 1979 it jumped to $11,700 (HRDC 1996). The amount was subject to a joint review by provincial and federal officials, and was at the time set for two percent of cost-of-living increases. In terms of contribution to the CPP fund, both employers and employees were required to contribute 1.8 percent of the employees' earnings up to maximum of $600 annually (HRDC 1998). All nine provinces and territories adopted the CPP except Quebec who established their own Quebec Pension Plan – a legally separate plan but one which remained portable and parallel to the CPP.
Although the income security system so far been fashioned was supported by all three leading political parties in Canada, it would be a few years later that political pressure began to mount in favour of fundamental overhaul. There are at least two principal reasons for this. First, the principle of universality, upon which the OAS originally had been grounded, was soon called into question. Many of the influential persons who had supported the scheme wanted to see the existing system include benefits based on the contributory principle. This leads us to the second reason: the issue of cost-containment. The idea of containing the government fiscal debt was rather appealing with a contributory pension scheme.

Cost-containment would be achieved with a contributory pension scheme because increases in economic growth and high employment levels in the 1960s will absolve benefit increases and make enhancements affordable. The CPP was designed on a pay-as-you-go (PAYG) financing model. Given the prevailing values in the 1950s and 1960s – rising wages and a growing workforce was seen as a potent mix by treasury advisers who would have governments opt for a PAYG design. The PAYG design satisfied all the concerns raised at the time: concerns over government control of large pools of capital and the public general distrust of capitalised pension schemes in countries where depression and war had but all wiped out entire pension funds in the first half of the century (Myles and Pierson 2001: 310). During this initial expansion phase of the welfare state, since there was no preceding generation of entitled pensioners, politicians could offer immediate 'uneared' benefits for those near retirement age and a modest
payroll taxes.

In the Canada, financial figures provided by the Department of Finance illustrate the change in levels of real growth in total wages and salaries and real interest rates. (See Table 4 -1)

Table 4 -2. Real growth in total wages and salaries and real interest rates, Canada, 1960s – 90s

<table>
<thead>
<tr>
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<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real growth in Total wages and salaries</td>
<td>5.1</td>
<td>4.8</td>
<td>2.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Real Interest rates</td>
<td>2.4</td>
<td>3.6</td>
<td>6.3</td>
<td>4.6</td>
</tr>
</tbody>
</table>


The inverse relationship between real wage growth and real interest rates has provided a powerful motivation for some of the reform measures analysed in this thesis. With respect to the design of the CPP, the figures in Table 4 -1 show that it made economic sense to have adopted the PAYG.

The PAYG model of pension financing raised other issues relating to the implicit benefits to the welfare state. It has already been noted that in Canada, as in other western countries, the social tension that resulted in industrialisation was a primary motivation for a state funded social security system. It served to quell the social disjuncture that emerged from industrial growth. After the end of the
world war hostilities, the welfare state programmes generated a share sense of community where individuals were willing to pool resources together against the common risk of joblessness, poverty in old age and in health, for example. These nation building implicit outcomes have been contested. James, for example, argues that the idea that only governments can insure pensioners against group risks, such as inflation, is a myth (James, 1996). She contends that most developing countries do not index pensions for inflation in their publicly managed programmes, and that some privately managed plans do index benefits (James 1996).

We know that Canada and the UK both index their state pension schemes, so James' criticism does not apply in these cases. Canada's welfare state developed in a pragmatic fashion with strong intraparty agreement on the desired outcomes. This was not the case in the UK where there is a strong disagreement on reform measure. The de-centralised political system in Canada allows the federal government acting in unison with its provincial counterparts to craft a reform measure that is evidently incremental. Canadian pension system is presented in Section 4.2.
4.2 The Canadian Pension System

The Canadian post-war welfare state consisted of a complex retirement income system composed of a variety of public and private programmes, each with distinctive purposes and parameters. Together, these programmes represented massive financial outflows, with tentacles reaching into different aspects of Canadian life. Socially, the system was responsible for providing income support for the retired in Canada and contributing to a larger sense of fairness and security (Banting and Boadway 1996). The economic impact was huge. The design of the Canadian pension system was carefully chosen and had wider implications for the overall levels of savings, investment and productivity growth and occupational pensions represented large pools of capital which controlled substantial portions of private industry in Canada. The beneficiaries of the income security system constitute a formidable political constituency that were capable of forcing issues with the government. As a consequence, politicians approached questions of reform with considerable caution.

Although the retirement system that emerged from the post-war period served Canadians well in reducing poverty among the elderly, it became the subject of intense public debate from the 1980s onwards. Often described as one of the best retirement income systems in the OECD countries, the Canadian pension system consists of three pillars (Miles 1998, 2001). The construction of the three pillars differs in very practical ways, with significant implications for its reform.
Graphically, it can be depicted as shown in Figure 4-1.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Form</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation of Public Pension System</td>
<td>Non-contributory</td>
<td>Funded by Federal Government through General Revenue</td>
</tr>
<tr>
<td>Mandatory Combined Public and Occupational Pension System</td>
<td>Contributory Means-tested</td>
<td>Partially Funded State/Employer and Employee</td>
</tr>
<tr>
<td>Flexible Insurance Plan</td>
<td>Contributory Flexible Benefits are based on individual lifetime contribution</td>
<td>Fully Funded</td>
</tr>
<tr>
<td>1st Pillar, OAS Old Age Security Guaranteed Income Supplement (GIS)</td>
<td>2nd Pillar, C/QPP Canada/Quebec Pension Plan, Plus several Occupational Plans</td>
<td>3rd Pillar (Private Scheme) Various schemes</td>
</tr>
</tbody>
</table>

The first pillar is made up of public programmes that are funded fully from general government revenues. The Old Age Security (OAS), the Guaranteed Income Supplement (GIS), and a number of smaller supplements offered by the provincial and territorial governments all draw from the general revenue fund and are fully funded. The OAS was introduced in 1951 as a universal, flat-rate benefit awarded to individuals who retire at age 65. It makes up for about 14 percent of their retirement income. Initially this was the principal source of income for the elderly in Canada. Because of the financing design, the OAS constitutes an intergenerational transfer from working-age Canadians to retired Canadians. Over time, as the other pillars developed and matured, the first pillar was eclipsed by the more robust second and third pillars – nevertheless it remained an important part of the retirement income system for low-income Canadians.
The evolution of the first pillar transpired over a long history. In 1927, the Old Age Pension Act provided means tested benefits of $20 per month (Bryden 1974, Gifford 1990). The OAS, which followed the Old Age Pension, was enriched by the GIS, an income-tested benefit, and a number of provincial supplements which appeared shortly thereafter.

The Liberal Party of Canada was dominant in Ottawa throughout this period, and had earlier identified the possible electoral advantages of being associated with the pension reform cause. As early as 1943, the then Prime Minister, William Lyon MacKenzie declared that “a comprehensive national scheme of social insurance should be worked out at once” (Bryden 1974). His successor, Louis St. Laurent, would take up this vision five years later.

The 1951 reform deviated from the incrementalism associated with Canadian pension reform. It constituted a massive overhaul of the Canadian pension system. It introduced two pieces of legislation: the Old Age Assistance Act and the Old Age Security Act. The former of these was the less controversial since it involved less of a programmatic change (Pratt 1996). It authorised the increase in the size of the existing federal subsidy to the 1927 means-tested benefit, thereby enabling the ten provinces to raise existing pension benefit levels, while simultaneously lowering the age of pension eligibility by five years – from seventy to sixty-five. The latter piece of legislation involved a more fundamental change. The Old Age Security Act established a universal pension for every Canadian at 133
age seventy subject to a single requirement: residency. At the enactment of this piece of legislation, Canada's federal pension scheme was transformed from one involving benefits payable only to the demonstrably indigent and needy into one covering every Canadian citizen above a defined age regardless of need or circumstance (Pratt 1996).

The reform measure attracted lively debate, and in the end the governing Liberal Party gained the support of the opposition Progressive Conservative Party in endorsing the two reforms when it came before the federal parliament (Bryden 1974:117). The resultant OAS is a purely federal programme. The institutional arrangement achieved under a 1935 Supreme Court of Canada ruling, gave the authority to the federal government to act unilaterally in terms of making changes to the programme without any interference from the provincial government. This institutional arrangement made it necessary for interest groups and policy networks to lobby the federal government, directly bypassing the provincial governments - at least this was consistent with the findings from primary sources in Canada.

The OAS would enjoy a long period of growth for the next three decades, only witnessing slight modifications, for example in benefits levels. Having failed to de-index Old Age Security in 1985, the federal government made a more successive attempt in 1989. On this occasion, the federal government took a decisive step to phase-in an income test for the OAS. This meant that benefits
awarded to upper-income recipients were to be ‘clawed back’ – to use the
Canadian terminology - through the tax system. This was a crucial undertaking
because it ended the universality of the first pillar pension then it was previously.
A second programme of reform was announced in the 1996 federal budget. This
proposed to consolidate the OAS and GIS and two income-tax credits currently
available to the elderly, into a single income-tested Seniors’ Benefit; however,
this proposal did not materialize (Canada 1996b). It is quite unclear why the
reform was put off, but it has been suggested that cost consideration played a
part, and that more time was needed to properly phase in the proposed
programme. In addition, the federal government was at the time embarking on
the CPP reform, which is usually a trickier and more demanding policy issue.

The Canada and Quebec Pension Plan (C/QPP) makes up the second pillar of
the Canadian retirement income system. The CPP was introduced in 1966. The
Canada Pension Plan (CPP) operates generally in all provinces except Quebec.
The Quebec government established the Quebec Pension Plan, a parallel
programme to the CPP. The two pension schemes are broadly similar in design:
benefits differ only marginally, and contribution rates are identical. The QPP is
portable with the CPP. In other words, contributors to the QPP can at retirement
draw their pensions from any part of Canada outside Quebec and vice versa.
The basic function of the CPP is income replacement.

The adoption of the C/QPP Pensions Act in 1965 introduced an important
earnings-related element into Canada's existing system of federally funded benefits for the elderly. The CPP is contributory programme that is financed through contributions from employees, employers and self-employed persons aged between 18 and 70 who make more than a minimum level of earnings during the year. The social insurance scheme protects the contributors and their families against the loss of income due to retirement, disability and death. The contribution rates have varied over the years. At the start of the 1996 CPP reform, the contribution rate, shared equally between employers and employees, was 5.6 percent of earnings above the basic exemption of $3500 (Department of Finance 1996). Below this amount, individuals were not required to contribute. The maximum pensionable earnings, for the CPP is $35,400. Benefits are earnings related and replace 25 percent of employment earnings yielding a maximum monthly pension in 1996 of $727.08 (Canada Department of Finance 1997). A small number of beneficiaries receive the full amount. Although the CPP is designed on a pay-as-you-go basis, it has a small fund for each plan, equal to about two years of benefits. Current benefits are funded by current contributions. In effect, today's pensioners are supported by today's workers.

At the onset of the CPP programme, the provincial governments were able to reach an agreement whereby they could borrow substantial amounts from the CPP fund at below market rates. This loan helped fund projects within the provinces unrelated to the primary intent of the CPP fund. Over time, as the CPP matured and was drawn upon for the purposes for which it was set up, the
reserve fund was found to be low (CPP Actuarial Report 1995). Coupled with low birth rate and decline in labour force participation in Canada, the CPP became vulnerable to the pressure for reform because of the declining reserve and increasing outflows.

The third pillar, which was actually the first to be set up, is made up of private schemes. The system consists of tax-sheltered private savings, in the form of occupational pensions and personal savings. Social policy makers in Canada wanted a healthy private pension market. The long history of the Elizabethan poor law tradition still resonated in the social policy thinking of officials. Pension groups representing the business and right of centre think tanks, such as the ACMP and the Vancouver based Fraser Institute, has argued on the merits of an expanded private market provision. Hence from the early origins there was considerable room for the private market. Given the design of the CPP, that the expected maximum replacement rate is limited to 25 percent of average earnings, and that the first pillar pension scheme acts only as an income support for the poor elderly, middle- and upper-income Canadians tend to seek additional income replacement through occupational pensions or private savings. The government have encouraged the expansion of these forms of savings through tax assistance. Tax payers are permitted to withdraw from their taxable income contributions to the Registered Pensions Plans (RPPs) and Registered Retirement Savings Plans (RRSPs); income earned by these plans is also free from tax. The tax shelter for both the RPP and RRSP was limited to $13,500 per
year as of 1996 (HRDC 2004). These savings become taxable when they are withdrawn from the plan prior to the date of retirement. In this respect, the RPP and RRSP are considered as deferred tax.

The RPP and RRSP have received some criticism about their use as instruments of pension planning. Many low-income Canadians are said to bear the burden of the foregone tax, as many are unable to benefit from the tax instruments.
4.3 The Great Pension Debate in the 1980s.

For over four decades, Canada has fashioned a fairly progressive state pension system. There has been a tacit cross-party agreement on the desirability of a public funded retirement income system (Gifford 1990). This vision has been pursued in a logical and systematic fashion since 1927 (Pratt 1996). The byproduct of this social engineering, has been an elaborate three pillar pension system, namely: the Old Age Security (OAS), the Guaranteed Income Supplement (GIS), the Canada/Quebec Pension Plan (C/QPP) and a complex maze of private pension and savings schemes. This retirement income system compares quite favourably with the pension system in Europe (OECD 1996, Baldwin and Laliberte 1999).

Despite these successes, the Canadian retirement income system has come under pressure. The source of this pressure has several foci (a) demographically, it has been estimated that by 2010, the large post-war ‘babyboom’ generation will begin to retire. This transition has powerful implications for social policy generally, and especially retirement income policy (Banting and Boadway 1996). The pay-as-you-go (PAYG) financing method which applies to the CPP is especially susceptible to the changing balance between beneficiaries and contributors. According to Statistics Canada, during the 1990s, there were five people of working age for each person aged 65 and over. By the year 2030, there will be only three (Statistics Canada 1996b).
(b) The demographic pressures have been accentuated by weak performance of the economy. The public pillars of the Canadian retirement income were constructed in a period of strong economic growth, and increases in real wages and salaries which in effect enhances the government's treasury by way of tax contributions. During the last two decades, however, productivity growth has slowed sharply, and wages and salaries have stagnated in real terms, necessitating larger than expected increases in contribution rates to support benefit commitments undertaken in earlier era (Canada 1996a).

(c) Successive Canadian governments since 1981 have endured fiscal crises. A long string of deficits and the resulting accumulated debt have caused a shift in the financial management style of the country's public finances. At the start of the 1990s, debt-servicing was eating up approximately 35 percent of federal tax revenues, placing huge pressure on all other spending commitments. The Canadian public pension spending, although substantial, has up to this point been sheltered from the fiscal restraint observed in other programme areas. Gradually, however, as the government's fiscal position weakened, the sense of taxpayer resistance to further tax increases set the context within which policymakers considered how to manage the mountain of unfunded liabilities implicit in a pay-as-you-go system and an aging population.

Emerging from these was a real sense of crisis. Public confidence in the public pension system was eroded following a wave of bad news stories regarding the
demise of the CPP. Coupled with the realisation of growing unemployment, diminished economic prospects for young people, retreat by the government on a number of social programmes, and technological changes, the result was a pervasive sense of insecurity about many aspects of Canadian life, including the retirement income system. A Gallup opinion poll conducted in 1994 (Figure 4-2) seemed to capture the sense of pessimism, particularly amongst younger Canadians.

Figure 4-2 Percent of people who are confident they will receive OAS and CPP benefits

![Bar Chart](chart.png)

Source: Gallup Poll, October 1994

Figure 5-2 demonstrates that the erosion of self confidence in public pension is highest amongst the 30-39 age category, while the over 65 age cohort are more optimistic about their chances of receiving OAS and CPP benefits. This result truly reflects the assertions in the literature. According to the Canada Statistics referred to earlier in this section, by 2030 the ratio of worker/retiree will be in a
range of 3:1. Those in the age cohort of 30-39 are the ones most likely to feel the crunch.

Thus, the 'great pension reform debate' of the late 1970s and early 1980s began to emerge from its hiatus. In 1972, the governing Liberal Party long associated with the pension reform cause, suffered its major election defeat in large part as a result of measures outlined in a 1970 government white paper, *Income Security for Canada* (Pratt 1996). Implicated in that white paper was the government's intention to freeze benefit levels and increase the required residency period before eligibility could be granted. In order to retain office, the Liberal Prime Minister, Pierre Trudeau, had to enter into a coalition with Canada's third party, the New Democrats. In doing so, he conceded sufficient ground on both counts of his 1970 white paper.

The central question in the debate over the previous fifteen years has been whether or not the Canada and Quebec Pension Plan should be doubled for everyone, or augmented by a homemaker pension (Canada. Task Force on Retirement and Income Policy 1980; Canada. Department of National Health and Welfare 1982; Canada. House of Commons 1983). Furthermore, throughout the 1980s and well into the 1990s and even leading to the 1997 CPP reform, significant interests have called into question the method of financing the CPP. A review of the CPP Consultation Report (Canada. Department of Finance 1996) highlighted the divergent views contained in that report. While many of the
pensioners' rights interest organisations were clear in advocating for an increased and secure public pension system, the business lobby, were calling for a narrowing of provision and a market investment of a fuller funded public pension.

At the provincial government levels, there were other more pressing concerns. The reform options to be pursued had to take into consideration the various strategic interests of the provincial governments. Alberta for example, had expressed rather eloquently her desire to create an Alberta Pension Plan, similar to the Quebec scheme. Alberta took one important step in this direction. This was in the form of an academic report published by the Institute for Public Economics in 2000 and a legislative consultation paper prepared by the provincial legislature under the chairmanship of the Member of Legislative Assembly (MLA), Ian McCelland (Boothe (ed) 2000; Alberta: Strengthening Alberta's Role In Confederation Consultation Paper 2004). The general thrust of Alberta's position was to move the CPP "in the direction of a mandatory fully funded private pension plan" (Boothe 2000). The study also wanted to redress the inherent intergenerational transfer from younger to older workers and retirees present in the CPP design.

The Ontario government would seem to have exercised an implicit veto over the 1997 CPP reform when her Minister for Finance made public his government's unwillingness to approve of rate increases beyond 10 percent. This was what
was implied by an Ontario Ministry of Finance official who said it was essential that one “walk quietly and carry a big stick”⁹ (Interview with author, May 2004).

The federal government and the rest of the provincial governments approved a rate increase of 9.9 percent – the so-called steady state increase (HRDC 2004). There seemed to be good reasons for accepting that rate of increase. The government Chief Actuarist after reviewing the CPP funds came to the conclusion that if the increases did not occur soon, meaning 1997, there was the real possibility that the CPP contribution rate could have reached 14.2 percent by 2030 (Canada. Actuarial Report 1996).

The maximum replacement amount for the CPP was 25 percent of industrial wage. A 14.6 percent contribution for a 25 percent on benefit was a road too far to travel. There were also other unsettled issues relating to outstanding unpaid loans which had been drawn from the CPP fund. Ontario with her massive population base is both the chief benefactor and debtor of the CPP pension fund. An acceleration of the rate of contribution will quickly start the process of rebuilding the CPP reserve and buy the heavily indebted provinces time to recover from their fiscal deficit in order to start repaying the loans.

In the author’s interviews, the international economic dimension did not feature much as a concern to Canadian interest groups. Although the international economic climate features prominently in the backdrop of the debate, it was not

⁹ Author’s interview with an Ontario Ministry of Finance Official in Toronto, Ontario, Canada, May 3rd, 2004
explicitly mentioned during interviews, except at the Department of Finance in Ottawa. Even then, it was downplayed. Canada's trade relation with the US, is central to Canadian economic growth and was often spoken of. For example, the province of Ontario's trade with the US is one of the most important trading relations in the world (Ontario. Department of Finance 2004). This part of the author's findings collaborates with the initial point made by Paul Pierson, that while the global economic environment is important, it is the social and economic transformation within each state that is crucial in determining the reform orientation (Pierson 2001). Canada appears to be in a rather unique position because of her relations with the US. Both the US and Canada are notorious for low wages and if the bulk of Canada's external trade is with the US, it is possible to undermine the economic globalisation theory espoused to explain the policy variance, since labour and wage competition is between two comparable economies.

One cannot quickly dismiss the economic globalisation theory, because how each state responds to the external and internal pressure is still important. It is generally recognised that the economic pressure resulting from slow economic growth, high rates of unemployment and rising deficit is the catalyst for reform (OECD 1988; Ploug and Kvist 1994).

The institutional features of pension systems, as Pierson (1994, 2001) has argued create an opportunity structure for certain kinds of debates to take place
and help determine who is likely to win them. In this thesis, the author has organised these institutional factors as independent variables: namely, the pension design, the electoral environment and the centralised versus decentralised system of government. The intention in this section is to look at the decentralisation of political authority as it operates in the area of public pension as well as to consider pension design and the electoral environment.

It has already been noted that the decision-making structure is embedded in legislation that defines the political actors whose participation and consent is required to change existing legislation. In Canada, reform of the CPP requires the consent of two-thirds of the provinces representing two-thirds of the population and cannot unilaterally be decided by Ottawa.

