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**Policy Change in the Canadian Welfare State:  
Comparing the Canada Pension Plan and Unemployment  
Insurance**

**Daniel Béland  
John Myles**

**SEDAP Research Paper No. 235**

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***Policy Change in the Canadian Welfare State:  
Comparing the Canada Pension Plan and Unemployment Insurance***

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## **Abstract**

Focusing on Canada, this paper explores the politics of social policy retrenchment and restructuring in two policy areas: old-age pensions, especially the Canada Pension Plan (CPP), and Employment Insurance (EI) [formerly Unemployment Insurance (UI)]. Drawing on historical institutionalism and the literature on ideas and policy change, the paper explains key differences between these two policy areas. The analysis shows that institutional factors like federalism explain some of the differences between the policy areas and programs at stake. Yet, to complement this analysis, the paper also highlights the political consequences of changing ideas and assumptions among policy-makers, which vary strongly from one program to another. In other words, ideational and institutional factors *combined* to produce distinct patterns of policy change. Overall, the paper suggests that scholars can draw a clear analytical line between ideational and institutional factors before combining them to explain specific episodes of policy change. From a methodological standpoint, the paper also demonstrates the added value of systematic comparisons between distinct policy areas located within the same country.

## **JEL Classification**

H53, H55, L38

## **Keywords**

Ideas, institutions, unemployment, pensions, Canada

## **Résumé**

*Consacré au Canada, ce texte explore les aspects politiques de la réforme de la protection sociale dans deux secteurs d'activité: les pensions de vieillesse, particulièrement la Régie des rentes du Canada, et l'Assurance-emploi (autrefois connue sous le nom d'Assurance-chômage). Empruntant à l'institutionnalisme historique et aux travaux sur les rapports entre les idées et le changement dans les politiques publiques, le texte explique les différences majeures qui existent entre ces deux secteurs. L'analyse suggère que les facteurs institutionnels comme le fédéralisme expliquent certaines des différences entre les secteurs et les programmes à l'étude. Mais, pour compléter cette analyse, le texte souligne également les conséquences politiques de certains changements dans les idées et les croyances des décideurs, qui varient d'un secteur à l'autre. En d'autres mots, les facteurs institutionnels et les facteurs idéationnels se combinent pour produire des formes spécifiques de changement. En général, ce texte suggère que les chercheurs peuvent tracer une distinction analytique claire entre les facteurs institutionnels et idéationnels avant de les combiner pour expliquer des épisodes spécifiques de changement politique. Sur le plan méthodologique, le texte démontre également l'intérêt des comparaisons systématiques entre des secteurs d'activité différents appartenant au même pays.*

## Introduction

Since the 1990s, students of social policy have debated the nature and scope of welfare state retrenchment and restructuring in advanced industrial societies. This polarized debate is centered on the following questions: How much has the welfare state changed since the end of the “golden age” of post-war welfare state expansion from the 1950s to the 1970s? Are the “new politics of the welfare state” (Pierson, 1994) exclusively about retrenchment and institutional continuity, or are they also about a long-term restructuring of social provisions? What are the obstacles to policy change? What factors facilitate widespread change? In this polarized debate over policy change, the concept of policy feedback is widely disputed. According to historical institutionalist scholars like Paul Pierson (1994; 2001; Myles and Pierson, 2001; for a discussion dealing extensively with Canada see Bashevkin, 2000), existing social policies create powerful economic and political constraints (e.g. constituencies, transition costs) that complicate reform and make path-departing changes unlikely. Ultimately, the argument goes, “feedback effects” from existing policies favour the enactment of path-dependent changes that seldom depart from existing institutional logics.

In the contemporary social policy literature, scholars debate the frequency of path-departing processes and the conditions under which significant change is possible. For example, since the late 1990s, a growing number of scholars (e.g. Gilbert, 2002; Hinrichs and Kangas, 2003; Palier, 2000; Streeck and Thelen, 2005) have challenged the idea of a “frozen welfare state” (Esping-Andersen, 1996),<sup>1</sup> which does not account for genuine social policy restructuring that has occurred in a number of policy areas and societies. Institutional scholar challenging

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<sup>1</sup> Esping-Andersen (1996) only used this concept to refer to continental European welfare states and not countries like Canada and the United States.

this “stasis vision” refer to factors like the accumulation of subtle incremental changes to explain how the nature of social policies can shift paths amidst strong institutional obstacles to transformative reform (e.g. Hacker, 2004; Thelen, 2004).