Second, there is some element of rational choice logic that requires that those who engage in the political debate, possess at a minimum a basic understanding of the rules of the games – scripted as it were, into their collective psyche of what permissible moves are available. Those who advocate for a fully funded pension, for example, might be aware that under the Bismarck design of the CPP, the PAYG financing format had created a ‘path dependent’ dilemma which makes it difficult for current contributors to continue paying into the CPP fund, while at the same time paying into their own private pension scheme – the double payment problem. Hence the Bismarck model could allow for the tightening of the nexus between contribution and benefits, rather than adopting a radical overhaul. This
assertion is not universally true as the UK SERPS programme and the Canadian CPP reform will show. On the other hand, the Beveridge flat-rate pension model is usually sponsored from general revenues and therefore the opportunity to reform can be made by reducing benefits and directing it towards those in need rather than to citizenship.

Third, the electoral environment is implicated in all reform options noted above. Following from Bonoli's argument that pension reform entails a disturbance of the existing *distributional equilibria*, politicians who seek to retrench are primed for electoral punishment if they wrongly underestimate the support for their plans (Bonoli 2000). Welfare retrenchment is also a process of 'blame avoidance' argues Paul Pierson (Pierson 1994). Thus the most likely reform is the one that alienates the smallest number of voters.

This follows from the idea that the conventional critique of income testing in welfare state theory is premised on an understanding of the politics of traditional social assistance programmes in which needs-based tests exclude the majority and provide benefits to a small, powerless, minority – the 'poor'. Without support from the median voter, such programmes are likely to erode with time (Myles and Quadagno 1996). This is not necessarily the case with insurance based schemes such as the CPP. The political sustainability of programmes that exclude 'the rich' will depend on the size and electoral influence of those who remain in the programme. The challenge for the politician in pursuit of the median voter is to
accurately gauge how far down the income distribution he/she can go with a test.

In Section 5.4 the analysis of the reform of the OAS is considered in light of the debate.
4.4 The 1989 Reform of Old Age Security – the end of Universality

The Old Age Security (OAS) represented for Canadians the basic foundation of the pension system. And the federal government has historically used the provisions of the OAS to enhance its visibility in the provinces. It had remained universal until 1989 and federally funded from general revenues. The OAS was not immune from the inexorable challenges facing the pension system namely: rising government deficit which undercut funding and the dramatic predictions of demographic change. The economic and political climate at the end of the 1970s and beginning in the 1980s strongly signalled the government's public policy direction. In May 1985, the government of Brian Mulroney proposed a partial de-indexation of the federal OAS pension. The proposal was vigorously resisted.

Speaking at the 3rd reading of Bill C-26 to introduce reform to the OAS on the floor of the House of Commons, Mr. Ernie Epp, the then Minister of National Health and Welfare stated:

"we in this house hear a lot about pension reform. I am in favour of a very strong approach to pension reform. Those Canadians who are retired or close to retirement have limited flexibility in retirement planning, obviously. But those Canadians who are in the workforce or coming to the workforce have to recognize that planning for retirement is something that should be looked at much sooner than statistics indicate most Canadians do, that is in the last 10 years it at the end, so to speak, and then starts to make plans, much of one's flexibility is lost. The House has a responsibility, and I have a mandate, for pension reform, not only incrementally as is being done through Bill C-26" (Hansard 3rd Reading of Bill C26 1985)

The Minister's statement was strongly worded and suggests that the proposed reform ought to break away from the incremental approach traditionally
associated with Canadian social policy making. Bill C26 was defeated. The reason for its failure is as valuable for the analysis as the lessons it offered to interest groups working in this area. It showed that the existing OAS was not impervious to possible cost cutting and programme reduction under certain conditions. But also, it demonstrated the lack of strategic planning which should have correctly accounted for the strength of the opposition. The Conservative government that succeeded the Liberals in 1984 achieved a massive electoral victory under the leadership of Brian Mulroney. The previous Trudeau government had been in office since 1968 and had only conceded power just briefly in 1979. The election of Brian Mulroney gave the Conservative a large parliamentary majority.

The newly installed Minister of Finance, Michael Wilson announced in his first budget, the government’s intention to alter the indexing formula under the OAS. This would have meant that pension benefits would no longer be fully protected against inflation. Henceforth, in response to any increases in the price level, OAS benefits would be raised only up to a set maximum, with pensioners themselves expected to absorb any additional cost-of-living increases (Pratt 1996). Sensing that the Wilson-Mulroney pension plan, if allowed to stand, would have represented an important shift in pension policy, opposition to the plan was swift.

Both opposition forces in the House of Commons in Ottawa came in defence of the OAS. The leaders of both the Liberal Party, John Turner, and the New
Democratic Party, Ed Broadbent, soon voiced impassioned opposition, and de-indexation now became headline news in the print media as well as on radio and television. Television reporters reported on interviews with senior citizens leaders in cities across Canada, thereby indirectly helping to mobilise opposition to what the Wilson budget had proposed.

Meanwhile the liberal party and the New Democrats fanned out across the country aiming to arouse grass roots support for their cause. The mobilisation was enhanced by the support the movement received from unexpected quarters: among the Canadian Chamber of Commerce and the Business Council on National Issues. These two latter groups spoke for constituencies not normally inclined toward support of high social welfare expenditures. The situation defiled the logic implicit in the welfare state theory: namely that the median voter is most likely closer to the right.

On June 26 1985, two days after meeting pension group leaders, Michael Wilson announced in the House his government’s decision to withdraw the de-indexation proposal. Interest group theorists may claim that interest intermediation was potently effective in this instance (Pratt 1996). While, those with institutional leaning may argue, as Myles and Pierson, has done that welfare programmes that are means-tested and fashioned under Beveridgerian principles can be effectively reformed if the losing constituencies are small, and the median voter is quite up on the income distribution pole (Myles and Quadagno 1996, Myles and
Pierson 2001). The reform effort in 1985 runs contrary to this thesis because it is not easily explainable on the basis of existing interest theory. In either case the mobilisation of those interests was crucial. What is clear is that there is no formally enshrined veto points to which organised interests could employ in Canada to make the interest group theory stick. Informal veto was however within reach.

In the 1989, the second attempt at introducing pension test into the OAS was successful. As is shown by Beland and Myles (2003) this reform was rather modest because it narrowed the focus on a small band of high income earners only (Myles and Quadagno 1996, Beland and Myles 2003).

Perhaps having learnt from the defeat of the ‘partial indexation in 1985, the Conservatives adopted a strategy of ‘blame avoidance’ aimed at reducing political risks related to retrenchment while ending universality by ‘stealth’. They managed to ‘claw back’ OAS benefits from very high-income seniors. The media and most of the organised interest appeared to have ignored this. Since 1989, benefits for individuals with income greater than $51,765 were reduced by 15 percent for every dollar of income above the threshold with all benefits disappearing at approximately $89,000 per year (HRDC 2004). However, the threshold $51,765 where the ‘claw back’ would take effect was only indexed to inflation in excess of 3 percent so that in real terms a growing share of seniors could be affected with the passage of time (HRDC 2004). This less visible
strategy was not well understood by the public and affected by very few seniors hence was reported less on.

In terms of policy making, the case of OAS reform generates interest because it collaborates with the theoretical prospects identified by Pierson (1994, 2001) and others (Myles 1997, 2001; Banting 1997; Scharpf 1998, Bonoli 2000). That is, to say that public pension reform responses to the institutional dynamics within the states. Pension design, interest intermediation and the electorally enhanced governing environment allows those seeking to reform the existing social contract to gauge their prospects and map their strategy efficiently. The OAS reform introduced in Canada in 1985 was quite modest (Beland and Myles 2003) and provided the governing Conservatives with a lesson or two about minimising political risks. The reform project itself failed for a number of reasons already outlined above namely: the number of potential losers were too great; the median voter was in this case closer to the status quo then would have been predicted; the grand coalition included sections of whose were traditionally opposed to social security expansion, i.e., the right wing think tanks and the pro-business lobby; interest group were efficient in mobilising support through several channels in society into the mass media who showed interest in the story. As a senior manager at the Canadian Association Retired Persons (CARP), informed during an interview "everyone get it – they only start to ‘claw back’ at $56,000" (CARP 2004).
The efficacy of interest intermediation is unclear, however, the case of the OAS show that the power of grey lobby can be ignited with the right mix of interrelated factors. Grey lobby was effective because of the mass support it received from all sections of society including all opposition political parties. On the government side they failed to recognise that given the centralised parliamentary power, voters were primed to punish the federal government if they had refused to take on board the concerns expressed by organised interest. The federal government as the sole custodian of the aspiration envisioned in OAS, unlike the CPP, have no hiding place. The lessons learnt from the doomed 1985 reform allowed the federal government to succeed by 'stealth' in 1989 (Battle 1997). This success was also enabled by the institutional arrangement. The Prime Minister was able to justify clawing back benefits from 'rich banker's wives'. This time, the narrow and tax laden reform was less widely understood and passed with little fury. There is the real possibility that the less obvious reason could be the fact the OAS draws from general revenues, hence the direct impact of economic globalisation in the decision making is negligible, although the direct impact of economic globalisation has been dismissed by writers such as Iversen (2001).

The reform of the OAS demands a different set of explanatory tool. Explaining what was achieved by government in the context of Canadian federalism is important in furthering the explanatory power of the analysis. First, it does suggest that pension reform can be enhanced by power residing in the centre. The OAS is entirely administered by Ottawa free from any provincial wrangling.
The federal government was able to adjudicate on its' preferences to maximise impact. Initially the option open to it in light of concerns over deficit and changing demographic was to extend the residence requirements and/or reduce benefits. In the end the government opted for 'risk avoidance' by narrowing the scope of pensioners affected by the reform measure. This measure was considered less radical than could have been possible under the decision making conditions available to the federal government. The reform was itself at odds with the conventional wisdom. Second interest intermediation was insufficient on its own without formal or informal veto. Interest groups in Canada had to 'piggyback' on the mobilisation of a broad coalition of actors to have been able to force the government to reconsider its' 1985 reform measure. In the long term the governments was able to overcome the opposition to reform by narrowing the impact of such change as the 1989 reform demonstrated. Their success can also be attributed the tax implicit nature of the changes – 'reform by stealth' (Battle 1997). The federal government is not able to act alone with respect to the CPP as the framework for reform differed significantly In the next section, attention is given to the 1996 CPP reform. This section would appraise the supermajoriatrian consensus that achieved the CPP reform in 1997.
4.5 The 1996 Canadian Pension Plan Reform

The 1996 CPP reform started life as a set of principles outlined in new Finance Minister Paul Martin's 1995 budget speech to the House of Commons. The speech covered broad principles aimed at confronting the fiscal deficit and fears about population ageing. Five key principles outlined the reform plan. First, the government stated its' intention to ensure an undiminished protection for less well-off seniors. Second, the plan made commitment on continuing full indexation to protect seniors from inflation. Third, provision of OAS benefits on the basis of family was to be strengthened. Fourth, the government was planning on greater progressivity of benefits by income level and finally, the reform will manage program costs (1995 Budget Speech).

Given the dual competence of federal/provincial in the area of CPP decision making, the five principles outlined in Mr. Martin's 1995 budget speech, could only speak specifically to the OAS/GIS but not to the CPP, however, it did signal the government intentions in pursuing policies already began by the previous Conservative government. The following year, 1996, the Liberal government moved to bring to fruition, the reform of the OAS/GIS outlined in the speech. The OAS/GIS were to be consolidated into a single Senior Benefits (Canada 1996a). Like the 1985 OAS reform that preceded it, the Senior Benefits proposal was shelved before it began. The opposition to the proposal was quite organised and vocal. It included a 21 strong Retirement Income Coalition which comprised of the Canadian Teachers' Federation, the Investment Dealers Association and the
The government immediately began to position itself for the triennial federal/provincial CPP review.

In regards to the triennial review, the federal government, benefited from the fiftieth Actuarial Report of the CPP which depicted a dismal picture of current CPP reserves in a context of future requirements. The content of the report was sufficient to push CPP reform back on Canadian policy agenda. The report did project a higher schedule for future contributions than anticipated by previous actuarial report and this was due to sharp increases in disability benefits and the impact of economic recession. As a consequence, without any significant change in the current schedule of contribution rates, by the year 2015, the CPP would no longer collect enough revenues to pay all the benefits (Battle 1997).

The first round of the triennial consultation produced a consultation paper which was published in February 1996, Information Paper for Consultation on the Canada Pension Plan (Federal/Provincial/Territorial CPP Consultations
Secretariat 1996). The consultation included joint federal-provincial public consultation in every province and territory across Canada from April to June of 1996, as well as a series of ministerial meetings (Canada 1997). David Walker, Member of Parliament for Winnipeg North Centre, was the chief federal representative on all the panels (Canada 1997).

During the two months public consultations, more than 270 individual Canadians and organisations made formal presentations at 35 sessions in 18 cities across Canada (Canada 1997). The CPP Consultation Secretariat in Ottawa received more than 140 written submissions and almost 6,000 telephone calls to a dedicated 1-800 information line (Canada 1997). The result of the consultations was released in a report titled 'Report on Canada Pension Plan Consultations' in June of 1996 (Canada 1996).

The general framework that informed the consultations was encapsulated in the February 1996 paper 'An Information Paper for Consultation on the Canada Pension Plan'. There were nine fundamental principles, two of which is specifically relevant here:

- The CPP must be affordable and sustainable for future generations. This requires fuller funding and a contribution rate no higher than the already legislated future rate of 10.1 percent. In deciding how quickly to move to this rate, governments must take economic and fiscal impacts into account.
CPP funds must be invested in the best interests of plan members, and maintain a proper balance between returns and investment risk. Governance structures must be created to ensure sound fund management (Government of Canada, 1996c).

The first of these principles took account of and reflected a need for Canadian economic competitiveness. This is important because the CPP is designed on the Bismarck model. Contributions come from payroll taxes. The second equally significance is in the way it signals a departure from the previous management style accustomed to by the rest of Canada except Quebec, whose Caisse de depot et placement du Quebec has been styled as pseudo independent investment board since its formation in 1966. The proposed CPP investment board will certainly satisfy the key players in the business community who have long called for an investment board.

For example, in one of its recommendations to the government on public pension reform, the Association of Canadian Pension Management (ACPM) stated:

"Meanwhile, the $1 trillion retirement savings pool Canadians have already accumulated, and which will continue to grow steadily during the next decade, will not produce the largest possible retirement ‘nest eggs’ down the road as it is currently being regulated and managed…” (ACPM January 2000).

It was an obvious reaction from the ACPM when the proposal to create a new CPP investment board as part of the CPP reforms was made. The ACPM
comment was positive. They reacted to the legislation to bring the CPP Investment on line as “bringing them in closer alignment with private market sector requirement” (ACPM 2000).

Meanwhile, the Canadian Labour Congress (CLC) in its official submission to the House of Commons Standing Committee on Finance concerning Bill C-2 (the CPP reform bill) said:

“Bill C-2 creates a Canada Pension Plan Investment Board that has some serious shortcomings as it is established in C-2 ..” (CLC November 6, 1997).

In addition to this, the CLC reacted strongly to key issues in the process itself. For example they called on the federal government to publish the impact of CPP changes on the incomes of retirees and other affected groups, now and in the future (CLC 1997).

Opposition to the CPP reform was slightly less reported and this could be due to the fact the decision making centres was split between federal and provincial governments. Work of mobilising support in central and provincial capitals were huge and often beyond the reach of small voluntary based interest groups. Except the work of FADOQ, CARP and the CPC which were more visible. Yet their efforts were weak in confronting the changes. A more general observation was that most if not all the groups interviewed seem to be negotiating from positions of diminished strength. The groups were highly fragmented nationally and therefore could not sustain the type of support that was seen with the OAS reforms for example. (See Table 4-2 of a sample of the senior organisations) All
four organisations are headquartered in Toronto with mostly volunteer staff.

Table 5-2 Amateur-Style Retiree and Senior Citizens Organisations

<table>
<thead>
<tr>
<th>Name</th>
<th>Year Founded</th>
<th>Site</th>
<th>Staff Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Pensioners and Seniors Citizens Federation</td>
<td>1945</td>
<td>Toronto</td>
<td>Volunteer and part-time paid</td>
</tr>
<tr>
<td>Canadian Pensioners Concerned</td>
<td>1969</td>
<td>Toronto</td>
<td>Volunteer and part-time paid</td>
</tr>
<tr>
<td>Canadian Council of Retirees</td>
<td>1977</td>
<td>Toronto</td>
<td>Volunteer</td>
</tr>
<tr>
<td>Canadian Institute of Seniors Centres</td>
<td>1977</td>
<td>Windsor/Toronto</td>
<td>Volunteer</td>
</tr>
</tbody>
</table>

Source: Pratt 1997 p.159

In interview with officials of some these groups, demonstrated their perceived effectiveness as being rather weak except for FADOQ who felt their input into the Quebec parallel consultations was valued. According to the analysis on interest group theory provided by Henry Pratt (1997) there is good reason for the FADOQ perceived effectiveness in Quebec. Unlike the other national seniors’ interest organisations, the FADOQ had representative liaison at the national Assembly in Quebec. This allows for a special hear and input on key legislative initiative absent elsewhere (Pratt 1997).

At the provincial government level, the government of Quebec made it clear that it would oppose any significant benefit cuts as would Saskatchewan and British Columbia, then ruled by the social democratic New Democratic Party, effectively removing that option from the political calculation (Beland and Myles 2003). The government of Ontario had already indicated it unwillingness to support
contribution rate increases beyond 10 percent. Alberta has been posturing on an Alberta Pension Plan (APP) for which there had been some province wide consultation aside from the federal-provincial road show which commenced in April of 1996. In all these, the provinces had each strategic interest in the way the reform shapes. The CPP reserve fund was running low, this was accepted by all parties concerned because the Actuarial report made that much clear. The not so talked about issue is the debt that have accrued to the provinces, especially Ontario, from borrowing from the CPP fund. Ideally, it would be in everyone’s interest if the CPP reserve was quickly replenished before the loans were called in.

This would have had the benefit of cushioning the high debt provinces to pay their way back to a balance at a more sustainable rate. Without a rapid increase to the CPP contribution rate, the return to sufficient reserve would have taken much longer, actually until 2015. This would have meant that the provinces would have no alternative but to pay up. On the other hand, if the proposed contribution rate increase were too high, the economic recovery which began in the early 1990s could have been jeopardised. On the part of the federal government, their position was closer to the middle because already they have retreated on a number of significant social policy issues since 1995. Furthermore, given the jurisdiction created on decision making, federal unilateralism was seriously curtailed. The solution as it did turn out lied in the middle – an incremental approach.
Paul Martin finally presented the draft CPP legislation before the house in February 1997. It was decided to increase the CPP rate from 5.6 to 9.9 percent by 2003 in order to build up a larger reserve fund. In additional part of the CPP reserve was to be managed by an arm-length quasi-independent body, the CPP Investment Board. By 31 March 2001, the CPP Investment Board had ‘7.2 billion dollars invested in Canadian and foreign equities and by 2011’ the board ‘expects to be managing at least $130 billion in diversified investment portfolio’ (CPP Investment Board 2001). The CPP reform bill, Bill C-2 was enacted in January 1998 (Government of Canada 1998).

The CPP reform bill secured the support of federal government and the provinces of Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island, Quebec, Ontario, Manitoba and Alberta. This support was sufficient to meet the statutory provision which requires that changes to the CPP receive the concurrence of at least two-thirds of the provinces with two-thirds of the population of Canada (Canada 1997). Table 5-3 provides details of changes that took place with the CPP.
Table 4-3  Comparison of Pre and Post CPP Reform – Core Components

<table>
<thead>
<tr>
<th></th>
<th>Existing CPP</th>
<th>New CPP Proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve Fund</td>
<td>Equal to two years of benefits and declining</td>
<td>Growing to five years of benefits</td>
</tr>
<tr>
<td>Contribution Rates</td>
<td>Rising to 10.1 per cent by 2016</td>
<td>Rising to 9.9 per cent by 2003 then held Steady</td>
</tr>
<tr>
<td>Year's basic exemption</td>
<td>Currently $3,500 indexed to wages</td>
<td>Frozen at $3,500</td>
</tr>
<tr>
<td>Year’s maximum pensionable earnings (YMPE)</td>
<td>Indexed to wages</td>
<td>No Change</td>
</tr>
<tr>
<td>Investment Policy</td>
<td>Invested in non-negotiable provincial bonds</td>
<td>New funds invested in diversified portfolio of securities</td>
</tr>
<tr>
<td>Provincial Borrowing</td>
<td>Provinces borrow at federal rates</td>
<td>Limited provincial borrowings at their own market rates</td>
</tr>
<tr>
<td>New retirement pension and earnings-related portion of disability</td>
<td>Based on average of last 3 years’ YMPE</td>
<td>Based on average of last 5 years’ YMPE in line with majority of private plans</td>
</tr>
</tbody>
</table>

Source: Canada Government (HRDC 1997:6)

The content of the changes has already been explained. Table 4-3 draw attention to contribution rates and investment policy. It shows that the contribution rates seem to be accepted by most Canadians. With respect to the investment proposal, again, there are reasonable differences as to how to approach this. The thesis notes two contrasting views on this when the submissions of interest organisations such as Association of Canadian Pension Management (ACPM) and the Canadian Labour Congress (CLC) are considered for instance.
4.6 Federal-Provincial Policy Making – the case of the CPP

The new Liberal Party that succeeded the Conservatives in 1993 showed little reluctance in continuing the path of state pension reform started in 1985 by their predecessors. It has already been noted that the Canadian response to fiscal crisis associated with economic globalisation and population aging have been both coherent and incremental. Intra-party differences on the issue have been generally very minor. The Conservative Party of Brian Mulroney started on a path of reducing the size of the federal government liability in unfunded state pension through partial indexation of the OAS in 1985 and 1989. The Liberal government went further with significant cuts in other areas of social programmes, for examples to transfers to the provincial governments earmarked for health, education and social services (Battle, 1997).

With respect to public pensions, the federal government, succeeded in reforming the CPP second pillar pension. 12 months of federal-provincial government ministerial consultations which also included public submissions succeeded in making the Canadian second pillar state pension a partially funded scheme. An investment board took over management of 17 percent of the fund's reserve at the onset with progressive increment in the subsequent years.

The reform of the CPP has been considered significant but incremental (Banting, 1997, Beland and Myles 2003). The reform of state pension system in Canada has historically proceeded incrementally (Banting 1997, Myles 2000, Beland and
Myles 2003). It has resisted the more radical approach to restructuring observed elsewhere, for example, in the UK. This stands in sharp contrast to the economic globalisation thesis which suggests that countries with small and open economies, for example, Canada, become susceptible to pressure to radical overhaul their public pension schemes (Scharpf 2001, Skyles 2002). There are a number of reasons to explain this divergent response. The Canadian welfare state is comparatively smaller than for example, the other liberal welfare states including the UK. In terms of program restructuring the federal could find other social programmes to cut. Canadians are one of the most insured people on the planet, most of which involves government (Cochrene 1997). More crucially, however, the institutional arrangement that governs the management of pensions systems in Canada is important.

The three pillars of the Canadian pension system have been outlined. It was stated that the first two pillars were public schemes with a third private pension system. The first pillar which consists of a federal government funded scheme, the OAS, is managed by the federal government. The second pillar which is made up of the CPP is jointly managed by the federal-provincial governments. This tortuous arrangement has generated interesting federal-provincial dynamics that has shaped the design and reform of the CPP pension system. First, the thesis contends that Canadian governments encounter both political and economic inertia when it comes to delivering on CPP reform. Second, the design of the CPP based on the Bismarck formula of earning related pension makes the
rationalisation of radical cuts difficult to sustain. This is induced by a path
dependent scenario most evidenced by the inherent ‘double payment’ situation.
Third, the electoral environment is primed to punish unpopular cuts to programs
that enjoy wide spread appeal. Canada enjoys a strong parliamentary system of
government which is federal in character. The electoral system is organised
around a first-past-the-post (FPTP) model which is notorious for producing single
party governments. Canada like the UK had experienced long periods of single
party governments, particularly during and after the period of pension
retrenchment starting in the 1980s, with a brief coalition government between the
governing Liberals and the left leaning New Democratic parties in 1978/79. While
governments can take credit for achieving growth in benefit levels, they are
vulnerable to blame and electoral punishment when cuts to program are
implemented.

Thus, the strategy of ‘blame avoidance’ does imply that those seeking to reform
the system must first appeal to a large section of the population and ensure that
the cut in program benefits affect the least amount of people. Fourth, the
absence of formal veto extended to organised interest makes interest
intermediation weak. Those who manage to mobilise against cuts in pension
benefits must do so piggybacking on the wave of mass support as witnessed in
the 1985 OAS protest. On their own merits, Canadian interest organisations are
too fragmented and organisationally weak to impact policy. The one time victory
in the 1985 OAS reform could not be replicated in 1989 nor was it the
determining factor in 1996.

Returning to the federal-provincial arrangement, the argument is that Canadian governments face economic and political inertia when it comes to delivering on CPP reform. Politically the tortuous arrangement that determines the rules of engagement is worth noting here.

In 1935 the government of Prime Minister R.B. Bennett introduced the Employment and Social Insurance Act as part of his New Deal (Muszyuski 1995). It was struck down by the Judicial Committee of the Privy Council (JCPC) as ultra vires after several provinces challenged the law. At that ruling the JCPC took the view that constitutional authority for social insurance fell squarely within provincial jurisdiction and that the proposed unemployment insurance programme was an intrusion into a field reserved by the constitution for provinces.

However, the pressure of high unemployment on provincial and municipal treasuries were too great and by 1940 the provinces were willing to give up the exclusive responsibility for social policy, the BNA Act was amended to allow the federal government exclusive authority over unemployment insurance because of its importance for the national economy (Muszyuski 1995).

Constitutionally it was still unclear if other contributory programmes fell under
federal or provincial jurisdiction. It was through administrative accommodation, within the provinces that programmes such as non-contributory pension plans, disability and survivor benefits were deferred to the federal government. The result is that unemployment insurance is exclusively of federal jurisdiction, workers' compensation is exclusively provincial and contributory pension plans are under concurrent jurisdiction with the provinces having paramountcy in law over contributory pensions.

This exercise of authority over contributory pensions following the 1935 judicial ruling clearly established that social insurance was a provincial responsibility and that constitutional amendment was required before the federal government could enter the contributory pension field (Banting 1984, 1997). Amendment to the BNA Act was obtained in 1951 and 1964, but only on terms which assured them of a continuing role in pension politics. The amendment retained provincial paramountcy (Banting 1984).

Reference for such authority can be found in section 94A of the BNA Act (Constitutional Act as it is currently referred) (Banting 1984). The Act stipulates that no federal pension plan ‘shall affect the operation of any law present or future of a provincial legislature in relation to any such matter.’ (Banting 1984). At the beginning there was substantial uncertainty about the precise meaning of this clause, and the provincial governments also sought much more specific powers when the Canada Pension Plan was established. In return for provincial
agreement to the 1964 constitutional amendment, the federal government had to agree to write explicit provincial rights into the proposed pension bill. Accordingly, the Canada Pension Act provides that amendments to the plan must be approved by two-thirds of the provincial governments representing at least two-thirds of the population. In addition, the Act states that any provinces may opt out and establish its own plan, in which case the CPP ceases to operate generally in that province. Quebec opted for this option from the onset. It remains an option for other provincial governments. Ontario and more recently Alberta, have hinted at such action.

These rules have created a system of multiple-veto points. First, the federal government has the authority to block any change of which it disapproves. Second, the requirement that two-thirds of the provincial governments must assent means that any four provinces can, in concert, block a change. Third, and more importantly, the requirement that the assenting provinces represent two-thirds of the total population gives special weight to the largest provinces. Ontario has a veto in its own right, and will retain that power as long as more than one-third of Canadians live in that province. Furthermore, the amending formula contains one of the most fascinating anomalies in Canadian federalism: Quebec is included in the two-thirds rule governing changes to the CPP, even though, it operates it own pension plan – the QPP. Quebec’s share of the population does not entitle it to veto in its own rights, but Quebec and one other similar province could conceivably block a CPP amendment desired by every other Canadian.
government (Banting 1984).

Neither Quebec nor Ontario has exercised their veto powers. The insistence by Ontario for a less than 10 percent increase to the CPP contribution rate can be viewed as an implicit veto. Quebec had no support to make good of her potential veto power.

In the 1996 CPP reform, Ontario had more at stake to gain or loss. As a province it has within its border 38 percent of Canadians living there. 52 percent of CPP outlays go to recipients in that province. The ratio of CPP debt is quite substantial for Ontario. On the one hand, it was in their best interest to see that the CPP reserve is quickly replenished. On the other, their immense trade with the US is dependent on fairly competitive labour cost. Contribution to the CPP fund is tax on wages. For this reason, the less than 10 per cent position perhaps was to them their optimal position. The Conservative Government of Mike Harris, at the time of the CPP reform, was also unlikely to support an expanded CPP benefit in light of the provinces' fiscal challenge.

Quebec had undertaken a similar QPP review and had settled to improve its own reserves. The crucial problem with Quebec has to be its declining population base. Maintaining strong reserves will auger well for the future given the demographic concerns there. So Quebec was supportive of the changes to the CPP and a signatory to the 1996 reform.
Alberta was on the opposite side of Quebec. With a robust economic and a fairly balanced population distribution, Alberta has no fears of declining population rather their population is increasing and the demographics look quite good. Both these factors have given the government and some of its' political elites reason to be optimistic of an Alberta Pension Plan (APP).

Taken, together, the existence of multiple-action points, in which policy is set by seven – and potentially eleven – separate governments, creates a strong tension between openness to change on one hand and uniformity of pension regulation on the other (Banting 1984). Banting (1984) argues, that this veto points offer each government the legal freedom to alter its regulatory system as it sees fit: yet in practice, they are restrained by the actions of others. The federal government may act as the broker of deals in assessing what offers will be placed on the table and what provincial governments will ratify. There is also a possibility that intergovernmental relationship is quite strong and could curtail some unilateral policies and by connecting their internal and external interdependence. This would be a very useful line of query that deserves attention from investigators.

It has been argued that this institutional barrier to change is reinforced by the economic realities provinces face. Ontario, for example, is one of the US largest trading partners and therefore must keep labour cost low. Equally, the rest of the ten Canadian provinces including Quebec face unique demands which affect their economic growth strategies. Although, not mentioned as a major concern,
global economic pressures impact the capacity of provinces to attract and retain new business ventures.
Chapter 5  Majoritarianism in the UK Policy-Making

5.1 The Welfare State and British Society

5.2 The UK State Pension System

5.3 Pension Debate in the 1980s

5.4 The 1986 Social Security Act – Radical Departure

5.5 Pension Reform Effort in the 1990s

5.6 The Centralisation of Political Authority – the Case of SERPS
5.1 The Welfare State and British Society

State pension provision in the UK has undergone substantial reforms since the 1980s onwards. The scale of these reforms provides the motivation for this chapter. It has been argued that the 1986 Social Security Act did represent a radical departure from the traditional European post-war approach to pension policy and in the view of many, a major variance within the family of liberal welfare state type (Myles 1999, 2001, Bonoli 2000, Blackburn 2003). In the face of external pressure arising primarily from a transformed global economy and demographic change, the UK embarked on reforming its' public pension system. In terms of demographic change, from the 1980s there were concerns over rising social and economic burdens. In 1911, shortly after the introduction of old-age pension (payable at age 70), just 5.2 percent of the population of the UK was age 65 and over. By 1951 that figure had risen to 10.9 percent and was 16.0 percent by 1991 (Andersen 1996). The current chapter assess the UK's response to the pressure to reform its state pension system. The chapter consists of six sections and evaluate both the reform of the Basic State Pension (BSP) and State Earnings Related Pension scheme (SERPS).

It has being argued that in the UK, a number of factors have enabled both major political parties to pursue policies that suited their ideological persuasion. Starting with the dominance of the Conservative Party in power from 1979 through to 1997, the government of Margaret Thatcher successfully implemented, what had eluded Regan in the 1980s, Mulroney in 1985, and the other continental
European countries in the 1990s, radical reforms to its Basic State Pension (BSP) in 1980 and followed through with a major overhaul of the second pillar pension, the State Earning Related Pension Scheme (SERPS) in 1986. The Labour government that inherited office in 1997 departed very little from the reform agenda set by the previous administration – implementing what they called a 'New Insurance Contract' which espoused the stated objective of shifting the burden of pension provision from a 60:40 split between state and the private sector respectively to a 40:60 split (DSS, 1998a:31).

Both parties have exploited a central feature of the UK political system, that is, the dominance of the party in power over policy. An assessment of the institutional environment of the UK government and its' welfare state is examined here. The thesis provides an analysis of the reform of the Basic State Pension and the State Earnings Related Pension (SERPS). The literature suggests that given the centralised nature of the UK's unitary state, and the absence of formal veto points, a weakness in the strength of organised interest to intermediate, policy making is achieved fairly easily in comparison to a federal state for example, where most policies are likely to encounter opposition from regional governments who may exercise veto power over such policy decisions. The Canadian case study illustrated this point. The second point is that economic globalisation had little impact on the UK welfare system in the same way it did on Canada, although, the rhetoric emphasised the 'decline' of the UK as an economic power - this had been noticeable in the political discourse in Britain
There are two important explanatory contenders as to why. The UK was heavily involved in trade within the European Union (EU) and the United States (US) and much less with the 'Commonwealth Block' of nations and other evolving markets. So in this respect the UK economy was less vulnerable to economic globalisation as the Canadian economy was. Nevertheless, this did not prevent the Thatcher government from capitalising on the 'divided and disillusioned people' (The Conservative Manifesto 1979). Arising from the prevailing economic milieu, the confidence of the UK people in their economy and the government ability to manage it came under serious suspicion and doubt. Already there was a sense of division, embittered by the failures and contradiction of the Heath years, and deeply uncertain about its prospects, the agenda for reform was built around a twin conservative rhetoric which can only be understood strictly in the language of liberty, with a firm belief in individual freedom and an unshakeable respect for institutions and traditions. It aim was to promote acceptance of the idea that freedom and responsibility were indivisible (McCarty 1989). To carry forward this agenda, the Thatcher government relied on Parliament; the working UK Constitution (as opposed to its numerous ceremonial accretions) which simply means that a government supported by majority party in the House of Commons can do anything.

Relatively speaking, policy making in the UK is characterised by an unchecked dominance of the party in government (Bonoli 2000). As previously noted the constitutional arrangement emphasises the influence of the majority party over
policy. The thesis argues that, despite this, like Canada, the UK also encounters institutional barriers to change but perhaps in a less severe manner. It makes the point that barriers to change may be found in the pension design and the political culture for example, and that because of the decision making power and an electoral arrangement that enhances the power at the centre, she is able to achieve the radical reform measure in 1980 and 1986.

Table 5.1 Summary of Policy Change in Britain

<table>
<thead>
<tr>
<th>States Earnings Related Pension (SEPPS)</th>
<th>At Apogee</th>
<th>After Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dates</td>
<td>1978</td>
<td>1986</td>
</tr>
<tr>
<td>Universality</td>
<td>Universal</td>
<td>Means-Tested</td>
</tr>
<tr>
<td>Pay-As-You-Go (PAYG)</td>
<td>PAYG</td>
<td>PAYG weakened</td>
</tr>
<tr>
<td>Level of Entitlement</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Contribution Rate</td>
<td>25% of Best 20 years of career employment</td>
<td>20% of full career employment</td>
</tr>
<tr>
<td>Minimum Age of Entitlement</td>
<td>65 for both Men/60 for Women</td>
<td>65 for both Men/60 for Women</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Basic State Pension (BSP)</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Dates</td>
<td>1946</td>
<td>1983</td>
</tr>
<tr>
<td>Universality</td>
<td>Universal</td>
<td>Universal but increasingly means-tested</td>
</tr>
<tr>
<td>Pay-As-You-Go (PAYG)</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
<tr>
<td>Level of Entitlement</td>
<td>Formula: Ind. Wage or/price made up to 25%</td>
<td>Change in formula: now benefit tied to changes in price only less than 25%</td>
</tr>
<tr>
<td>Contribution Rate</td>
<td>Flat Rate</td>
<td>Flat Rate</td>
</tr>
<tr>
<td>Minimum Age of Entitlement</td>
<td>65 for Men/60 for Women</td>
<td>65 for Men/65 for Women. Age equalisation start 2010/2020</td>
</tr>
</tbody>
</table>

Source: Department of Works and Pension 2004
Table 5.1 shows the pre and post reform measures which demonstrate significant changes to policy. In chapter 6, the thesis makes an explicit comparison between two case countries, to outline the similarities and difference between them.

This chapter consists of six sections. It begins by providing an overview of the welfare state in the UK. This will highlight the key issues that relate to the retrenchment of the public retirement system. It follows through with a consideration of the reform of the two state pension systems. It then considers the debate in the 1980s and the SERPS reform in 1986. In the conclusion the chapter makes a strong case for the role of centralised political authority.

**The Welfare State**

The initial annual cost to the Exchequer of the 1908 Old Age Pension was £6 million pounds (Blake 2003). The cost of the UK Basic State Pension and SERPS stood at about £20 billion pounds representing 40 percent of social security spending in 1989 (Government of UK Statistics Publication 2004). There has been a steady rise of costs in terms of GDP figures. In 1945 the total cost was about 5 percent of GDP, this has grown steadily to 17 percent of GDP in 2000 (Government of UK Statistics Publication 2004). Evidently, this does suggest that the role of the welfare state and the place of retirement income have evolved in significant ways from its beginning.
From its earliest history, the UK's retirement income system has been dominated by a doctrine of self-reliance. The retirement income system, which is a central part of the UK welfare state, has enjoyed a long and checked past. It was established on the principle of 'deserving' and 'undeserving poor', which still remain an implicit part of the post-Beveridge welfare model. The roots of the UK welfare state can be traced to the Poor Laws of 1597 and 1601 under the reign of Elizabeth I, which resulted from threat to law and order caused by roaming bands of poor, starving people (Blake 2003). The law gave power to local authorities (the parish church) to collect funds through a poor rate and for allocating poor-law relief to deserving individuals. Initially, the task of administrating poor relief was random and uneven in the application of the Poor Law – most of which was carried out by local parishes (Alcock et al 2000). The 1834 Amendment Act was an attempt to end this randomness and implement a program which was rational and centrally administered. The National Assistance Act of 1948 was to subsume the surviving components of the Poor Laws.

Over the years there has been a strong tradition in the UK of meeting the temporary relief of the poor and not to end poverty. The ideal of poverty is attributed to idleness and the lack of thrift on the part of the working class. If a way was to be found to inculcate work ethic that instilled the discipline of saving for old age, then society might be better off and some could save themselves from the harsh realities of the workhouses. This social doctrine neglected the harsh realities the working poor faced at the time. For example, some of the
working poor tried to save but were frustrated by the mismanagement and fraud prevalent in the friendly societies of the time. Furthermore, old age was in itself a source of poverty. The debate about the rightness of a public pension system would continue until 1908 when the first serious effort was made by the state to guarantee a retirement income, although the history of a public pension system predates this\textsuperscript{10} (see Blake 2003).

The introduction of state pensions eventually arrived when the Old Age Pensions Act was passed in 1908, under the auspices of Lloyd George as the Liberal Chancellor of the Exchequer (Blake 2003). The requirements to qualify, unlike that in Canada which was satisfied with residency and evidence of age, the Old Age Pension made citizens eligible if they were over 70 years of age and made less than 12s. per week. The pension was non-contributory and was financed from general taxation (Blake 2003).

The Old Age Pension was a means tested non-universal scheme. The large part of the benefit was awarded to those already old and unable to keep themselves. Initially the UK treasury was able to sustain the non-contributory nature in which the pensions where financed. However, they did underestimate the level of poverty amongst seniors. By 1911, the cost of providing for 900,000 pensioners

\textsuperscript{10} Blake (2003) states that the first recorded state pensioner was a Martin Horsham, a civil servant who retired in 1684. The Poor Laws of 1597 and 1601 under the reign of Elizabeth I provided guidance for the state involvement in providing assistance to the poor. However, Blake does argue that the first direct concern by the state for the explicit provision of pensions was for civil and other public servants. This was in an act of parliament in 1810. The very first act to establish a non-contributory pensions for all civil servants was the Superannuation Act of 1834 (Blake 2003).
was costing the treasury about £12 million a year (Blake 2003). Crack in the administrative structure was first identified in the Ryland Adkins report in 1919 (Report, Cmd.410 1919 p.8). The report had recommended that a national insurance scheme similar to the one operating for the national health and unemployment insurance be adopted for the Old Age Pension scheme. This would have had the effect of making the award of state pension a right rather than a privilege (Report, Cmd.410 1919). The Labour government at the time came under intense pressure to reassess the way in which pension was been provided seeing the cost of the pension scheme rising rapidly each year.

By the time, the Conservative government of Baldwin came into power in 1925, the cost of providing for the Old Age Pensions stood at £18 million. The Baldwin government moved quickly to make the Old Age Pension a contributory pension in 1925. The pension age was dropped to 65. Although, while the numbers of contributors was sufficiently high, the amount of contribution which had accrued to the fund was insufficient to absorb the number of beneficiaries claiming pension and so the fund went immediately into deficit in 1926 (Blake 2003).

A number of other issues have in the meantime surfaced. For example, the additional cost incurred by treasury to supplement the contribution was unforeseen; there were also the new retirees who were by now rightly entitled to the Old Age Pension because of their contribution to the scheme. Hence, the situation was such that in addition to the beneficiaries grandfathered into the new
scheme, 2 million new contributory pensioners have been added to the list. Other problems relating to women's and widow's pension was discussed and did receive favourable inclusion in the subsequent 1937, Widows', Orphans, and Old Age Contributory Pensions Act. The 1940 Old Age and Widows' Pension Act would reduce the pensionable age for women to 60. Second World War veterans were by the early 1940s beginning to press for a better hearing at the pension tribunals which considered their disability and incapacity pensions arising out of the war. There were also the problem with those who were at the creation of the national health and unemployment insurance excluded from the scheme by virtue of their self-employment or ineligible income. These were mostly women whose annual income fell below the stated £250 threshold.