Like many polarized discussions, the debate over policy change in the welfare state leaves little room for a middle range position that could reconcile two apparently opposite theoretical positions. Yet, when one takes into account the highly fragmented nature of modern welfare states, it is possible to acknowledge that institutional continuity *and* path-departing change often take place simultaneously within the same welfare state. As far as policy change is concerned, even within one country, major institutional differences exist between policy areas. One way to get a better understanding of the nature and the dominant mechanisms of institutional change is to compare and contrast a country’s policy areas while keeping the comparative literature in mind (for example see Hacker, 2004).

Focusing on Canada, this paper underscores the added value of “internal comparison” by exploring the politics of social policy retrenchment and restructuring in two policy areas: old-age pensions, especially the Canada Pension Plan (CPP), and Employment Insurance (EI) [formally Unemployment Insurance (UI)]. These two policy areas have experienced different types of policy change since the 1980s. In the field of unemployment insurance, incremental reforms led to comprehensive retrenchment that considerably tightened eligibility criteria. This resulted in a major reduction in the number of beneficiaries and a transformation of the nature of the program, which is now grounded in the idea of “activation” (e.g. favouring the labour market insertion of the unemployed). In contrast, old-age pensions witnessed little path-departing change on the benefit side (though major change affected the financing mechanism). Drawing on historical institutionalism and the recent literature on ideas and public policy, the paper explains key differences between these two policy areas. The analysis suggests that institutional factors

like federalism explain some of the differences between the policy areas and programs at stake. Yet, to complement this analysis, the paper also highlights the political consequences of changing ideas and assumptions among policy-makers, which can vary from one policy area to another, even within the same country. Theoretically, this analysis backs the general claim that scholars should draw a clear analytical line between potential causal factors before combining them, if necessary (Parsons, 2007). Our argument is grounded in the perspective that ideas and institutions are two analytically distinct levels of reality that can interact to produce specific patterns of policy change.

Three main sections comprise this paper. The first two sections provide an overview of the politics of CPP and unemployment insurance reform, respectively. The final section directly compares these two policy areas in order to explain major institutional and political differences between them. After defining “ideas” and “institutions,” this section shows how the interaction between these two types of causal factors account for key variations between pension reform and unemployment insurance in Canada during the 1990s. As argued, ideational and institutional factors *combined* to produce distinct patterns of policy change in these two key policy areas of the Canadian welfare state.

## **Pension Reform**

During the 1950s and 1960s, the modern Canadian retirement income system crystallized around three tiers (Béland and Myles, 2005). The first tier is comprised of a flat pension (Old Age Security) and an income-tested supplement (Guaranteed Income Supplement). Enacted in 1951 to replace the 1927 Old Age Pensions Act, Old Age Security (OAS) is a universal, flat-rate pension for persons aged 65 and over meeting residency requirements. Established in 1967 as a

temporary measure that later became permanent, the Guaranteed Income Supplement (GIS) provides a basic minimum income for seniors without additional sources of income. Both OAS and GIS are currently financed from general revenues. Enacted in 1965, the second tier is comprised of the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP), two separate but highly coordinated earnings-related schemes financed from a payroll tax. The replacement rate of the C/QPP monthly retirement pension represents 25 per cent of a beneficiary's average monthly earnings. Finally, the third tier is comprised of private, though tax-subsidized, employer-sponsored Registered Retirement Plans (RPPs) and individual retirement savings accounts called Registered Retirement Savings Plans (RRSPs).

Pension reform emerged as a “hot point” on the Canadian legislative agenda in three distinct periods. The period from the mid-seventies to the early eighties brought the so-called *Great Pension Debate*, a high profile but ultimately futile attempt to expand the modest second-tier earnings-related Canada Pension Plan to European-like levels. Talk of expansion was quickly succeeded by the politics of retrenchment and can be divided into two periods: the first under the Conservative government of Brian Mulroney (1984-1993) and the second under Liberal Prime Minister Jean Chrétien (1993-2003). In both periods, the universal flat benefit (Old Age Security) was targeted for reform with limited success. The Mulroney government succeeded in introducing an indirect income test or “clawback” for flat rate pensions in 1989 but its effects were decidedly modest. A much more ambitious effort to scale back Old Age Security benefits in the mid-1990s (Battle 1997), in contrast, did not get beyond the proposal stage (Weaver, 2004). However, amidst the rhetoric of “unsustainability” grounded in demographic pessimism (Prince, 2000), the CPP was put on the reform agenda in the mid-nineties.