Thus the emerging welfare state in UK had a deep root in the Poor Law tradition. The principle of deserving and undeserving poor was to be a main part of it moral ethos. Although changes in 1925 made the provision of state pension a contributory scheme which meant that contributors can then claim pension benefits as their basic rights, the attitude towards state supported welfare would not change.

Many commentators on the UK welfare state would comment on the strong ethos among the working poor of self-help and self-reliance and often a deep and bitter distrust of what the state tried to do (Johnson 1985, Finlayson 1994, Thane 1996). For example, mistrust of the motives of the state in extending its welfare
role stems from the punitive and often brutal experiences of working people at the hand of local Poor Law Guardians. The reliance of family and community resources would be preferred to the workhouse (Thane 1996). Furthermore, there was a developed range of self-help organisations such as informal insurance, savings clubs to more formal insurance schemes provided by friendly societies and trade unions. Membership of such societies has been estimated at around a million by the end of the century (Thane 1996).

From the middle of the century, the move towards permanent arrangement for mutual self-help in the areas of housing and social welfare will become stronger. The motivation for self-help was met favourable by the dominant Victorian political thought of *laissez-faire* which advocated for a residual state in the economic scheme of the nation (Alcock et al 2000). The success of the many self-help organisations would ultimately be their downfall. Organised self-help would become a preserve of labour aristocracy, those who were attracted to it and took hold of its' administration. This happened because the better-off working people had steady and regular income. A number of other working people would try but were not able to provide for themselves because benefits from the mutual society membership were as temporary as their work. The Utilitarian principles of the English Political Philosopher, Jeremy Bentham will find a receptive ear amongst a growing number. Bentham had argued that the existing social order was rather inefficient and wasteful of human resources. The situation was such that a very small number of the working people benefited from
the mutual aid society and from the state supported welfare. His principle of Utility presupposes a condition in which the greatest number gained from the actions of the state. This principle gave theoretical impetus for an expanded state role that allowed the market its free hand but would temper its worst effects by (collective) state action (Pearson and Williams 1984).

The UK pension system is part of systematic welfare structure that is strongly grounded in the Victorian ideals of laissez-faire. It is an attitude that permeates British political culture and has allowed this variant of the liberal welfare model to reflect the core components of the model namely: a preference for market solutions to welfare problems. As will be shown, the political arrangement enhanced the UK reform effort in one principal way; that is, limiting the role of national actors in adoption of policy measure. This has been achieved largely by the power assigned to the governing party in Parliament. Before, considering how the reform measure was achieved politically speaking, some consideration is given, in the next section, to the UK pension system.
5.2 The UK State Pension System

Prior to the 1942 Beveridge Report, *Social Insurance and Allied Services*, (Cmd.6404, 1942) the UK retirement Income system consisted only of one contributory scheme: namely the Old Age and Widow’s pension. The Beveridge Report is often cited as laying the foundation for the UK retirement income system (Blackburn 2004, Blake 2003, Bonoli, 2000, Baldwin 1997). The report addressed a number of key issues. Principally, it called for the consolidation of the separate branches of national insurance that was in operation prior to his report. The second recommendation signalled a change in the principle involved in the provision of social benefits. Social benefits, he argued should not only be provided universally, they should be ‘sufficient without further resources to provide the minimum income needed for subsistence in all normal cases (Cmd.6404). This meant that pensions had to be increased to ensure that this condition was achieved. The Beveridge report was thorough as in recognising regional differences in subsistence levels and recommended a private system that would absorb individuals wishing to enjoy their retirement at a higher living standard (Cmd. 6404, Blake 2003).

The National Insurance Act of 1946, which followed the Beveridge Report, achieved the first recommendation which was to consolidate the separate national insurance schemes. It also saw limited increases to pension benefits. Contribution to the NI became compulsory for everyone, regardless of earnings or nature of employment (Blake 2003). For those already contributing to the old
pension scheme, their benefits continued but for all new entrants, there was a ten year waiting period. In 1948 further changes were made to the state pension system which made redundant the need for poor relief as resource for avoiding severe destitution. It had done so by consolidating all the pensions for old age which prior to 1946 reform was below subsistence levels – this was in effect the Basic State Pension for the UK.

By the beginning of the 1950s, the uncoordinated UK pension system had become unified and coordinated. It provided state pensions at the subsistence level along the lines of the Beveridge Report. They were flat-rate pensions paid for by flat-rate contributions and related to what the state considered to be a person’s very basic needs, not to the earnings he received when he was working. The Beveridge report had a number of shortcomings, the most obvious was the fact it only paid a flat benefit unrelated to prior employment earning. Perhaps it was a deliberate measure to allow the private provision to flourish. Most of the middle-income earners were able to build a second tier pension closely linked to their earnings through an occupational pension. The rest of the lower paid workers were excluded.

In 1955, the Fabian Society released a tract on a new pension for old people (Fabian Tract, No. 171). The authors, Brian Abel-Smith and Peter Townsend, recommended that the government consider introducing an earnings-related or graduated supplementary (or second-tier) pensions. This was meant to bring on
board those excluded from occupational pension by virtue of their earning power. The two principal parties, Labour and the Conservative party took a different view of the issue of a second pillar state sponsored pension. The Labour Party, accepted the idea of graduated supplementary pensions in its policy document *National Superannuation: Labour Policy for Security in Old Age* in 1957 (Blake 2003). The Conservative party in 1958 produced proposals for a graduated supplementary pension scheme, together with plans for reconstituting the financial basis of the existing national-insurance schemes (Cmnd. 538, 1958). This was contained in the white paper *Provision for Old Age* (Cmnd. 538, 1958).

The first act to increase contributions and benefits after the introduction of the Boyd Carpenter scheme, the State Graduated Retirement Pension Scheme (SGRPS), in April 1961 (Blake 2003 p.13) was the National Insurance Act of 1963. Both the flat-rate and graduated contributions were increased. The National Insurance Act introduced by the Labour government in 1966, offered a new earnings-related unemployment, sickness and widows’ benefits, which have, in turn, affected the amount of graduated pension that individuals can earn.

The Conservative government in 1973 brought in the Social Security Act which established statutory annual reviews of the contribution and benefit of the state-pension scheme. Before this, reviews had taken place on an irregular basis. The rampant inflation levels during this period, from 1973, meant that contributions and benefits were to be uprated in line with the increase in the general levels of
prices. More significantly, the act also intended to replace most of the existing SGRPS. There was to be a new Social Security Pension Scheme, in which a system of wholly earnings-related contributions for employees would replace the existing combination of flat-rate and graduated contributions, with further contributions to the SGRPS ceasing in April 1975 (Blake 2003 p.14).

The difference in the party position was clear. While Labour wanted a two-tiered system both earning-related and supported by the state equalling half of the industrial wage, the Conservative government wanted a limited state involvement and a strengthening of occupational pensions. Part of the Conservative government worry was that the financial house of the national insurance scheme was not in order. First, the number of people receiving pension benefits and the benefits granted to them were incompatible contributions. This was made worst by the agreement to raise benefit levels in line with the standard of living following the 1942 Beveridge Report. The second point which follows from the first was that the National Insurance was in large deficit. Despite the supplements from treasury, the cost overrun was still high outstripping the reserve fund, prompting the government to defer to a pay-as-you-go (PAYG) method of financing. In other words, the UK's government intensions were to establish a fully costed state pension system from the flat-rate contribution for flat-rate benefits. The reform of the national insurance scheme, transformed this system into an earning-related scheme which still paid a flat-rate contribution except sufficient to maintain subsistence of the pensioners.
The establishment of the second pillar pension for the UK came as a result of these discussions in 1975. The Social Security Pensions Act 1975 introduced a supplementary state pension scheme called the State Earnings-Related Pension Scheme (SERPS). It came as a result of the 1974 white paper Better Pensions (Cmnd. 5713). The development of state pension schemes in the UK has been more a case of stop and go measure. It has not been generally a coherent policy as was the case in Canada for example. The 1975 Social Security Act came into effect in 1978 with the objective of improving benefits provided by the social security pension scheme established by the 1973 Social Security Act. For instance, a general pension – known as the category A pension – was established consisting of two elements, a basic pension and an additional pension which related to a person’s earnings factors over their working life.

Like, the Canadian model, the SERPS benefits formula is calculated based on band on earnings limits, that is, annual earnings between a lower and upper limit. Each band earnings is re-valued by the increase in national average earnings up to the state pension age. The additional pension paid under this new scheme, was equal to 1.25 percent averaged over the best 20 years factored for each year of membership of SERPS up to a maximum of 20 years. The additional benefit yielded 25 percent of relevant earnings. The 1975 Social Security Act determined that the Basic State Pension (BSP) would be uprated in line with the general level of earnings or prices, whichever was greater, while the revaluation of additional pension would be in line with prices only. The act also gave
permission for an opting out clause. Those contributing to SERPS can contract out of the scheme, if they are provided for by another guaranteed minimum pension which is equivalent to the additional pension under SERPS; in return both employees and employers paid lower national insurance contributions.

Another significant change with the 1975 Social Security Act has to do with the better treatment of women. Women who married or began working after April 1977, and contributed fully to the social security scheme were entitled to full benefits in their own rights.

The third pillar of the UK retirement system consists of voluntary retirement savings, or what is commonly referred to as Additional Voluntary Contributions (AVCs). The third was the first type of pension scheme to emerge, so its’ place in the hierarchical structure is inconsequential. The fact is the private scheme is intended to provide adequate coverage for those seeking to maintain their pre-retirement earnings. In the UK there are several types of AVCs, available to consumers. As noted in the previous discussion, the design of SERPS pension in 1975 allowed contributors to opt out of the state schemes as long as the contracted provision guarantees a minimum pension equivalent of the state pension under SERPS. Additionally, it is not possible to pay additional contributions to accrue extra benefits in SERPS, an employee can contribute extra amounts to company pension programmes to supplement payment of contracted-out rebates into personal pensions by additional contributions, and to
establish personal-pensions-type arrangements (Free-Standing AVCs or FSAVCs) in addition to membership of a company plan or SERPS (Disney et al 2001). Both of these pension contributions, AVCs and FSAVCs, are subject to preferential tax treatment up to a ceiling, as do contributions to company-provided pension schemes (Blackburn 2004, Disney et al 2001). The UK pension scheme can be depicted in schematically in Figure 6-1. The figure represents the categories of pensions as of 2001.

Figure 5-1 UK Pension Scheme as of 2001

Objective

Mandatory Pension
Flat-rate contribution
Flat-rate benefits

Contributory Scheme
Means-tested
Benefits linked to Price

Funded by State/ Employer/Employee
Pay-As-You-Go (PAYG)

Form

Mandatory through
Tax System (National
Insurance Contributions)

Earning Related

Contract in

Contributory (NI)

Occupational Schemes
Means-tested

Benefits amounts to
25 % of wages (max)

Funded by the State/ Employer/Employee
Partial Funded but
retain the PAYG
format.

Financing

State regulated, Flexible

Insurance model, Flexible contribution

Benefits based on lifetime contributions

1st Pillar Pension
Basic State Pension (BSP)
Minimum Income Guarantee (MIG)

2nd Pillar Pension
State Earning Related
Pension Scheme (SERPS)
State Second Pension (SSP)

3rd Pillar Pension
Private Insurance Schemes
Additional Variable contribution (AVCs)

Source: Adopted from Department of Works and Pensions, 2001

As noted the 1975 Social Security Act made it possible to contract out of SERPS. It is possible also to opt back in again. Following the 1988 changes, employees have the option of having their National Insurance contribution paid into an individual defined contribution retirement savings account provided by a private insurer (a personal pension), instead of SERPS.
The UK retirement income system consists of a basic pension scheme which is a contributory pension scheme. It pays out a flat rate benefit from a flat rate contribution. The second pillar is also a contributory scheme which is earning-related. The maximum amount paid equal to only 25 percent of industrial wage. Both of these schemes have remained universal (in the sense that everyone could participate in the scheme) pre and post reforms and it has been modelled under a PAYG financing method. The benefits are calculated on a means-tested basis.
5.3 Pension Debate in the 1980s

Observers of the UK welfare state point out that one common feature of the UK public policy in the 1980s, has been the dominance of neo-liberal ideas with regard to the respective roles of the state and the market in modern societies (Bonoli 2000, Ginsburg 2001, Jessop et al 1994). The reform of the state pension system was to a large part of a wider move to reform the UK economy and society which included the privatisation of state-owed firms and deregulation of financial services (Bonoli 2000). Ginsburg (2001) for example argue that if economic globalisation equates to the ascendancy of neo-liberal policies, then the UK was immensely affected. The point which should stand out here is that at the start of the 1980s, the adaptation process that first began in the United States had taken strong roots in the UK. This was favoured by the governing Conservative Party which had assumed office in 1979. The discourse of the new government under Margaret Thatcher has been dominated by a deliberate action to move the state away from it allocation role and emphasise the supremacy of the market instead, as the instrument of resource allocation.

Bonoli (2000) reminds us that the debate and adoption of the UK reform occurred in a particular ideological and political climate. The ideology was neo-liberalism and the political climate was dominated by the Conservative Party who were supported by a number of London-based think-tanks that shared the party's neo-liberal ideas. For example, in 1983, the Centre for Policy Studies (CPS) published a paper titled *Personal and Portable Pensions for All* (Vinson and
Chapell 1983). The CPS paper was the first important document which set out a strong position for a radical reform of pension policy. Some of the strong views expressed in that report made it way into the new legislation adopted by the Conservative government (Bonoli 2000).

It is probably easy to postulate a linear link between economic ideas and public policy, but this fails to address the issue of why the Conservatives pursued a given set of ideas in relation to pension policy; and, equally crucial, is the question of how they were able to carry this through into actual legislation. Before considering these important matters, it is important to return to the pension debate in the 1980s. There several issues at stake. First, the finance of the UK state pension scheme has already begun to show signs of cracking and has itself been the source of most of the earlier reforms. Second, there was a perennial problem with providing adequate pensions. The 1942 Beveridge Report tried to address this but still managed to leave holes in the scheme. Third, the coverage of both the BSP and SERPS are universal but there are those still without sufficient coverage due to transfer between jobs. Fourth, the panic over pension expenses arising from the population ageing was adding unto the pressure for change. Another important addition was the maturation of SERPS which coupled with population ageing issued a formidable challenge.

First, as noted, the overriding international economic environment had oriented the government’s ideological perspective towards a neo-liberal policy response. It
would be proper to state that given the evidence of the size of the UK economy and the primary market for its export and trade, the UK was not in the same way vulnerable as Canada was to global economic pressure (Banting 1998, Bonoli 2000, Pierson 2001). However, one could argue that governments in the UK in the 1980s exposed their economies to the forces of global economic competition (Ginsburg, 2001). It was the view, at least from some policy cycles that social expenditure undermines the competitiveness of both the individual and the firm. Hence it was a factor in the ensuing debate. Brown (1990) note that the preoccupation with cost of pensions has been a constant feature of pension debates in the UK. The introduction of SERPS in 1978 added a new component to pension expenditure, which was likely to increase significantly over the following years because of the maturation of the scheme (Bonoli 2000:61). This cost consideration combines with a potent intellectual climate of the early 1980s, to make the future cost of state pension provision an important political item.

In addition to the 1983 CPS pension reform proposal, there were a number of other influential reports which also signalled a sharp rise in pension expenditure (Nesbitt 1995). In 1982 the Government Actuary produced a report entitled *National Insurance Fund Long Term Financial Estimates*, which included projections of future costs and receipts of the state pension scheme. The projections were based on estimated earnings and flat-rate benefits. According to the 1982 Actuary Report, it was expected that the standard contribution rate will rise to 16.5 percent in 2005 from 15.4 percent in 1985 and a further rise to 21.9
percent in 2025, and to increase further by 2 percent (UK, Government Actuary 1982). The flat-rate BSP benefit would increase by 8 percent (average) a year while the earnings-related benefits would increase at 6 percent afterwards (UK, Government Actuary 1982).

In light of this projections, the Actuary argued that 'if flat-rate benefits ... were uprated over a long period at a lower rate than earnings...the increase in the standard rate of contribution might be less steep and it might even not increase at all depending on how big was the difference between earnings and benefit increases' (UK Government Actuary 1982). Two subsequent government papers will confirm the projected cost increases (Department of Health and Social Services; UK, DHSS 1984b). Although both these reports used slightly different figures to arrive at their conclusions, from the government’s view point, both tell the same story – that cost will be going up. In the case of the government’s paper, the projection was based on the notional contributions for pensions, that is, the part of the National Insurance contributions needed to finance the pension element of social security as opposed to the actual contribution rate used by the actuary office which also includes contributions to unemployment insurance and other contributory schemes.

The government concerns over pension costs were clearly reflected in the 1984 background paper put forward by the then Secretary of State for Social Services Norman Fowler (Fowler, in UK, DHSS 1984b). The government’s reading of the
situation was such that they began to take immediate action to reduce their current commitment to the state pension scheme.

The second problem facing the retirement income system had to do with providing adequate coverage for all, especially those transferring from one job to the next. This was referred to as the early-leavers problem. The stable work environment had soon eclipsed by flexible irregular contract work that are short-term and temporary. Furthermore, workers were also changing jobs as a result of the instability in employment. According to one projection provided by the economist magazine, in 1983 it was estimated that some 95 percent of employees change job at least once (The Economist 11 June 1983). This problem raised the issue of portability of pension schemes in the UK. The main problem was the preservation of pension rights for those employees who left an occupational pensions scheme before reaching retirement age (early-leavers) typically they changed employers.

The problem with the early-leavers was simply that they lost out to those stayed with the same employer for their entire career. Based on the existing pension legislation, three options were available to those wishing to leave an occupational pension scheme. First, those who change employment could have their pension entitlement transferred to their new employer, but only if an agreement between the old and new employer can be reached. The second option involves paying out the contributed amount to a deferred pension which paid to the early retiree
at retirement. The only problem with this option is that the employer pays only the amount of contribution achieved by the employee up to the last date of work. The amount is paid to the early-retiree is not re-valued after contribution ceases. The third option was the easiest and most sort after option for most early-retirees, and that is simply to withdraw the pension contribution without interest.

The problem of early-leavers was brought on to the agenda by a report of occupational Pensions Board (1981) which included some figures estimating the extent of early-leavers' losses. The estimate based on the assumption that earnings were going increase by 7.5 percent a year (Bonoli 2000). The early-leaver would only earn 60 per cent of what someone who remained in the scheme would have earned. The Occupational Pension Board argued the government to improve the situation for early leavers.

The Inquiry into Provision for Retirement furthered the debate and provided the forum to begin to address these and all the other issues identified with the state pension system. The inquiry was chaired by Norman Fowler himself and commenced in November of 1983. The stated objective of the inquiry, was to ‘study the future development, adequacy and costs of state, occupational and private provision for retirement in the United Kingdom, including the portability of pension rights’ (UK, DHSS 1983:4).

The inquiry faced a lot of criticism from pension lobby groups who accused the
government of stifling opposition. A look at the inquiry composition might provide some indication of the validity of the opposition’s claim. The main team was chaired by Norman Fowler, and comprised of members from the Department of Trade and Industry (DTI), Department of Employment and the Treasury. The remaining came from the Conservative party and the insurance industry and experts. There were 12 members in total. It is striking to note how little representative of the interests involved was the team which did not include individuals supposed to represent employees and pensioners.

The interest groups were invited to make submissions in the two months of consultation. Invitation for submission was offered to all interested groups. 1,500 different items were submitted. Given the immensity of the pension problem and the fact that there no Royal Commissions, a process employed in the past to accommodate divergent in UK policy process , the government faced accusation from pressure groups for not providing adequate enough time for groups to present their views. The inquiry concluded it findings and published a Green Paper in June 1985. The Green Paper formed the basis of the 1986 Social Security Reform. In the next session the thesis evaluates the political process of reforming the pension scheme.
5.4 The 1986 Social Security Act – Radical Departure

The 1986 Social Security Act (SSA) represented a radical departure from the West European standard in state pension provision. By the virtue of this reform, the UK is the only European country which does not have problems meeting its unfunded pension liabilities in the future (Bonoli 2000). The Green Paper that was released in 1985 following the Fowler inquiry spelt out the government’s intention for the state pension system (DHSS 1983). The paper makes several important points. The first main proposal was the government’s stated intention to abolish the SERPS program over time, although all entitlements earned to date would have been preserved, and it was to be replaced by compulsory personal pensions.

The SERPS public pension program was first established in 1978 as the second pillar of the state pension system. It was regarded as a universal scheme that paid a maximum of 25 percent of industrial wage for who have contributed to the scheme and eligible to the full benefit. SERPS was open to all employed and self-employed people within established earnings bands. From the start, a number of interest groups opposed the reform proposal. One of the central issues they objected to was the proposal to phrase out SERPS. The abolishment of SERPS had several implications and attracted wide reaction from unexpected quarters. Like support for the OAS in Canada, the source of support for SERPS was diverse. The traditional actors who were expected to oppose the government proposal did oppose it. These included the Trade Union Congress (TUC), the
Labour Party which initially introduced the scheme in 1975, and the anti-poverty groups such as Aged Concerned, Help the Aged. However, those who would have supported the Conservative pro-business stand also opposed the reform proposal. These included the Confederation of British Industry (CBI), the National Association of Pension Fund (NAPF) and the UK Treasury, for example. As a consequence the UK government was denied the grand coalition sufficient to overcome the barriers to change, even with a strong central government.

At the time of the reform, few understood the detail of SERPS benefits, however, the fact that the government dropped its initial proposal to phase out SERPS seem to indicate their willingness to compromise. In its 1985 reaction to the subsequent White Paper the CBI described the paper as been 'broadly in line with CBI recommendations (CBI 1986). In an earlier submission to the inquiry, the CBI opposed the new pension proposal on a number of grounds. First, the CBI contested that the idea of a mandatory pension scheme which they claim will force members of occupational schemes, mostly younger employees to contract out into the personal pension schemes thereby destabilising the demographic balance of the occupational provision. Second, that the drive towards a personal private pension, would give rise to the 'double payment' problem. As a representation of the UK business concerned with competitiveness and levels of taxation, the CBI felt the switch would have meant a higher rate of pension contributions (National Insurance and occupational), as employers and employees would have had to fund current SERPS pensions and future
(occupational or personal) pensions. Thirdly, CBI viewed pension funds as an efficient stool in human resources management, because pensions encourage employee loyalty to the company, and provide a means for tax-efficient self financing (Lusenti 1989, Schmahl 1991). As such they were opposed to any measure which will have the potential to affect the stability of pension funds, which are a form of collective provision but highly valued by employers (Bonoli 2000).

In light of these, the CBI opposed the government White paper but supported the maintenance of a three tier pension system. On the contract out provision in the proposal, the CBI argued the government to consider more carefully, the 2 percent tax-incentive provided to those who switched into a personal pension. The CBI argued the government to make the tax-incentive available to those who switched from the state scheme only or alternatively, to all contracted out employees (CBI 1985).

The government’s treasury department expressed similar concerns over the ‘double payment’ problem. The treasury is generally regarded as exercising a veto power over expensive economic policies (Hall 1986). On this occasion the UK treasury, expressed concerns over the cost of the new policy. Treasury officials were operating under zero-cost requirement, set by Treasury (Nesbitt 1995). This meant that new programmes would have had to be financed by restrictions in existing ones, within the social security system.
The prevailing internal political ideology was sufficient to silence any cabinet differences as long as it did not involve additional state expenditure. While this sense of unity existed at the top cabinet level, there were fundamental issues which were important to repairing the difficulties inherent in the existing state pension system, namely: current and future cost of pensions; the benefit inefficiencies that arises from job transfer (the early-leavers problem; the introduction of personal pensions; and finally the future of SERPS.

From the treasury standpoint, the Actuarial projection which stressed that 'after the turn of the century numbers [of persons above pension age] will rise rapidly as those born during the baby boom of the 1950s and 1960s reach retirement age' (UK, Treasury Department 1984). On the basis of their own assessment of the demographic impact and the actuarial report, the treasury conferred a sense of urgency to deal with the anticipated costs of state pension. For instance, the Green Paper argued that: 'we should not place on our successors the responsibility for meeting all our financial expectations in retirement. 'Instead we should ensure that everybody is able to save and invest for his own additional pension' (UK, DHSS 1985b in Bonoli 2000). The notion of individual responsibility for planning one's own pension had an implicit moral dimension characteristic of the debate in the UK. The 1986 Social Security Act criticised the PAYG system as been an infringement of economic freedom. In that regard, cost savings were ideological consistent with the neo-liberal policies and therefore attracted little controversy within the government. The unity between the government's
neoliberal policy and the treasury's pragmatism in budget balancing was not found everywhere in the 1986 SSA. According to Bonoli (2000) in other areas of pension policy these imperatives were in conflict.

For example, the problem with the early-leavers was seen as an opportunity to introduce personal pensions and the creation of a competitive market for pension provision. Under the new proposal, early-leavers would find that their pension were to become fully portable with existing schemes and hence can transfer pension rights between one or more employers without incurring any loss. This would have addressed a problem that was general agreed to a cross section of actors. The method by which this end was to be achieved is where the conflict lay. The 1986 SSA introduced a twofold objective for dealing with the problem of early-leavers and preparing the conditions for the introduction of personal pensions, by creating a level playing field for competing pension providers (Brown 1990, Nesbitt 1995).

The first objective in the twofold plan encountered little political resistance amongst cabinet colleagues. It involved the portability of employee's pension rights with existing pensions. This meant that employees could in practical terms from one job to the other without losing their earned pension benefits. This enhanced labour market mobility. The shift was consistent with the party's ideological position. The very notion of a personal pension implied that individuals are taking responsibility for their pension planning. The second
objective however, met with some resistance from within and outside of the government. The proposal entailed the abolishment of the SERPS pension. The treasury had already registered strong reservations about the cost to the treasury as well as the 'double payment' problem discussed earlier. Despite this strong opposition, within the cabinet, Fowler was able to transpose his vision almost intact into the Green Paper (UK, DHSS 1985b:1, 22).

The reform of the SERPS program diluted the scheme. One of the result of the reform meant that SERPS program would only replace 20 rather than 25 percent of average earnings and widows were to receive a half, rather than full, pension. SERPS was established in 1975, with a complex promise still largely in the future, few grasped what was happening and hence was unable to provide an effective opposition (Blackburn 2003). This is one line of explanation but surely not the only one. The thesis returns to this argument in section 6.6. In Figure 6-2 below, it depicts the comparison between existing SERPS and new SERPS proposals.
Figure 5-2 Comparison of Pre-reform SERPS and New SERPS Proposal

<table>
<thead>
<tr>
<th>Status of SERPS</th>
<th>Existing SERPS</th>
<th>New SERPS Proposals</th>
<th>Outcome of Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of SERPS</td>
<td>Established through an Act of Parliament in 1975. Became effective on April 6th 1978 collective pensions – pooled risks</td>
<td>Abolished outright replaced by mandatory personal pensions (individual pensions)</td>
<td>Existing SERPS and state second tier system made weaker in terms of demographics</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revaluation of SERPS</th>
<th>Revalued over the best 20 years of career</th>
<th>Revalued over the entire career, that is, lifetime average earnings</th>
<th>New valuation meant benefit received will be lower especially during periods of poor earning.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Year’s maximum pensionable earnings</th>
<th>Maximum SERPS pension equal 25 per cent of band earnings indexed to wages</th>
<th>Maximum SERPS pension would equal 20 per cent of band earnings indexed to wages</th>
<th>No change</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Widow’s Benefits</th>
<th>Widow’s pension was the full amount of deceased spouse’s pension</th>
<th>Widow’s pension would be half the spouse’s pension</th>
<th>50 per cent lost of income</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>The Cost of SERPS</th>
<th>Cost of providing for SERPS £25.5bn</th>
<th>Cost of providing for SERPS benefits reduced to £13.2bn</th>
<th>Cost savings of £12.3 although the cost of opting out not fully factored in</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Contract Out Options</th>
<th>Absence of contract out of SERPS incentive</th>
<th>Incentive to contract out of SERPS NIC rebates to employees and employers</th>
<th>Contract out weakened the demographic structure since more younger workers’ did opt out</th>
</tr>
</thead>
</table>


The figure highlights the key components of the SERPS reform proposal and does not reflect the actual reform measure. It is presented here to show what
was proposed and what was achieved. A number of these proposed changes survived, while others didn’t. For instance, the government had to significantly scale down its proposal to abolish SERPS. Instead, they settled for a contract out option through tax incentive (2 percent rebate on NIC). The rest of the proposal survived intact. The cost reduction, however, has generated some interesting debate (Jessop et al 1998, Nesbit 1999, Bonoli 2000). It is unclear if the state achieved the cost saving it projected above given the amount of foregone tax incentives aimed at encouraging and promoting the switch from state to private provision.

A British Household Panel Study (BHPS) show a peak of membership of personal pension in 1993 at 12.8 percent and a decline to 9.1 percent in 1998 (BHPS 1992-8).

One could argue that right from the drawing board of the 1986 Social Security Act, the political imprint of then Secretary of State for Social Services, Norman Fowler, was clearly to be seen. The objective as he stated them was to get the 1986 reform bill pass his Cabinet colleagues (Fowler 1991). As is shown in Figure 6-2, he did not get all his wishes but managed to transpose many of his initial vision onto the final bill intact. The result of the 1986 Social Security Act does show that in relative terms, the centralisation of national political settings were underestimated in the literature. The unique UK institutional arrangement has allowed successive government after Thatcher to pursue aggressive
measures towards further decommodification as the next section will highlight.
5.5 Pension Reform Effort in the 1990s.

The momentum of the reform that began at the start of the 1980s under the Conservatives was maintained by the New Labour government. Prime Minister Tony Blair's predecessor, John Major who headed the last Conservative government which held power for 18 years (1979 -1997) was careful to present a more moderate and caring image. He crafted a traditional Conservative philosophy with a strong accent on economic competence. This was to come undone at the boundaries. The spectacular devaluation of the pound in the European exchange rate crisis of October 1992 was followed by a sudden and lasting collapse of support of the Conservatives (Sanders 1995).

One of enduring characteristics of the Conservative Party was the image that they were competent managers of the economy. During this period, voters wanted good managers who had the ability to keep the economy and the financial system on an even keel. The troubled economy of the early 1990s had not disrupted the Conservative popularity amongst older voters as have been expected, because many, including many over-sixties, still regarded them the better economic managers. When that confidence was shown to be misplaced – in the REM fiasco – confidence in the ability of the Conservatives to manage proved very hard to restore. This was further exacerbated by the revelation in the mid 1990s that more than 1.5 million people had been 'mis-sold' costly and underperforming personal pensions because of the legislation of 1986-87 intensified disenchantment with the Conservatives among some of those
approaching retirement (Blackburn 2003). In 1995, the Major government introduced a new Pension Act. It was a voluminous piece of legislation that primary objective was to prevent a repetition of Robert Maxwell’s pension fund looting spree.

The outgoing Conservative left a number legacy for the UK public pension system. The value of BSP was significantly diminished, the second tier pension, SERPS has been weakened. The Conservative economy management competence has been called into question following the UK exist from the REM and the pension mis-selling. The raid of pension funds by the Maxwell brothers added to the worry over the Conservative financial management capacity.

As part of new rebirth, New Labour Party abandoned it earlier pledge to increase the state pension in line with the growth in average earnings. It did so on the grounds that the pledge was expensive and irresponsible. This was a tough decision to justify for Labour and members of the party made their feeling known in various party conferences. More crucially New Labour committed itself, should it win the election, to remaining faithful to Conservative spending plans for the first two years in office. The massive New Labour election victory made such commitment overly cautious. Nevertheless, Labour strategist bent on hanging to power a little longer became obsessed with fiscal prudence. To temper the public mood, the party began to toy with old Labour idealism – ‘social inclusion’ and the need to empower the many, not the few’. The idea of a ‘stakeholder’ society will
emerge from this tinkering. The idea was to sell this notion of a ‘stakeholder society’ to all members of British society. In 1996, new labour unveiled their ‘stakeholder pensions’ - which was an essential feature of its election manifesto.

The target group for the ‘stakeholder pensions’ was younger and middle-aged voters. The discourse on stakeholder society resonated well in the contemporary economic reality. In spite of a fairly steady increase in average earnings for UK employees in the 1980s and 1990s, the dramatic rise in unemployment and inequality made this very uneven and unsettling process. To redress the potential decline in the state pension as a proportion of average earnings certainly helped to make the stakeholder pension idea appear timely. According to Blackburn (2003 p.295) it was an elegant way to bury the costly commitment to restore the ‘earning link’ and the SERPS. The Labour government was able to assure pensioners of its commitment to improve the situation. A small sum was awarded to deserving pensioners, to cover the cost of winter fuels.

To take forward the broad social ethos captured in the ‘stakeholder society’, Frank Field, a Labour Member of Parliament was charged with overseeing operationalisation of new pension scheme. Mr Field also did endorse a stakeholding pension scheme. He proposed that every citizen should acquire a claim to a secondary pension based on a national fund invested in stocks and shares, and thus giving all a stake in national prosperity (Field 1996). The idea of ‘property owing democracy’ was traditionally associated with the Conservative
Party. Prior to 1997 elections, the Conservatives had reason to accuse New Labour of encroaching on their territory – this had to do with New Labour pension proposals which expressed similar conservative aspirations. The Conservative Minister for Social Security at the time, Peter Lilley, introduced the Basic Pension Plus, a plan to replace the state pension with mandatory plan based on contribution of £9 a month culminating in a pension of £130,000 after forty years. This will have worked out to about £175 a week in 1997 values (Blackburn 2003). This new Conservative pension policy proposal did not differ significantly, at least not in principle; from the New Labour pension document 'Security in Retirement'. Despite the closeness of both pension policy proposals the voters were still not impressed and many traditional Conservative supporters failed to vote for their party in the June 1997 general election. The results of 1997 election reflected a deep feeling amongst voters that there was something wrong with the country after eighteen years of Conservative rule (Blackburn 2003).

Mr Field’s charge over a new pension scheme, under New Labour was to soon come to a close but not before he laid out an elaborate pension proposal. In a paper jointly authored with Michael Owen. Frank Field urged that universal provision was essential. He proposed a pre-funded pension scheme that will be run by public and social bodies and he believed that the new government should cover the whole population rather than a small section. Contribution to the scheme will be made mandatory. Benefits will not be conditional to a means test since this would discourage personal saving. Under his proposal those unable to
save, for example, the unemployed, full-time carers of invalids and of infants under four would be credited with contributions at the rate of 6 percent of average earnings; this percentage would reflect the 6 percent of earnings paid into the scheme by employers on behalf of employees. Non-working parents of children between ages of four and twelve were to receive a contribution equal to 3 percent of average earnings. The financing method envisioned in Field’s paper was progressive because those who earn more paid more.

Despite the progressive nature of the Field plan, critics of his plan point out the plan will do little to change poverty among low income pensioners. A direct route ought to be pursued. For example, directly increasing the benefit levels of the BSP would do more for the poor pensioners. His opponents included notable names such as Jack Jones the former trade union leader who now led the National Pensioners’ Convention, Barbara Castle and two of her former advisers Peter Townsend and Tony Lynes who helped her secure the SSA in 1975. These opponents were formidable rivals. They proposed that New Labour restore the earning link between the BSP and industrial wages.

The Labour National Executive agreed to review the call to restore the earning link. Initially this earning link was resisted on grounds of cost and its failure to improve the lot of those claiming ‘income support’. In other words, according to the view of the Labour Party, the earning link would help better off pensioners, not those in need. Having debated the issue of pension indexation at length, the
proponents of cost consideration eventually won over those seeking to restore benefit parity with increases with industrial wage. Field’s Green paper was undermined by leaks to the press about more money going into welfare. John Denham a Junior Minister drafted the final statement on ‘stakeholder pensions’ which was published in November of 1997. Still at the end of its first year in office, New Labour had not achieved much by way of pension legislation. When the Prime Minister reshuffled his cabinet, at which point Mr. Field resigned from his ministerial post citing the lack of authority to pursue his vision of pension reform. In an interview with this author, Mr Field still held this view and spoke of the secrecy of the Chancellor. Alistair Darling took control of the Department of Works and Pensions portfolio and was in a hurry to impose a swift resolution to the pension problem. The solution which was absent from the previous Field’s proposal had to do with the cost of the new pension scheme. Alistair Darling’s objective was economic. He needed to quickly implement a cheap pension scheme which was income or means tested (i.e., not universal) and also gave commercial providers some scope to provide services.

The government new pension policy was introduced in December 1998 Partnership in Pension described as a new contract for pensions between the state, the private sector, and individual’ (DHSS 1998). The new pension was set to improve the Basic State Pension by providing additional income through the Minimum Income Guarantee (MIG). The MIG was to subsume the income security available to pensioners. The new pension policy was also directed to
provide winter fuel allowance as well as declaring the government's intentions of replacing the SERPS programme on the long run (DSS 1998).

The *State Second (2) Pension* (S2P) was to replace SERPS starting from April 2002. The first phrase was set to commence from April 2002 through to 2007 (Blake 2003). During this period the S2P benefits will offer earning related benefits. The second phrase which was to commence after 2007, will issue pension benefits at a flat rate. In terms, of its administration all employed workers are entitled to receive the first-tier basic state pension for which they make national-insurance contributions (NICs). In addition, all employed workers whose earnings are above the *lower earnings limit (LEL)* will automatically be members of S2P unless they or their employers have specifically contracted out of S2P into an occupational pension scheme, a personal pension scheme or a stakeholder pension (Blake 2003).

New Labour introduced several pension benefit schemes since taking office in 1997: the, MIG, State Second Pension (S2P), and Winter Fuel Payment, revamped MIG, the stakeholder pension and pension credit. Pension Credit was introduced in October 2003. It was aimed at rewarding savings not penalising those who save. The pension credit is untaxed and designed to make up the difference between the income a pensioner receives from all existing sources (including private pensions and savings) and the MIG.
UK governments since 1979, including New Labour, accepted the notion of the flexible labour market as being essential to the country's global economic competitiveness. This was clearly reflected in New Labour fiscal policies. An important indication of Blair’s determination to change the nature as well as the image of the Labour party was the reframing of clause 4 of the party constitution. This constituted a significant shift from Labour socialist doctrine. Clause 4, the covenant as Harold Wilson once described it was the abiding principle of the Labour party (Kavanagh 1997). Like Thatcher before him, Blair was able to achieve this by appealing directly to the grassroot of the party over the heads of the activists and trade union leaders. Working from this new elevated position, in 1997, Gordon Brown announced that for the lifetime of the next Parliament, a labour government would not increase the top rate of tax, and accepted Conservative plans for public spending for the next two years. With a majority seats in the House of Commons Blair was able to move forward his vision for the UK welfare state.
5.6 The Centralisation of Political Authority – the Case of SERPS

The political system in the UK also shapes its policy-making capacity. According to Blackburn (2003) Thatcher was able to accomplish at a stroke of the pen radical ‘pension reform’ that was to elude Reagan in the 1980s and most continental European governments of the 1990s. In her second book since leaving office, ‘Preparing for Power’ Lady Margaret Thatcher, recalls her decision to reform the UK pension system in this way:

“Because we controlled public expenditure effectively in the 1980s – particularly by limiting the basic retirement pension and other long term benefits to prices rather than incomes and scaling back SERPS – Britain already enjoys an advantage over other European countries which failed to take such action” (Thatcher 1995).

It is not difficult to see why such an assessment would attract the interest of analysts’ observing the state pension reforms in the 1980s. Pierson (2001) for example had argued that Margaret Thatcher got her way on pensions because the UK public provision had features which weakened its ability to command support. SERPS as a second pillar of the UK pensions system was immature and most people were unaware of benefits changes and how it affected them. The retirement system is fragmented, with built-in opting out opportunities. It also lacks its own independently administered trust fund – features which could have provided a stronger constituent of support.

While these are important features, the crucial factors relates to how the decision-making process is a paradigmatic case of majoritarian policy-making (Bonoli 2000). There is an absence of formal veto points as was shown in the
Canadian case study for example. In addition, the pension design, the political culture and the impact economic globalisation are important variables that push further the explanatory potential. First the argument made with respect to majoritarian policy-making is considered. Here a number causal relation exists to offer circumstantial evidence of the role of institutions. During the six months of consultations the government was firmly in charge of the agenda and policy direction. The Inquiry was itself chaired by the Secretary of State for Social Security, Norman Fowler. The composition of the inquiry reflected a deliberate plan by the government to control the agenda. External interests were excluded from the consultations. Interest group representation took place mainly between the publication of the Green and White Papers.

Although, the governments decision to drop the plan for abolish SERPS does not necessarily constitute an instance in which the UK government abandoned its typical majoritarian approach to policy-making. Bonoli (2000) argue that the proposal to abolish SERPS was dropped because a wide cross-section support opposed the proposal. As the table 5-3 illustrates the consensus on reform measures were evenly matched. On the subject of means-testing and contributory pensions, most of all contending actors seem to be in favour of this model. This was useful because the cross section consensus meant a limited number of opposition to proposed changes.

With respect to SERPS reform, a higher then normal support existed for this
second pillar state pension scheme. What explains the support for SERPS and not the BSP even though both are contributory type schemes is open to debate. The thesis argues that the financing implication for SERPS was much greater than for BSP.