### *The Institutional Logic of CPP Reform*

If the reform of OAS/GIS failed because of strong opposition from the left and the right as well as the advent of budget surpluses (Béland and Myles, 2005), why did a CPP reform materialize so quickly in the mid-1990s? The answer is that it *had to*: reform was institutionally “locked in” by earlier federal-provincial agreements.

The key event was the commitment by federal and provincial governments in 1985 to return to the CPP negotiating table every five years to review potential increases in CPP expenditures and to adjust contributions and benefits in line with these projections. The agreement meant that they could not ignore any future problem. As Little (forthcoming) writes:

... tucked into the federal-provincial deal was a little-noticed twist in the form of a powerful default provision. If ministers could not agree on a new schedule of rate increases after each review, their failure would trigger a formula that would mandate rate increases large enough to generate, over 15 years, a fund equal to two years of the following year’s expenditures. Having agreed to a two-year fund, the ministers had, in effect, committed themselves to rate increases (or, hypothetically, cuts to benefits) that would deliver a fund that large.

The default provision meant that when the Chief Actuary submitted his gloomy 15th report on the CPP in February 1995 (Battle 1997: 537), the outcome was certain: federal and provincial ministers would soon be at the bargaining table to cut benefits or to raise contributions. Should they fail to act, the current contribution rate would automatically rise to 13.9 percent in 2030 and to 14.2 percent in 2040. The entire purpose of the reform was to preclude the possibility of contribution rates rising above the 10 percent mark in future either through higher contributions

or lower benefits. And the issue of intergenerational equity was central to the understanding of the need for reform (Little, forthcoming).

For Finance Minister Paul Martin and the Department of Finance, however, the real challenge was how to distribute the *additional* CPP costs generated by increased longevity and low fertility across current and future generations. The problem has been well understood at least since Musgrave (1986). In a standard pay-as-you-go defined benefit plan with a fixed replacement rate – like the CPP – benefits drive taxes (so that taxes are the dependent variable) and *all of the costs associated with demographic change fall on contributors and their dependants*. In short, as expenditures rise so do the contribution rates of the working age population in subsequent generations. At the other extreme, one can fix the contribution rate in perpetuity so that as costs rise, benefits decline proportionately. In this model all of the additional costs fall on retirees.

Fixing the benefit rate (and allowing contributions to rise to 14.2%) means that future cohorts would experience declining living standards during the working years but maintain their benefits in retirement. Fixing the contribution rate, in contrast, would mean that the living standards of future generations would be preserved during their working years but benefits would decline in their retirement years. The strategy advanced by Finance – raise contribution rates before they are required to generate a capital pool to finance future benefits – was effectively a variation on the Musgrave solution (see Myles 2002) to distribute the additional costs across generations and over the life course. Ramping up contribution rates to 9.9% in the short run raised costs for the current generation of contributors but also stabilized contribution rates at that level, reducing costs for future generations.

Political strategy had a lot to do with the solution, as policy officials had been pleasantly surprised by the lack of negative reaction to previous rate hikes that resulted from CPP reviews in

1985 and 1991-92. The main response “had been praise not criticism” (Little, forthcoming). The praise might have been considerably more muted of course if the CPP were looking at long-term increases to 25 or 30% of payroll as was common in Europe.

Similarly, the decision to move toward “partial funding” with a large capital investment pool under government control would have undoubtedly been much more controversial in the U.S. Although the experience with the *Caisse de dépôt et placement du Québec* which had been investing the funds of the Québec Pension Plan in the financial markets since the QPP began in the late 1960s was influential (Béland and Myles, 2005), the experience of the Ontario Municipal Employees Retirement System and the Ontario Teachers’ Pension Plan were the preferred models for an arms-length government controlled pension investment board (Weaver, 2003).

#### *But Why Not Deeper Benefit Cuts? Canada’s Institutional Silos*

By European standards, benefit cuts provided a relatively modest part of the CPP reform package. The radical push for the replacement of CPP by individual retirement accounts (super-RRSPs) advocated by the Reform Party, the editorial board of the *Globe and Mail* and a number of conservative think tanks never gained serious leverage in the debate (Béland and Myles, 2005; Little, forthcoming). But at various moments, serious benefit reductions for future retirees were in play. Early in the debate (1995), it would be easy to get the impression from reading newspaper articles “that a higher retirement age was the single biggest solution to the CPP’s woes, almost to the exclusion of other possible ways of rescuing the CPP” (Little, forthcoming). Canada could play “follow the leader” and move the retirement age to 67 as the United States was already doing, a strategy readily justified by dramatic gains (about four years) in longevity since the 1960s. Raising the retirement age would also fit neatly into the “activation” rationale that was central to the UI/EI reforms