Table 5-3 Summary of the UK State Pension components after proposed reform

<table>
<thead>
<tr>
<th>Pension Model</th>
<th>Current UK System</th>
<th>Confederation of British Industry (CBI)</th>
<th>Help the Aged</th>
<th>Age Concern</th>
<th>National Association of Pension Fund (NAPF)</th>
<th>Trade Union Congress (TUC)</th>
<th>Institute for Public Policy Research (IPPR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal Flat-rate PAYG Pension</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
</tr>
<tr>
<td>Universal Flat-rate funded Pension</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
</tr>
<tr>
<td>Universal Second Pillar, pre-funded</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
</tr>
<tr>
<td>Affluence tested flat-rate PAYG Pension</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not in Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
</tr>
<tr>
<td>Means-tested flat rate PAYG pension</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
</tr>
<tr>
<td>Contributory flat-rate PAYG pension</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
<td>In Favour</td>
</tr>
<tr>
<td>Contributory earnings related PAYG pension</td>
<td>In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
<td>Not in Favour</td>
<td>Not In Favour</td>
<td>Not In Favour</td>
</tr>
</tbody>
</table>

Source: Adapted from Pensions Policy Institute 2003

Second, because the SERPS program was also earning related, this may have accounted for the broadening of it natural support constituency. As was pointed out with respect to the OAS in Canada, the pension scheme design provides a moral basis for justifying cuts (Beland and Myles, 1997). The UK BSP is really an odd case because according Myle’s’s (1997) design model explanation – pension benefits are much easy to cut if the state can justify the unfairness of transferring
resources from one group to the other. The BSP does not involve such a transfer since it is contributory, thus the pension design explanation does not hold true. Simply because the BSP is a contributory rather than a non-contributory scheme, contributors have earned the right to receive BSP benefits. This implicit right should mean that any adjustments that negatively impact the right to benefit ought to trigger opposition. Bonoli (2000) had argued that pension reform involves a process of adjustment that alters the distributional equilibria and as such would attract contestations from potential winners and losers.

The ability of the Thatcher government to radically reform both BSP and SERPS highlights the strength of the institutional forces at play in the UK. It has already been demonstrated that pension design is important. An examination of the electoral environment shows one part of what Pierson (2001) referred to as the 'institutional stickiness'. The electoral environment produces a two-fold impact. First, the first-past-the-post electoral system is likely to award a majority status to the party which obtains a popularity of seats at elections. Second once the majority party has formed a government, an absence of any written constitutional provisions leaves them ‘free’ to pursue policies that fit with their party’s views. In parliament a strong tradition of party discipline, underpinned by the institutions such as the ‘whip’, the House of Commons, does not constitute an effective check on the government’s actions (Bonoli 2000).

This comparatively wide scope of political action must therefore be checked by
other competing political parties (Budge 1996). Opposition political parties do actively pursue different ideological policies that will distinguish their program from that of the governing party. The effectiveness of policy measure are routinely assessed by UK voters who are primed to punish unpopular policies. Therefore, governments seeking re-election is expected to take into account a wide range of external interests, precisely in order to reduce the risk of electoral defeat. This is a situation in which theory runs contrary to reality. Inter-party competition does not always moderate the excesses of the governing party. Bonoli (2000) argue that during the 18 year rule of the Conservative Party 1979-92, and particularly under Thatcher, instead of smoothing the content of policy in order to appeal to wide sections of the UK electorate, the government of the 1980s actively pursued radical and controversial policies.

The government did not suffer electorally for its controversial policies because presumably the structural weakness of the Labour Party and the division in the anti-Conservative party gave the Thatcher governments a substantial degree of freedom to embark of their own objectives. She did successfully cancel the accountability effect due the weakness of the opposition, but also exploited the unique advantages of power concentration in the UK political institution.

Two further features of the FPTP electoral system that enabled the adoption of radical reform measures is the less obvious one, that is, governments do not need broad, cross-class support in order to win elections. A plurality of votes is
enough. The Prime Minister, herself, confirmed this point in a comment that was credited to her by Riddel (1989) when she said:

“it [is] important to have a philosophy and policy which because they are good appeal to sufficient people to secure a majority”.

The policy strategy adopted for the reform of the BSP and to a lesser extent, the SERPS reflected this split. The BSP and SERPS are asymmetric in the sense that the scheme caters to particular groups within the UK society based on income and ideological persuasion.

The final point that is made is that the reform of the state pension system in the UK during the 1980s involved an ideological underpinning to rid the UK of its economic lethargy – a state of continuing economic decline (Jessop et al 1988). Thatcher was in this respect able to appeal to an aspect of UK political culture – a culture built on innovative industrial spirit, a strong ethic on thrift and self-reliance. During her tenure at No. 10 Downing Street, Margaret Thatcher eluded to this social ethos: a nation of proud people who will rather rely on their individual productive efforts then depend on the state for a handout. This attitude towards state welfare played well into the ideological dimension of her reformist agenda by allowing her to openly capitalise on a ‘two nation’ character (Bonoli 2000). The productive ‘elements’ were compensated at the expense of the ‘parasitic’ who relied on the state or non-competitive arrangements (Bonoli 2000). The reform of the SERPS usefully illustrates this point. Those who contracted out
of SERPS were rewarded with NIC rebates because they took individual initiative by accepting the risk associated with the competitive market forces. As noted at the section 5.1 the link between ideology and policy is one that is built on a shaky foundation. Such a position is difficult to defend as the governments' policy responses were neither coherent nor deliberate (Riddel 1989, Hayward and Klein 1994, Bonoli 2000).

With respect to the two case studies, the evidence is that changes to the BSP were hardly opposed when compared to the 1986 SSA that fundamentally altered the financial and administrative structure of SERPS. The BSP which was established in 1946 will have by the time of reform in 1980, developed a large constituency of support, yet the de-indexation decision that diminished the value of the BSP was not successfully challenged. The SERPS reform on the other hand was vigorously opposed. The thesis notes that treasury was opposed to the abolishment of SERPS because of the cost concern as well as with the 'double payment' issue. This could be one powerful reason for it temporary resilience. But as have been pointed out the SERPS programme has since 2002 been subsumed by the new S2P. In the final chapter that follows, the empirical evidence of their reform strategy for both case study but more particularly SERPS is presented.
Chapter 6 Understanding Policy Variation in the Liberal Welfare Model

6.1 Strategies of Reform: Empirical Findings

6.2 The Canadian Case Study: Consensus in a Rigid Framework

6.3 The UK Case Study: Exercise of Concentrated Power

6.4 Comparative Analysis: Political Institutions in Policy Making

6.5 Future Research and Policy Implications
6.1 Strategies of reform: empirical findings

The received wisdom has it that the welfare state expansion proceeded on a more or less single continuum while the retrenchment of its social provisions is expected to prod along on a similar thread producing within family of welfare states broadly speaking a convergence of policy measures (Bonoli 2000, Pierson 2001). Despite the remarkably common pressures each country face, this has not been the experience of many, not least is the liberal welfare states.

This thesis has argued that the domestic political institutions account for the direction of the state's response to international economic pressure for change. It has become customary for those analysing the current state of affairs to accept that the permanency of economic austerity and the changing population demographics as shaping government retrenchment efforts. Analysts thus argue that the tension that exists between these two conditions is responsible for driving the welfare state experimentation that has endured since the 1980s (Esping-Andersen 1990, Pierson 1994, Banting 1997, 2001, Scharpf 2001, Castles 2001).

The story so far is that families of welfare state types will act in distinctive ways consistent with established ideological underpinnings that inform their economic management of the state (Esping-Andersen 1990, Castles 2001). The case study countries are characterised by a relatively advanced private market for pension provision, a weakness in the strength of organised interest, contrasting degrees
of concentration of political power and a political culture punctuated by pride in self effort and a \textit{laissez faire} attitude towards collective ownership. Together, these variables strongly indicate the importance of political institutions in the extent in which it allow governments the capacity to implement reform.

Both Canada and the UK encountered similar pressures for change. They share similar political and economic traditions, including functioning parliamentary democracies. The difference between the two countries lies in the concentration of political authority. Canada is a federal system, the UK a unitary state.

The empirical findings of the study show that the key independent variable: the concentration of political authority is crucial in throwing light on the puzzling country specific response to the pressures. To a lesser extent the pension policy framework along with a general political culture that permeate the debate help to differentiate the choice between incremental change over a radical one. The four pension policies examined here: the Canadian, Old Age Security (OAS), Canada Pension Plan (CPP) and the British, State Earnings Related Pension (SERPS) and Basic State Pension (BSP) were reformed to various extents (Chapter 4 and 5) and the evaluation of these cases in (Chapters 4 and 5) indicate the importance of political institutions to shape policy. They also reveal that the concentration of political authority is an asset for governments seeking to implement radical reform. This is particularly significant because in each of the case study countries the political institutions provided the political leverage for
the government's reform measure. Furthermore, trade openness associated with economic globalisation reveals relatively little about how governments respond to the pressure for change. The thesis stresses that while concentration of political authority is critical, it is not the sole condition for facilitating radical reforms. For instance, although the federal government exercises unilateral control over decisions on the Old Age Security (OAS), it never used this power to the same affect as the central government in the UK with respect to either the BSP or SERPS. The reason for this will be outlined in the next section when the OAS pension policy in Canada is examined.

The main sections of this chapter summarise and draw together the empirical findings of the case studies. It does this step by step. In the first step, it highlights the importance of the degree of concentrated political authority based on the empirical findings of the case countries. It then focuses attention on the importance of the degree of concentration of political authority based on the explicit comparison of the policy cases. The influence of interest groups is also presented. The empirical findings is solid and confirms some of Pierson's (2001) assertions on the explanatory value of political institutions in accounting for welfare retrenchment and to lesser extent Bonoli's observations about concentrated political authority in pension policy making. The methodology adopted in this study has enabled it to point to the similarities and differences and to substantiate the argument realised in this thesis. The concluding part explores the implications for Canada and UK more broadly. It then discusses the
specific implications of some of the thesis findings for neo-institutionalist explanations of welfare state reform. In the conclusion, the thesis examines the implications for pension reform among the case countries and beyond.

**Empirical Findings**

The empirical findings show that the two case study countries responded to the external pressure from a country specific position. The traditional role of political institutions is to provide the appropriate rules for aggregating divergent preferences within a given polity was clearly evident. Two important political systems were evaluated in this thesis namely: federalism and unitary government. The UK and Canada are a variant of these models, justifying their selection as case studies.

To test the validity of the thesis on the relevance of political institutions on the reform process, five independent variables were isolated and evaluated against the pension reform measure. The selection of the two case countries, allowed the thesis to draw firm conclusion about the impact of institutions on the policy process. Table 7-1 below shows the key independent and dependent variables of interest and their effect.
Table 6-2 Values of the key variables in case study

<table>
<thead>
<tr>
<th>Case</th>
<th>Centralised Political Authority</th>
<th>Pension Plan Design</th>
<th>Economic Globalisation</th>
<th>Electability and Governance</th>
<th>Interest Intermediation</th>
<th>Degree of Policy Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Moot</td>
<td>High Impact</td>
<td>low - impact</td>
<td>Moot</td>
<td>Moot</td>
<td>Incremental change</td>
</tr>
<tr>
<td>OAS</td>
<td>High Impact</td>
<td>Moot</td>
<td>Moot</td>
<td>Moderate Impact</td>
<td>Low Impact</td>
<td>Significant change</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>High Impact</td>
<td>High Impact</td>
<td>low impact</td>
<td>High Impact</td>
<td>Low Impact</td>
<td>Significant change</td>
</tr>
<tr>
<td>SERPS</td>
<td>High Impact</td>
<td>High Impact</td>
<td>Impact - uncertain</td>
<td>High Impact</td>
<td>Moot</td>
<td>Significant change</td>
</tr>
<tr>
<td>BSP</td>
<td>High Impact</td>
<td>High Impact</td>
<td>High Impact</td>
<td>Moot</td>
<td></td>
<td>Impac on scheme dramatic</td>
</tr>
</tbody>
</table>

In each of the case countries, two state pension schemes were selected and the state reform evaluated against the key independent variables. It compared policy response within and across the case countries.

The response across countries

In Canada, as table 6-1 will show, concentration of political authority had no impact with respect to the CPP and had given the federal government remarkably freedom to act. Unlike the CPP, the OAS was impacted upon by the centralisation of political authority. It was to be expected that given the similarity between Canada and the UK in terms of the centres of political decision making authority residing in the central governments with respect to the OAS and the SERPS and BSP, the response to those schemes has been broadly neoliberal. As is shown in the dependent variable column, Canada only succeeded in reforming the OAS in a significant way but the impact was much narrower (low impact) relative to the scheme in general (HRDC 1997, Banting 1997, Myles 230
2001). In other words, the affect on the retired population was small limited only to high earners with income of $60,000 or more a year (HRDC 1997). One explanation is that the OAS was universal initially and had a high middle class integration built into the design scheme. In the UK, the severity of the reform was felt by a cross-section of the retired population. First, changes to the BSP indexation formula significantly reduced the benefit levels both in the medium and long-term (Akins 1994, Blackburn 2004). The SERPS scheme was weakened as more contributors opted out of the state funded scheme into individual schemes. The SERPS program was supplanted in 1998 by the State Second Pension (S2P), in large part to address the disruption of the scheme by the 1986 SSA.

In terms of pension design, it has been shown that the design of the pension plan could potentially constrain what reform possibilities are available to national actors. There are at least two reasons for this. The first is that pension design lays down the structure for benefit and contribution arrangements. When individuals pay into a contributory scheme which is financed on a PAYG basis, they are entitled to receive benefits. Under such circumstances it is difficult to justify reduction in benefits. And second, depending on the pension design, the radical shift from one method of financing to another can raise real problems: notably the ‘double payment’ problems discussed earlier. Both the UK and Canada organise their state pension schemes along the lines of PAYG financing.
The enhanced electoral effect variable shows that the effect of the FPTP electoral system creates similar effects in both case countries, although this is less so in the UK than Canada. The reason is simply that the UK government dominance over public policy is greatly enhanced by the FPTP system of election which awards the party with the plurality of votes the majority in Parliament. In effect, a government that pursues policies that does not have mass appeal can still divide the electorate and still manage to win a majority in Parliament. The system does not tend to produce coalition governments. In addition, the absence any constitutional veto points make the UK government one of the most powerful in the industrialised west. Canada, although applies a similar electoral system, is handicapped by choices of the median voters who holds the balance of power for decisions that requires more than a mere majority. This is crucial with respect to pension policy making given the unique constitutional arrangement in Canada which requires 2/3 of the provinces with 2/3 of the population to back proposals for altering provisions under the CPP pension scheme. The federal government can not act alone or make promises of changing CPP benefits.

The thesis findings show that the UK government can on both SERPS and BSP make promises of rate increases or cuts. Indeed, the current state of affairs in the UK retirement income system has come about as a result of inter-party squabbling on what is most desirable in public pension provision. This inter-party conflict plays out during elections and provides the electorate with alternative policy positions on which to gauge their own views on the subject. In Canada,
political parties attempt to avoid open discussion of pension issues. Even though the federal government exercises exclusive jurisdiction in OAS matters, it does so strategically to buttress its standing in the provinces, using the OAS and other such federally mandated income transfer as a vehicle of ‘nation building’. The major political parties tend to be silent on the subject.

With regards to changes to the OAS, voters can react negatively to the federal government proposals. For example, the failed attempt at de-indexing the OAS in 1985 was a clear example that the federal government even when acting alone must try to aim at a 'grand coalition' with policies which alter benefits. It has already been noted that interest intermediation is weak in both countries. Therefore the mobilisation against proposed policies is not highly efficient in counteracting perceived negative policies.

This is true in both the UK and Canada. Pierson (2001) and Bonoli (2000) both argue that in the absence of ‘formal veto’ points, organised interests are unable to pursue negotiated response to the reform efforts. The liberal welfare model also suffers from a disintegrated core support for public social provision. And because the welfare state tends to be small, the core support group is also relatively small (See also analysis in Chapter 2 of thesis, ( Pierson 2001). The application of means-testing of pension benefits can further divide and weaken the support base by separating those who benefit from other taxpayers. The experiences with the OAS in Canada and the SERPS program in the UK are a

233
clear example of this.

**Explaining Policy Variance**

This thesis began from the premise that differences in the degrees of concentration of political authority in both of the case study countries, are expected to exert particular influence on what reform takes place and how change to public programmes are achieved. The empirical data presented in this thesis broadly support this hypothesis. Yet, it also calls attention to the limited applicability of existing explanation within and across pension schemes. This was not anticipated in the initial formulation of this research project, but it has become apparent in the course of the research.

In the UK the House of Commons may consent or dissent on proposed bills brought before it through a vote in Parliament. However, such a vote is often drawn along party lines massaged by a functional party whip whose duty it is to help the government maximize its vote in the house. This does not suggest that governments in the UK can ignore the electoral consequences of action taken on the basis of political expediency. This would be misleading. What it does, suggest however is that governments in the UK can take advantage of limited external interference in order to achieve set policy objectives contingent on the electoral incentives and pension design problem outlined. For example, there was unwillingness between the two principal parties, Labour and Conservative to restore the link of the Basic State Pension (BSP) to industrial wage. In 1997
when New Labour came into power, the Chancellor committed to maintaining the public service spending level pledged by the departing Conservative Party (Jessop 1998, Bonoli 2000).

In variance with the literature

Setting this aside, the analysis is further complicated by suggesting that the Canadian economy, unlike that of the UK is more susceptible to radical reform measures because of its size and economic orientation which is disproportionately dependent on external trade. Although they share a comparable share of GDP, the UK economy is relatively larger than that of Canada so the expectation does not apply equally to it (see also FDI inward and outward flows in Chapter 1). This country characteristic is important because the welfare state literature does suggest that integration into the international economy promises large potential gains especially for small countries, but that such integration exposes economies to the ups and downs of global markets while undermining the capacity of governments to counteract these business cycles. According to this view, the way around this dilemma is for governments to accept high trade exposure, while simultaneously adopting comprehensive social programmes to compensate people for increased levels of labour market risk (see Cameron 1978, Ruggie 1982, Katzenstein 1985b). Countries with disproportionate dependence on external trade are then likely to suffer radical reform measures11. However the research findings run contrary to this

11 This will be consistent with the two schools of thought on the effects of globalisation: the one been ‘pessimistic’ and the other ‘optimistic’. The ‘pessimists’ see globalisation as a serious threat to the
expectation, at least as it relates to the Canadian response. In one explanation, Myles (1998) argues that Canada is some of its pension design mimics the social democratic model where increase pressures is countered by an equal resistance – not necessarily though from interest groups but from provincial governments cooperating on matter of preferences.

It is noted that contrary to expectation posited by the economic globalisation thesis it was the UK and not Canada that pursued radical reform measures (see also Skyes ed. 2001, Bonoli 2000). There could be a number of reasons for this. The empirical findings of this thesis suggest that the governments of Canada had cooperated on mutually agreed preferences and this had the effect of curtailing some unilateral policy tendencies. The result from the 4 pension schemes confirm the impact of concentrated political authority, although not entirely in the way we have anticipated. This was in many respects facilitated by the decision making rules outlined in chapter 4. The political culture surrounding the debate nursed the collective sense of national identity fostered by a long history of social programming.

It could be the case that the Canadian economy is much more competitively positioned against external shocks than that of the UK. Or it could that the

structure of the retirement income system in Canada is sheltered from external influences. In other words, this may be explained by the de-industrialisation scale of the two countries. Based on the data presented in the Iversen paper, Canada is behind the UK in the rate of de-industrialisation but slightly ahead of her in changes in welfare spending.

What this thesis contends is that the UK is able to pursue radical reforms because of the centralised nature of its decision-making process. It is possible to explore also how long the UK state pension system has been in place and the rate of reform. It has been argued that if support for the public pension is not deep rooted, it is possible that those who may be opposed to government retrenchment measures would be too few to constitute an effective opposition.

Looking at Table 6.1 below we see that while the reform of both the Canadian CPP and OAS were relatively modest, the British reforms represented a more substantive change to the schemes that were in place prior to the reforms. This justifies the severity scale shown on the right hand column of the table. The outcome of the respective schemes broadly maps the literature predictions. (see also chapter 4 and 5 for full discussion).
## Table 6.3 Summary of Policy Change

<table>
<thead>
<tr>
<th></th>
<th>At Apogee</th>
<th>After Reform</th>
<th>Severity of reform in descending order</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada Pension Plan (CPP)</td>
<td>Scheme comparable to UK Plan (CPP) limited to contribution rate change and financing model</td>
<td>Reform impact severe and spread across the entire plan. Plus financing, entitlement, and contribution plan change. Ultimately lead to dismantling of scheme</td>
<td>1</td>
</tr>
<tr>
<td>Old Age Security (OAS)</td>
<td>Scheme comparable to UK except in terms of contribution requirements</td>
<td>Reform impact moderate and limited to less than 10% of recipient population plus ended universality</td>
<td>2</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Earnings Related Pension Scheme (SERPS)</td>
<td>Scheme comparable to Canada</td>
<td>Reform impact severe and spread across the entire plan. Plus financing, entitlement, and contribution plan change. Ultimately lead to dismantling of scheme</td>
<td>4</td>
</tr>
<tr>
<td>Basic State Pensions (BSP)</td>
<td>Scheme comparable to Canada, except in terms of contribution requirements</td>
<td>Reform impact moderately severe and spread across the entire plan. Plus change in universality, level of entitlement, contribution levels, and minimum age of entitlement</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Adapted from Government of Canada, Department of Finance 2001/UK Department of Works and Pension 2004
Returning to the discussion on the economic globalisation thesis, it is one of the central claims of the globalisation literature that the low labour costs in developing countries are a threat to the industries, the employment situation and the welfare states of the advanced industrial countries (Bonoli, George and Taylor-Gooby, 2000). Countries that operate in these low skills labour sectors of economy are bound to feel the shock of global economic competition from states with less payroll tax burdens.

Historically, it has been the case that the industrial production in affluent states is based on advanced technology and on guaranteeing high-quality goods, high productivity and high wages. The chain between these three objectives no longer holds true because it is now possible to have high technology, high productivity, high quality and low wages amongst the developing economies (Schwab and Smadja 1994). This has become one of the major weaknesses in the claim by advanced industrial states. The economic globalisation argument claims that change to the state pension schemes had to take place in a context of severe pressures to do so given the prevailing economic competition and the reliance on pay-roll taxes to finance the PAYG public pension system (World Bank 1994).

The basic tenet of this economic view is that high labour costs or a less flexible labour market increase production costs. The less obvious side of this argument, but which is equally important, is the availability of general tax revenues to pay for unfunded pension promises. In light of this, pension plan design is an
essential feature that, if properly established, may address the mid-term to long-term problems associated with the anticipated population ageing. Pension funded by payroll tax deduction impacts upon labour costs. This cost is usually passed on to the employer and the employee. Increase in the ratio of the retired versus labour force is an important one because it determines the contribution rate for public pensions.

The problem of public pensions however does not rest on pension plan design alone. Both the UK and Canada face similar design problems. The CPP, BSP and SERPS are built on a PAYG basis. This design method is prone to a double payment dilemma whenever a switch is made from PAYG to a fully funded scheme. There are however, some differences between the Canada Pension Plan and the corresponding UK equivalent, the SERPS. The CPP is partially funded and was a source low interest borrowing by the provinces. Given this arrangement the dynamics of the politics of pension reform in Canada is altered as this thesis has demonstrated.

Reform of state pension also takes account of the electoral process because decisions have political consequences. It has been shown that the problems with state pension require immediate solution which is not necessarily politically expedient but which must transcend the four year electoral cycle. In the case of the UK, it has been shown that the system of FPTP electoral system allow the government to overcome the decisive and unpopular policies. Insufficient
mobilisation by organised interest fail to win the grand coalition necessary to frustrate policy change in two of the cases studied: CPP and BSP.

So far the analysis has proceeded in stages to provide the structure for the thesis. First, the institutional conditions determine the ‘rules of engagement’. They do this by providing specific veto points over policy decisions for some of the policy actors. It may very well limit the chances of others. Institutional conditions can stagnate or frustrate progress on policy options – the notion of institutional ‘stickiness’ is a clear example. Second, the institutional conditions have in many respects determined the type of pension design and therefore the route to its reform. Both of these conditions work in a symbiotic way to shape policy direction. Pension design is institutionally embedded: having the decision rules surrounding its reform enshrined in primary legislation will be an example of this relationship. More specifically it has been demonstrated that, the ‘double payment’ problem commonly associated with transferring from a state second pension into a fully or partial funded individual private pension is one that is fraught with huge intergenerational headaches. Third, it is argued that the political culture that frames the pension debate rests on certain ideological principles that differ amongst states: either self-reliance or a collective sense of community.

Although, Canada did inherit the British Poor Law traditions, it applied them differentially. In the predominately French speaking province of Quebec, for
example, the Catholic doctrine of subsidiarity was strongly influential in the development of pension in that province. Canada as whole, though seems a lot less *laissez faire* when discussing issues relating to state pension and welfare (See Banting, 2004). In other words, Canadians tend to support public provision of pensions and they seem to have crafted a progressive and fairly redistributive income transfer from middle income earners to the lower income seniors making poverty amongst the retired a little less stark than in the UK for example. Notwithstanding their sense of collective good, both the UK and Canadian electors share a common tendency to object to high levels of taxation or drastic reduction in benefits (Courchene 1997; Jenson 1998). Ultimately, the electoral environment is so primed to punish politicians who push the frontier of reform too far.

*Interest groups*

The empirical findings show that with regards to changes to the OAS for example, voters can react negatively to the Canadian federal government proposals. The failed attempt at de-indexing the OAS in 1985 was a clear example that the federal government even when acting alone must try to aim at a ‘grand coalition’ with policies which alter benefits. It has already been noted that interest intermediation is weak in both countries. Therefore the mobilisation against proposed policies is not highly efficient in counteracting perceived negative policies.

This is true in both the UK and Canada. Pierson (2001) and Bonoli (2000) both
argue that in the absence of 'formal veto' points, organised interests are unable to pursue negotiated response to the reform efforts. The liberal welfare model also suffers from a disintegrated core support for public social provision. And because the welfare state tends to be small, the core support group is also relatively small (See also analysis in Chapter 2 of thesis, (Pierson 2001). The application of means-testing of pension benefits can further divide and weaken the support base by separating those who benefit from other taxpayers. The experiences with the OAS in Canada and the SERPS program in the UK are a clear example of this.

Another key factor that needs to be considered in terms of the effectiveness of interest group participation\textsuperscript{12} is Schmitter's pluralist model of policy-making (1982). The idea here is that liberal welfare states are pluralist societies.

This means that pluralist societies, like the UK and Canada, tend to have voluntary, competitive and unorchestrated groups vying to influence the policy agenda. These groups, for example, the Trade Union Congress (TUC), Canadian Labour Congress (CLC), Age Concern, Canadians Pensioners Concerned, the Fraser Institute, Centre for Policy Studies, act in representative roles: that is,

\textsuperscript{12} The terms Interest and Pressure group have in this dissertation been used interchangeably, although I am aware that the term could conjure different meaning in different context. The word pressure group is used most often in the UK, while interest group is associated with North American political lexicon. Both of these terms refer more generally to the idea that interest or pressure group exist to influence public policy by seeking to persuade decision-makers by lobbying rather than by standing for election and holding office. There are subsets of pressures groups (for a detailed discussion of pressure groups in the UK refer to Bill Coxall (2001). 'Pressure Groups in British Politics' London: Longman Pearson Education. For interest group discussion for Canada, see Pratt, H.J. (1996). Gray Agendas: Interest Groups and Public Pensions in Canada, Britain, and the United States. Ann Arbor: The University of Michigan Press.
under incentives that favour policy choices responding to the interests of the collectivities they represent (Scharpf 2000). In the pluralist model, as would be in the other model, there are real possibilities that such policy choices may overlap, but there are no formal processes through which these preferences can be united.

It becomes government’s responsibility to aggregate such interests. The role of Interest organisations is institutionalised and therefore institutional ‘rules of the game’ will define competencies, veto points, and modes of interaction that circumscribe the repertoire of permissible ‘moves’. As well as the outcomes associated with particular combination of moves, and they may also define institution-specific norms of appropriateness that may modify or even surpass preferences rooted in organisational self-interest (Scharpf 1997b).

In a sum, it implies that interest groups need to overcome institutional rules that constrain potential moves, as well as shape incentives, and they may also influence actors’ perceptions and preferences. Interest groups also face a different kind of challenge: a theoretical challenge about the very nature of their collective existence. This means that interest group formations appear logical given the shared concerns and insecurities faced by the retired, yet it nevertheless represents something of a conundrum from the standpoint of group theory, as expounded by Mancur Olson (1965) and others (Frohock 1987, Hardin 1982, Moe 1980). The Olsonian rational-actor model, rests on the logic that
collective humanitarian efforts of this kind are inexplicable on any rational basis and instead must be considered irrational (Olson 1965). The element of altruism or its 'regardingness', inherent in pension reform collective effort, is alien to the notion of rational choice that lies at the core of Olson’s logic.

The Olson rational actor model was rejected as singular and too narrowly focussed. James Wilson provides for a broader view and argues that group maintenance can draw strength from altruistic or from purposive incentives (Wilson 1973). The rational actor model has been modified to give depth to the motivation for individual action common to the group (Frohock 1987, Hardin 1982).

The theories mentioned here are of value in accounting for some otherwise-puzzling aspects of the field work findings in both countries. For example the groups in both countries were usually small and fragmented. This is partially explainable on the basis of Olson’s logic, which regards selective benefits and coercion as the only bases upon which large, voluntary organisations can be maintained – neither of them being present, essentially, the groups considered with the exception of the trade union groups.

Regardless of size, most of the interest groups in the arena of pension policy making, and in particular the not-for-profit ones, have shown to be incapable of vetoing government policy. In other words, the extent of the strength of these
interest groups begins to count when government is forced to abandon it policy initiatives because of threats or lobbying efforts. In the liberal welfare model, it has been shown that organised interests are generally weak. This finding collaborates with Pierson hypotheses on the impact of interest groups.

We can take specific example from the case study to illustrate this. In the UK the evidence from the 1985 Social Security Act demonstrates a weaker alliance, if ever there was one, between the government, influential groups and leaders of agencies. The key influential groups and leaders opposed the Act. The government Green Paper *Reform of Social Security* (UK, DHSS 1985b) was opposed by all groups including surprisingly the Confederation of British Business (CBI) and by the National Association of Pension Funds (NAPF). The reason they opposed the Green paper's proposal had to do with the most controversial issue in the Green Paper the idea of phasing out SERPS. As Bonoli (2000) suggests the 1985 Social Security Act was a major departure in terms of how state pension operated in the UK. The formal policy process began life as an 'Inquiry into Provision of Retirement' which was announced by then Secretary of Norman Fowler in 1983. The Inquiry was notably political in composition. It was chaired by Secretary Fowler himself, and had no resemblance of the Royal Commission credited in the past for building consensual approach to policy. It had two months of consultation and drew strong criticism from many groups (Ward 1985). 1500 different items were submitted (Bonoli 2000: p.66)
A similar exercise in Canada lasted for 12 months. The reform of the Canadian Pensions Plan (CPP) consulted nationally and extensively. As a basis for the consultations, the federal and provincial governments released 'An Information Paper for Consultations on the Canada Pension Plan' in February 1996 (HRDC 1997). The public consultations commenced on April 15, 1996 through June 10 1996, as part of a 12 month federal/provincial review of the plan. The consultation was not chaired by the Minister responsible for Human Resources Development Canada (HRDC), the department with the CPP portfolio, nor was it headed by the Finance department, but rather by David Walker, Member of Parliament for Winnipeg North Centre. Mr Walker was the chief federal representative on all the panel meetings. They received over 270 formal submissions in 33 sessions in 18 cities (HRDC 1997) In addition the CPP Consultation Secretariat in Ottawa received more than 140 written submissions and about 6000 telephone calls (HRDC 1997)

The resultant paper 'Report on the Canada Pension Plan Consultations' was released at the end of the consultations in June, 1997 (HRDC 1997). The report highlighted the challenges facing the plan, presented a way of strengthening CPP financing, and set out a series of options for putting the plan on sound financial footing. There was limited debate on the desirability of investing the CPP funds in the market to earn maximum returns. The Canadian Labour Congress opposed the increase in contribution rate but was satisfied that benefit levels were maintained. Business Groups for example, the Association of
Canadian Pension Managers (ACPM) were clearly happy with the investment of the plan funds. Some of the provincial governments surprisingly objected either because the plan went too far or because it did not go far enough. For instance, the province of Alberta, opposed the reform, but did endorse its plan to replace the CPP by individual retirement savings accounts (Alberta 1999).

In these two examples, important differences exist. In the UK, the notion of a single-actor is valuable in understanding how policy is shaped through the system of decision making namely through the electoral and party system. Interest representation can operate much more effectively at the national level in parliament or through political parties at elections. In Canada, there are two levels of governments responsible for the CPP portion of the state pension system. Ideally, interest representation will have to be channelled through these two routes. Regional interests are as effective as national ones in most instances, although, the capacity of provincial governments to force themselves on the overall national agenda will be contingent on the availability of veto. In this regard, not all Canadian provinces are equal. The not so powerful provinces have to rely on their ability to forge partnerships with other governments. Additionally, interests groups operating at sub-national levels need to be mindful of the relative strength of the provincial governments from where they operate and more crucially what strategic alliance might be forming between federal/provincial governments and provincial/provincial governments. This awareness is valid in terms of the consideration in the nature of political party
alignment as well as with specific policy issue at stake.

Much has been said about policy convergence and the expectation that given the international economic pressure, the liberal welfare model will converge on a neo-liberal response. These arguments tend to exaggerate such concerns.
6.2 Canadian consensus in a rigid framework: theoretical implications

In the case of pension reform, the external 'challenge' to the welfare state was actively moderated through this distinctive political arrangement. The 4 pension schemes reinforced the earlier findings. In this section, the thesis considers the 2 pension schemes in Canada. The empirical findings show that the reform of the OAS and CPP were relatively modest. Figure 4.1 illustrates this.

In that respect, Canada defied the prediction that it might be vulnerable to a radical reform measure given the size of her economy and openness to international trade. It shows that a number of reasons account for this.

The concentration of political power is important in policy making in Canada. But the literature prediction did not play out as described. Governments in Canada cooperate and agreed on common preferences. The reasons for cooperation are many and this aspect of the policy making process would require further investigation. Nonetheless, the empirical findings seem to suggest that it was largely for financial reasons that provincial governments agree (see discussion in section 4.3). This sense of interdependence makes unilateral radical departure from common goals by key players unlikely. In the case of OAS the finding remain puzzling still. The Canadian federal government acting alone decided to implement a less radical measure. This is in sharp contrast with the British who implemented a dramatic change to both SERPS and BSP schemes.
What about economic globalisation?

The argument is that economic globalisation does have the same impact as predicted. Canadian public service officials and some of the interest groups do not think economic globalisation has impinged upon the Canadian decision to reform its state pension system. One reason for this is that, Canada’s share of trade remains strongly with the United States than elsewhere. The United States, although notorious for its low labour related costs is still sufficiently wage compatible with Canada. So if the pessimist economic globalisation thesis is to hold sway, then given Canada’s trading partnership with the US such argument would not hold true since wages in low skill production would be competitively matched.

Second, the Canadian public pension system is relatively small and less generous. Canada’s state pension system exists, in the world of the liberal welfare model in this respect, although there have been serious efforts at redistributing in the manner of the World Bank report (Myles 1989, 2001).

Third, the Canadian federal system imposes strict adherence to a constitutional negotiated pension settlements. This institutional arrangement constrains the actions of the ten provincial and territorial governments at their triennial ministerial meetings where detailed proposals are exchanged. Ontario which is the biggest province in terms of population declines to exercise it veto point over issues of difference between itself, the federal government and it provincial
counterparts. In the 1996 rounds of CPP reform, Ontario did however impose its view on the limit of the contributory rates recommended by the federal actuarial report (Ontario Ministry of Finance 2004). This can be considered as an implicit veto. However, by and large, the institutional rules of the games in Canadian pension politics, ensure that the preferences of the divergent actors closely match, making the exercise of such veto point unnecessary.

Canada has thus succeeded in moving in an incremental manner ever since the first public pension was established in 1927. This has been as a result of political inertia which is underscored by the constitutional terms of engagement in this policy area. Thus, an incremental policy response has somehow managed to endure over the course of time and more recently in the face of international economic pressure on reform. It is difficult to see how radical the reform measure would carry weight in Canada, even in the future. There has been and continues to be rumbling about breaking up the CPP family, with Alberta seriously proposing changes to the current CPP financing method to account for intergenerational inequality. Ontario had made such claims in the past and could again in the future. Quebec exercised the option of a separate but equal second state pension system in 1965. The remaining nine provinces have a right to these option if they so chose.

The design of Canadian pension plan schemes are on a pay-as-you-go basis: while the CPP is a mandatory contributory pension, the OAS is not contributory.
It has been suggested that because of its contributory base, it is morally difficult to defend cuts to benefit levels. Hence reform could not be any more radical. The OAS suffers from neither of these defects. It is the sole responsibility of the federal government. The government in Ottawa can use the OAS as a tool to its political advantage. It can do by increasing benefits in the OAS and cut in other programmes with less visibility.

Interest groups in Canada are actively solicited for input into the policy process, but most of them feel their input is completely ignored. In interviews with Canadian pension groups during the research field work it became apparent that despite regular meetings with politicians and civil servants, interest organisations make little impact on the type policy pursued by government. In addition to the other reasons outlined in the interest group section of this thesis, most of the interest organisations are small and poorly financed. Most are fragmented and therefore project a local rather a national voice. Given the decision making rules regarding the CPP for example, interest groups need to lobby two levels of governments. For those without adequate policy research facility and the ability to mobilise mass support beyond the narrow self-interests impact on policy is limited.

Canada, thus conducted it pension reform in public, but the decision making remains within the political realm. And politicians on either sides of the political divide have responded to the international economic pressure by adapting to
unique Canadian tailored solution. In 1989 the OAS was reformed by introducing a means-testing component to the calculation of benefits. This had the effect of excluding higher income Canadians. The World Bank recommendation came after the reform so it is easy to see that it had no influence on the decision taken. Canada seems to be already on a road towards market-oriented reform, albeit in a way that redistributed income to the poorest percentile of the retired. The 1996 reform of the CPP was again a unique Canadian response and not in keeping with the World Bank report. The CPP remains partially funded. Twenty-five per cent of the CPP funds is invested privately by an independent board.

Part of the pension debate in Canada also involves concerns over demographic change. Some provinces are in better shape than others. Quebec for example is concerned about its demographic projections while Alberta is not. This factor adds to the policy mix, giving each province a little something to bring to the triennial Ministerial bargaining table. It would be difficult to see how Canada would break from it incremental traditions now or in the future in so much as the jurisdictional competencies for pension policy making rests evenly between the two levels of governments. It is possible however, that national standards and portability of pension provisions may be sacrificed in the deepening of political preferences from rich and populous provinces like Alberta.

Policy actors need take note of possible implications of future economy realities. As regional economic inequalities deepen and begin to bite, some provincial
governments, for example, job scarce provinces like Newfoundland, PEI and Nova Scotia, may find it in their best interest to suppress labour related cost in order to attract investment. Current legislative rules provide safeguards for radical departure from incrementalism, although future preferences of provinces are hard to predict.
6.3 The UK exercise of concentrated power – theoretical implications

The empirical findings of the reform of the state pension system in the UK shows that it followed a different trajectory from that observed in Canada. The UK 1986 Social Security Act, moved the UK state sponsored pension system decidedly into the private sector: an *implicit privatisation*\(^{13}\) of the state provision (Blackburn 2003). It has been argued that as a direct result of this the UK is the only European country which would not have any difficulty meeting its future pension obligations. The reforms were much more radical for this reason. It was somewhat puzzling because like Canada, the UK is one of the most ‘commodified’ amongst the OECD. The question then is why and how was she able achieve what had already eluded others.

First, the UK retirement system under review is relatively small and young. The BSP evolved after the Beveridge report in 1946. The SERPS program was established in 1975 after Labour election victory in 1974. The initial proposal for a second state earnings related retirement income was quashed by the previous Conservative government but was quickly resuscitated by Barbara Castle, the Minister responsibility for Social Security. The 1975 Social Security Pensions Act raised the BSP to its highest-ever level at 20 percent of average male wage, while the SERPS aimed to deliver an extra 25 percent of previous average earnings.

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\(^{13}\) Paul Pierson (1994) used this term to refer to a process of allowing for the secondary provision of pensions by the state, while simultaneously pursuing policies that minimises the attraction of the public provision that citizens are impelled to look to the private sector to insure their future: an implicit privatisation. Pierson, P. (1994) *Dismantling the Welfare State? Regan, Thatcher and the Politics of Retrenchment.* Cambridge: Cambridge University Press.
The government of Margaret Thatcher, elected in 1979, introduced a modest but vastly damaging change in the indexation of the Basic State Pension in 1980. Henceforth, increases were to be pegged to rises in prices alone and not to earnings. Over the long term, the effect of the 1980 amendment was to reduce the BSP from 20 percent of average male earnings to being no more than 14 percent (Atkinson 1994, Blackburn 2003). At the time, few grasped the significance of what had happened and hence few raised any objections.

Second, Pierson has argued that it is in part due to the weakness of those who would oppose the retrenchment of pension benefits (Pierson 2001). This is also supported by Bonoli’s thesis that the dominance of the party in power over policy is to account for the observed response. In the UK this is achieved in a number of steps. First, the lack of a codified constitution that stipulates the competence of government in this area, gives the government the freedom to pursue policies that suits it. For example, despite the winter of discontent in 1979, the Thatcher government was able to divide opposition and pass its pension legislation in 1986. This will suggest that interest intermediation at best of times can be weak. The government correctly assumed this and was able to apply differential method of benefit assignment to benefit certain groups while at the same time taking benefits away from others. The SERPS scheme demonstrates this ‘divide and conquer’ rationale that seems pervasive at the time. In addition, because of it flat-rate benefit levels, most middle income earners seek pension schemes elsewhere.
Third the UK has avoided introducing a comprehension public pension scheme as was the case in Canada. Intraparty competition has made state pension an election issue in almost all elections still with very little agreement as to what type of pension UK citizens require. Thus there has been a radical piecemeal measure that has been political expedient. For example, when the SERPS programme was first introduced by Labour Minister Barbara Castle in 1975, by the 1980s barely less than a decade after its' introduction, the Conservative were busy taking down the edifice. In the absence of any regional power to challenge the central government, intraparty competition is the means through which policy preferences can be aggregated.