The most likely answer to our question, however, is one of causal “overdetermination”: too many variables chasing too little variation. As Béland and Myles (2005) emphasize, institutions were critical. By law, CPP reform requires the consent of at least two third of the provinces representing two third of the Canadian population (Banting, 2005). Quebec made it clear in its white paper that it would oppose any significant benefit cuts. And Quebec would be backed by Saskatchewan and British Columbia, then ruled by the New Democrats. Quebec’s stance effectively removed the option of drastic erosion of CPP old-age benefits from the menu of possible options during the 1990s. At the same time, the unusual character of the CPP decision-making rules provided Ottawa with a built-in mechanism for reaching a “negotiated settlement” with provincial leaders of various partisan preferences and representing major regional divisions in the country. As Myles and Pierson (2001) show, virtually all major pension reforms of the 1990s were the product of “negotiated settlements” of one form or another – all-party agreements, tripartite agreements with the “social partners” and even national referenda – a pattern they interpret as providing a solution to Weaver’s (1986) blame avoidance problem. In the case of CPP federalism provided the institutional mechanism for reaching an agreement.

Benefit cuts were (for the first time) part of the CPP reform package but for the most part they involved little-noticed (and poorly understood) technical redesign rather than a substantial restructuring of the retirement income system. The single largest measure added late in the process was the decision to alter the final earnings formula so as to calculate benefits on the basis of average earnings in the last five years rather than in the last three years. This type of change was widely adopted in Europe in the 1990s where final earnings formulas were frequently abandoned altogether and benefits calculated on the basis of average *lifetime* earnings. Final earnings formulas are generally assumed to benefit higher income professional and white-collar workers. As a result, low-income workers took a hit. The Yearly Basic Exemption (or YBE) was

frozen (i.e. de-indexed) at \$3500 a year so that future cohorts of low-wage workers will end up paying more for their CPP retirement benefits.

Overall, the politics of CPP reform in the mid-1990s did not lead to path-departing reforms, at least not on the benefit side. Instead, parametrical changes like indirect benefit cuts and an increase in contribution rates helped reproduce a program where basic features remained the same as the ones enacted three decades earlier, when CPP was created. This path-dependent development contrasts with the path-departing trends witnessed in the field of unemployment insurance.

## **Unemployment Insurance**

Unemployment Insurance (UI) emerged 25 years before the CPP, and it is impossible to understand the events that would transform the program in the 1990s without discussing briefly the development of the program from the 1940s to the 1980s (Campeau, 2005; Pal, 1988; Porter, 2003). Enacted in 1940 and at first financed through contributions from workers, employers, and the federal government, UI allocated benefits to unemployed claimants available for work who had “contributed into the Fund for at least 180 days during a two-year period prior to the claim.” (Lin, 1998: 5) Following the 1950 and 1954 recessions, the federal government gradually increased coverage and liberalized benefits and eligibility criteria (Campeau, 2005: 75-77). After a period of legislative status quo in the 1960s, the boldest post-war expansion of UI took place in 1971 (Pal, 1988: 47-51). Grounded in a Keynesian vision and the centerpiece of Liberal Prime Minister Pierre Elliott Trudeau’s *Just Society* anti-poverty blueprint, this reform liberalized the program in a most spectacular way: “Coverage was extended to 96 percent of the workforce (...). The contribution period needed to qualify for benefit, formally thirty weeks in the past two years

of employment, now became eight weeks in the past year alone.” (ibid.: 86) Moreover, the 1971 reform considerably increased the maximum levels of unemployment insurance benefits available. Largely as a consequence of this, the average UI monthly benefit climbed from 27 dollars in 1968 to 62 dollars in 1972 (ibid.).