Fourth the design of the UK public pension system is on a pay-as-you-go (PAYG) basis. Both the BSP and SERPS are financed along the PAYG method. It has been suggested that because of its contributory base, it is morally difficult to defend cuts to benefits levels. Nevertheless, unlike the Canadian experience, the UK was able to adapt a radical measure. This is interesting because even with sole management of the OAS in Canada, the federal government opted for a radical reform of this pension measure even though it found itself in the single actor status. One could argue that the federal government unlike the UK government use the OAS as a tool of nation building. Political gains in the areas of OAS can translate into useful political capital when handling the discussion on CPP reform measure.

In the UK, a system of election that confers majority status to the political party
with a plurality of seats enables even unpopular government sometimes to win elections, and once in office the absence of effective checks on its power first by a constitutional provision and second by an articulate opposition, makes governing less encumbered. Thus the UK governments can pass laws with much less resistance. Bonoli points out that throughout the 1980s during the Thatcher period of reforms the UK opposition was weak and ineffective (Bonoli 2000). The point that needs to be made here is that although, Canada operates a similar electoral system, a majority government in the House of Commons does not accord the government the same degree of latitude in pension policy. The difference again, is the political institutional arrangement in Canada which is federal in character and the political parties tend to practice brokerage politics.

The decision-making process which led to the enactment of the Social Security Act in 1986 was typical of majoritarian policy-making. It was a process that involved official bodies in the debate, such as the Inquiry into Provision for Retirement, which secured control for the government in terms of defining at the early stages what the new pension policy should be. The result was that the government was able to produce a Green Paper with relatively detailed suggestions for policy change before explaining its approach to external interests (Bonoli 2000). Interest groups had a chance to confront the government on its policy during the six period between the publication of the Green and White Papers. It was not a sufficient time to allow interference in government plans, though the government conceded under the pressure to drop plans to abolish
The Thatcher government eventually dropped it plan to abolish SERPS in favour of drastic, benefit cutting reform programme. The thesis has already provided an explanation for this in previous sections of this thesis (see section 6.4). The diluted SERPS arrangements would replace 20 rather than 25 percent of average earnings and widows were to receive a half, rather than full, pension. This was a major concession by the government and can not be seen as constituting a quid pro quo. Interest intermediation in UK pension policy is not based on a corporatist arrangement. As such we need to look elsewhere for an explanation.

One line of explanation is that the abolishment of the earnings-related scheme was the source of disagreement within the government as well as with organised interests. The Treasury opposed the abolishment which was supported by DHSS. Thus there was a division in cabinet between two important departments. Ultimately the Treasury was able to block the implementation of an unwanted piece of the legislation. Bonoli has argued that the Treasury decision to block the legislation can be conceptualised in terms of a veto point (2000).

The UK pension system faces strikingly similar challenges as that of Canada. The solution to these challenges remains strikingly dissimilar in many respects. UK governments, unlike Canadian governments, do not have to contend with
regional or sub national governments. In the UK, the constitutional arrangements, to a larger extent nullify internal constraints [non existent] on the pension system. The central government in Westminster is therefore able to deal with immediate national pension policy. In the absence of a formidable internal constraint, policy implication for the UK system is likely to be driven externally by initiative at the European Union level as pan European integration in social welfare provisions are pushed forward. This was something that is, for example, clearly demonstrated in the European Union directives on equal treatment of men and women implemented in the 1995 Pension Act (Blake 2003 p.310). At which point, institutional factors within the UK as already outlined in this thesis would interact with pension policy options. The crucial difference from the current processes will be the shift of the decision making foci to a supranational level. It is unlikely that given the sentiments that social policy carry amongst nationalists within the UK, that any of the post-devolved governments would want to challenge Westminster for co-jurisdiction in pension policy making. In the UK as in Canada, one reason for this would be that the regional centres, Scotland, Wales and Quebec, are all considerably less well off than the central government.
6.4 Comparative Analysis: Political Institutions in Policy Making

The most striking element that emerges from the analysis of pension policy is that the UK and Canadian reforms can not be said to be similar. In the basic state pension scheme while Canada modest reform ended universality of the scheme, the UK reform effort was more intensive and extensive. The UK reform of the basic state pension continued to be means-tested calculated in line with changes to consumer price index rather on the previously favoured industrial wage. The value diminished significantly also. In the Canadian case study, it was argued that the OAS reformed only impacted a narrower range of the population. In the UK equivalent, the opposite was true.

A similar account could be narrated for the second level pension: the Canadian CPP scheme and the UK SERPS program. The outcome of the reform measures have variously summarised and presented in chapter 6.1 and in the case study chapters 4 and 5. The UK and Canadian governments have used different strategies to secure the adoption of typically unpopular pension reforms. In particular, in the UK, the government was able to introduce radical reforms despite a lack of agreement amongst the left and labour movement. The reform measures both in Canada and the UK did not include any quid pro quo, and were achieved at the exclusion of external groups from decision-making.

It has been argued throughout this thesis that political institutions are key determinant of the strategy adopted by governments to secure the adoption of
potentially controversial policy change. There are at least three reasons for this. First, national institutions provide or limit opportunities for resistance to unwanted policy change by those ideologically opposed to the common neoliberal responses to domestic and international pressures (Swank 2001). It is also the case that institutions provide opportunities for seeking compensatory policies by those who are adversely affected by domestic structural shifts and internalisation. Canadian brokerage political parties exemplify this (Kitschelt 2001).

Second, national institutions can influence directly and indirectly the relative political strength of affected groups and the relative strength of traditional welfare constituencies and coalitions. This can be demonstrated on the basis of federal versus unitary systems of government as this thesis suggest. Third, political institutions can foster or hinder certain combinations of values important to social welfare policy change: some institutions foster cooperation and consensus as well as support for the welfare state specifically, and the efficacy of state intervention generally; other institutions tend to promote competition and conflict and pro-market orientations.

Returning back to the first of the three points, it does show that as was unlike the case in Canada, the UK managed to impose radical changes to the SERPS programme despite a lack of a clear mandate from external interests on the issue. This was due to evident from the institutional climate which allows a majority government to pursue policies from start to finish in the absence of any
formidable opposition. This was particularly true during the Thatcher years because of the disarray of the Labour party. External interests had little or no impact on the 1986 SSA. In Canada, on the other hand, there was a period of 12 months of consultation and a series of ministerial reviews before an agreement was reached for reforming the CPP in 1996. Both the CPP and SERPS are second pillar state earning-related pension scheme. Both are mandatory and contributory. While CPP retained its core functions of providing 25 percent retirement income, the SERPS programme has reduced benefits as well as destabilised the demographic base of the scheme by providing a opt out clause. The UK experience has the hallmark of majoritarian decision-making which was referred in the early discussion.

Pierson (1994, 1996) outlines the general logic of welfare state retrenchment by noting that, unlike the politics of welfare expansion, welfare retrenchment involves taking away concentrated, politically popular benefits from organised constituencies for the promise of future, diffuse benefits. In the case of the reform of the BSP programme and to a limited extent the CPP, the organised constituencies were unable to act decisively and effectively. As argued by Bonoli (2000) it is not the mere existence of veto points but it matters if organised interests recognise the problem and have the political resource to mobilise against unwanted policies. The case of the BSP and CPP is not so much of lack of recognition as it is to the lack veto opportunity. It is true that reaction to the reform of the BSP in the 1980 was minimal; the public response to the CPP
reform in Canada was huge. Yet, the outcome was decidedly the governments to make. This has a lot to say about how the institutional provisions of pension plans constrain various retrenchment strategies for both governmental actors and interest groups.

Another way to look at the institutional impact is to consider the manner in which institutional features of the welfare state strengthen (weaken) constituency groups and their allies. Pierson (1994) argues that the politics of welfare retrenchment is the extent to which welfare state institutions promote large, unified constituencies and unify the panoply of interests that may mobilise to resist roll-backs in social provision. In the liberal welfare model, these constituencies tend to be fragmented. There is a significantly low support base for welfare programmes because benefit levels are very low and often the government subsides the upper middle class so they can seek alternative services in the private market place (Howard 1997). In terms of receiving electoral support it is less likely the 'pivotal voters' in these conditions will have stronger attachment to social provision, and to be more susceptible to alternative political appeals, such as tax cuts. This means that political parties have the potential to be at the forefront of negotiation for detailing the terms of reform. It is also possible that the pivotal voter can be within reach under certain circumstances. For example, in some countries labour could be sidelined, making the contest equally matched between political parties. This is the case in the liberal model and we have seen that in particular with UK under Thatcher.
Following the winter of discontent, for example, subsequent labour legislation aimed at reducing their strength and leaving the debate open only to the other political contenders who were at this time quite in disarray. Canada has not used this 'divide and conquer rule' but has through federal sponsorship of senior groups through the grants provided by the New Horizons programme obtain their acquiesce. The New Horizons programme was first established in 1971, by then federal Minister of Health and Welfare, John Munro. The programme was intended to issue grants to seniors that set up groups to enrich their leisure through self-organisation. The rules for grant eligibility were amended in 1987 to remove direct political lobbying and single-issue organisations (Gifford 1990). This effectively removed any serious prospect of confronting the state on key pension policy issues, except such groups could seize to apply to the grant: which was a difficult choice.

The government of both countries can learn from it others experiences. Canada can adopt radical reform measure by taking a more aggressive stand with the constitutional arrangement and seeking further amendment. Provincial governments can be encouraged to take, the Quebec route in establishing their own pension plans which can be made portable across schemes provincially. This will free the federal government to concentrate on redistributing at the basic state pension level. The UK appears to be set to implement a measure that encourages individuals' employers to provide a second state pension in the absence of other centres of power doing so. The central government having won
significant cost saving can modified the Basic State Pension to redistribute to the lower income pensioners.
6.5 Future Research and Policy Implications

Deciding on what public programmes to cut is difficult at the best of times, but the proposal to cut a programme that enjoys deep and popular support, it is doubly hard. The reform of the state pension scheme in the two case countries has presented such a policy problem. The concern is not who it might offend, although this is important, but because the process of reforming is plagued with perplexing dilemma. Through this thesis it has being shown that to resolve this dilemma state actors have to work through existing institutional rules. Successful policy outcome depends on the capacity of reformers to overcome barriers and opponents to change; for programmes that often command deep and popular support. The inevitability of old age makes pension a very accessible subject to most people. The issues and decisions that are covered in this thesis affect 'real' lives. For these analysts focus not so much on pensions, but on the terms under which governments in the liberal welfares states choose to participate in its' provision.

The empirical findings of this study clearly implicate the concentration of political authority as being the driving force behind the reform measures adapted by the case countries. It does not however, address other competing variables that might also be implicated. The thesis single out two: political culture and intergovernmental relations. The latter of these: that is intergovernmental relations, constitutes a different dimension of political institutions. The task of future research would be to identify the criteria under which cooperation override
veto in the Canadian federal system, and to establish the observed patterns. This pertains to the Canadian political environment and less so to the UK. It warrants attention because not enough scope was given to this current study.

**Intergovernmental Criteria**

Starting with the latter, the thesis argued that state pension reform is the result of the interactions between governments' preferences and interests groups demands which is structured within the institutional framework they are situated. The concentration of political authority while very useful in explaining policy steps taken in the Canadian case study, it does not tell us much about why provincial governments with divergent interests and preferences would agree on common thread for change. Alberta and Ontario as the case study show appear to want out of the CPP arrangement. Their individual political rhetoric, however, is yet to be matched by any concrete public policy. This would suggest that the constitutional veto present in the Canadian system operates at different levels. It is possible that the federal veto system does more than simply provide the rules of the game. It may well shape the provincial governments' preferences and relative power by curtailing some unilateral policies and marrying their internal interdependencies. This would be a useful line investigation because while we know that institutional framework matter – how it matters for 10 independent minded governments is quite another. To this end, there would be need to develop a more robust intergovernmental criteria for cooperation amongst the two levels of governments.
Political Culture

Issues of political culture do not easily lend itself to the debate on concentrated political authority. It can nonetheless be viewed in the institutional sense and appears to underpin more broadly the political discourse and help shape the orientation of policy actors. The question of whether or not a society’s moral ethos is built around a shared value of collective responsibility or is driven forward by individual effort is important in evaluating the basis of support or opposition to the welfare state. Political culture in that regard is considered as an intervening variable that define how individuals relate to the state pension scheme and the institutional framework including the aggregation of preferences.

In the evaluation of interest intermediation, for example, the analyses note that dispersion of policy making power tends to complement and reinforce the competition and conflict of pluralist politics. Swank (2001) argues that the prevailing climate for welfare state retrenchment may be enhanced by prevailing political culture in fragmented polities. Such fragmentation as observed in the federal system for example, places a downward pressure on an extensive welfare state. The argument here is that federalism tends to accentuate differences between rich and poor regions and, in turn, generates conflicts over the content of policy, it undercuts the formation of coherent national policy strategies by groups and parties: the organisation of parties and groups tends to be focused on narrow distributional issues within regional and local jurisdictions (Bradford and Jensen 1992) The reverse is true for concentrated political
authority because dispersion of authority favours conservatives forces and produces a small welfare state, pro-welfare and pools of social programmes and services which will be relatively stronger (Swank in Pierson 2001:211).

To put this argument in a broad sense, political culture is important because the input into decision making legitimates the policy process. This is particularly true in cases where the policy issue at stake is one that raises questions of trust. State pension reform is a classic example. In the state pension debate, given the vulnerability of those seeking to modify popular programmes, it has been argued that the party with the best prospect of winning the grand coalition necessary to implement long-term reform will be the party with strong credibility on issues relating to pensions. In this regard the way in which political parties aggregate preferences in public policy is important (Kitschelt 2001).

It would be beneficial if the relationship between policy making in the area of pension can be assessed against the political culture dimension. In the development of welfare state the political culture embedded in existing political ideology seem to have played a key role. Clearly the Birmarckian and Beveridge design bear the imprint of the political and moral convictions of its framers.

In a recent household survey report Canadian and British residents appear to be in less support of collective ownership and were more inclined towards individualism (Household Survey Report 2004). The pooling of resource which
the public pension scheme tends to foster goes against the grain of such thinking.

**Policy Implication**

The question that has been raised throughout this thesis and to be concluded in this section is simply this: how political institutions interact and constraint external pressure to change. The evidence provided here show that pension reform is the result of the interaction between governments' preferences and the institutional framework within which they operate. Political institutions shapes the national governments' preferences and relative power of political actors internally and the interaction externally. The case studies were able to demonstrate the scope of the constraint.

For example, the Canadian reform of the first pillar state pension scheme was quite different from the second pillar CPP. The reason stated earlier was that OAS is a federal programme while the CPP is jointly managed by the federal and provincial governments. The OAS is non-contributory scheme, which up until 1989 was a universal scheme. It provides a small amount of benefits and thus attracts limited electoral support. The CPP on the other hand is a contributory scheme directed at the employed. The earnings-related aspects make this pension attractive to a lot of people. The federal government cannot move unilateral to make change to the scheme without consulting first with provincial governments. The federal nature of decision-making creates a veto for provincial
actors.

The UK policy style is characterised by the dominance of the party in government. Both reform of the BSP in 1980 and the 1986 SSA is a demonstration of the sheer strength of UK governments over pension policy. In both countries interest intermediation is weak and therefore there is potential for political parties to reconcile the divergent aggregate interests. So far there has been less difference in approach toward state pension provision by both two major political parties in the UK. For example, New Labour has been unwilling to restore the link between pension and increases in industrial wage.

Such an impact may have important implications for analysis and explanation of variance and the extent of pension reform in other welfare regime types. The work of Bonoli (2000) is quite instructive in that regard. Bonoli (2000) provided an analysis of pension reform in four different welfare regime types. The current discourse of welfare state restructuring may benefit from the neo-institutional thesis in explaining the variance in policy response (Pierson 2001, Bonoli 2000).

Whilst the current explanation are plausible and supported by this thesis, but to date little work has been done to investigate the relative importance of ideas compared to interests and institutions. This reflects the fact that the ascendancy of scholarly interest in ideas and politics began only recently. It might be usefully also to consider reform efforts across similar political systems within family of
welfare regimes types. This will likely highlight the extent also of the institution led thesis.

Future direction does show that institutional provision in the UK may change with it closer ties with the EU. This might mean a different pension regime for the UK. If it continues to remain outside of the EU monetary union\textsuperscript{14}, the institutional framework will still be flexible enough to allow for dramatic changes. As it stands, the UK welfare state is one the most ‘commodified’ in the OECD, and therefore it may be morally difficult to justify further moves in which direction. Both the Pickering and Turner report seem to hint at improved individual saving portfolio, though this will be difficult to implement, for reasons already argued. For example, because of the compulsory nature of such a scheme, as well as the burden it would impose on existing S2P members. Canada is not that far behind the UK in this respect. Already we have seen in the Canadian reform effort, a gradual move towards a private managed public pension funds. Threats by provinces like Alberta, Ontario and Quebec will make the other provincial governments consider a more dramatic step away from incrementality.

Two final observations about this summary statement underscore key characteristics of the contemporary politics of the welfare state. The first, as already noted is that the changed economic environment was critical in the

\textsuperscript{14} The Maastricht criteria for monetary union – balanced budgets, low inflation and low debts – have forced several countries to introduce policies designed to control public expenditure, particularly in the social field. The UK Government at present is not part of the treaty and may join when its five economic tests set the Chancelor, Gordon Brown has been met.
retrenchment measures adapted by the case countries. This was set within the context of economic globalisation, although the thesis has argued that the effect of globalisation is marginal on the policy measures reached in both countries. It has however stressed that it is not politics alone that determines how or when these countries undertake important reform initiatives. It implies that the future of these countries welfare infrastructure is likely to depend upon the economic performance of their trading partners. To this end, there could be some consideration on labour market relations with a view of renegotiating the terms of trade with the less developing states with whom it might compete in some sectors. It is possible that the terms of trade could include a global pension fund that is portable and accessible to all workers in selected sectors.

The second observation is that both countries will continue to strive for cost containment in the areas of social provisions, including state pensions. This shared emphasis reflects the onset of difficult economic times. The basic ideals of state pension schemes will survive, although efforts to achieve restructuring will generate interesting innovations. The contemporary climate will not favour any efforts of improving provisions, even for those in more vulnerable position.
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288


Appendix I  List of Interviewees and dates

Canada
Actuary Office – Jean Claude Menard (Chief Actuary)  May 5th 2004  (Ottawa)
Alberta Finance – May 25th, 2004  (Edmonton)
Alberta Council on Ageing – Neil Reimer  May 25th, 2004  (Edmonton)
Association of Canadian Pension Managers (ACPM) – Stephen Bysey May 1, 2004  (Toronto)
British Columbia Retired Teachers Association – Ken Smith  May 13th 2004  (Vancouver)
Canadian Association of Retired Persons (CARPS) – Bill Gleberzon  May 3rd, 2004  (Toronto)
Canadian Labour Congress (CLC) – Bob Baldwin  May 5th, 2004  (Ottawa)
Canadian Pensioners Concerned (CPC) – Don Bellamy  May 3rd, 2004  (Toronto)
Canadian Tax Federation – Mark  May 26th, 2004  (Edmonton)
Cosco – Judy Lawrence  May 13, 2004  (Vancouver)
Department of Finance (Government of Canada) – April 30th, 2004  (Ottawa)
FADOQ  Fédération de l’age d’or du Québec Montréal – Louise Aubert April 30th, 2004  (Ottawa)
The Liberal Party of Canada – Catherall Marlene  May 7th, 2004  (Ottawa)
The New Democratic Party of Canada – Judy Washyheides Office  (Ottawa)
The Fraser Institute – Jason Clements  May 14th, 2004  (Vancouver)
The National Pensioners and Senior Citizens Federation – Mr. Art Field April 30, 2004  (Toronto)
Ontario Ministry of Finance – Michael F  May 4th, 2004  (Toronto)

UK
Age Concern – Sally West  December 21st, 2004  (London)
Confederation of British Businesses (CBI)-  November 2004  (London)
Department of Works and Pensions (Policy) – Peter Askins November 11, 2004  (London)
Department of Works and Pensions – November 2004  (London)
Frank Field MP – Labour Back Bench  April 2005  (London)
Help the Aged – Mr. Richard Wilson January  10th, 2005  (London)
HM Treasury November 2004  (London)
Lord Flower – December 2004  (London)
National Association of Pension Funds Ltd April 2005  (London)
National Pensioners Association (NPC) – Joe Harris January 2005  (London)
NPSCF-The National Pensions & Senior Citizens Federation April 2005  (London)
Scottish Trade Union Congress (STUC) – Iain Tasker April 5th, 2005  (Glasgow)
Society of Pension Consultants  April 2005  (London)
Trade Union Congress (TUC) – Michelle Lewis  January 26, 2005  (London)
The Labour Party - January 2005  (London)
The Fabian Society- January 2005  (London)
Paginated blank pages are scanned as found in original thesis. No information is missing.