As early as the mid-1970s, stagflation undermined the influence of Keynesianism and the politics of unemployment insurance suddenly shifted from a logic of expansion to one of retrenchment. In December 1977, the Variable Entrance Requirement (VER) replaced the minimum of 8 weeks of insurable unemployment that had served as an eligibility requirement since 1971. “Depending on the unemployment rate prevailing in the region of residence, the claimant was now required to have 10 to 14 weeks of insurable employment during the qualifying period to become eligible for benefits.” (Lin, 1998: 7) The creation of the VER stressed the central role of regional inequalities in unemployment insurance, as workers in wealthier provinces like Alberta and Ontario implicitly subsidized those living in poorer provinces like New Brunswick and Newfoundland, where unemployment and the reliance of seasonal work were more prevalent (Pal, 1988: 165). Over the two following decades, the regional component of UI would strongly affect the politics of retrenchment in unemployment insurance, as Atlantic provinces and federal MPs from this region would often oppose the most neo-liberal aspects of the push for “activation” that became increasingly influential in the late 1970s and the 1980s (Campeau, 2005: 95). Yet, in contrast with the CPP, UI is a purely federal program and provinces have no formal veto point in the reform process. This considerably increases the autonomy of the federal government in dealing with the program. For example, such an institutional setting allows federal officials to pursue a “salami tactic” according to which small cuts are enacted on a regular basis in order to gradually transform it. Between the late 1980s and 1996, this “salami tactic” would prove impractical as far as CPP is concerned because

the need to consult with provinces makes it almost impossible for the federal government to adopt changes to the program every year or even every two or three years.

### *Changing Ideas about Unemployment Insurance*

Besides institutional features like federalism, another major difference between the two programs is the fact that, as opposed to CPP, UI was increasingly seen by federal officials as flawed program that exerted a negative effect on the economy and, for that reason, needed to be transformed. While radical alternatives to CPP seemed marginal in the 1990s, starting in the late 1970s, voices outside and within the federal government began to weaken the legitimacy of UI. This critical discourse about UI emerged in a context of economic downturn and fiscal pressures, which gradually de-legitimized the Keynesian paradigm that had largely justified the enactment of the 1971 reform. The increasingly influential neo-liberal approach gradually replaced Keynesianism in this changing economic context, while UI's comprehensive benefits undermined work incentives and interfered with traditional market rules. For example, the 1985 Macdonald Report (Royal Commission on the Economic Union and the Development Prospects for Canada) stated the existing UI program increased the length of unemployment because it provided "too generous a subsidy to Canadians, whose labour force behaviour was characterized by repeated unstable employment." (Macdonald Report cited in Campeau, 2005: 101) This example points to the fact that, like in other advanced industrial countries (Cox, 1998; Gilbert, 2002: 61-63), Canada witnessed a push for "activation" starting in the 1980s. In Canada, "activation" primarily aimed at reducing the number of people on employment insurance rolls through the enactment of stricter eligibility criteria while increasing the "employability" of UI beneficiaries through the implementation of new training and job creation programs. From this perspective, UI should

become less of a “safety net” and more of a “trampoline” meant to encourage, help, and even compel the unemployed to promptly “bounce back” to the Canadian labour market.<sup>2</sup>

Emphasizing economic incentives over social rights, this approach to unemployment insurance reform also justified a direct attack against territorial redistribution in unemployment insurance. For example, the 1985 Macdonald Report advocated a “system without regional bias to enhance labour mobility and end subsidies to industries providing unstable employment” (Campeau, 2005: 102) like fisheries, which are particularly developed in the poorer Atlantic Provinces. This remark points to the enduring debate about the status of seasonal workers in unemployment insurance. In recent decades, a number of experts and politicians called into question the appropriateness of supporting industries like fisheries that are unable to provide reasonable year-round earnings to their labour force (Hale, 1998). Yet, in the late 1980s and the 1990s strong opposition from Atlantic Provinces discouraged the federal government from adopting the proposal formulated in the Macdonald Report. This suggests that, although the provinces have no veto point in UI reform like they do in CPP reform, provincial resistance within and outside the federal cabinet remained a major aspect of the politics of unemployment insurance retrenchment and restructuring. This key role of provincial interests in UI reform is related to the institutional and territorial design of UI, especially the VER. The existence of such regional interests at least partially offset the fact that, traditionally, unemployment benefits are more vulnerable to cuts than old-age pensions, which create stable and well-organized armies of beneficiaries (Campbell, 2003; Myles and Pierson, 2001) that are less likely to emerge in the field of unemployment insurance.

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<sup>2</sup> On the “trampoline” metaphor see Cox, 1998.



### *Unemployment Insurance and the Federal Deficit*

Despite the existence of such regional constituencies tied to VER, the Conservative government of Brian Mulroney proposed a measure that would weaken the fiscal base of regional redistribution and of UI at large: the termination of the federal contribution to UI. Adopted in 1990 amidst much controversy, this policy operated a major shift in the program's financing scheme, as UI had relied extensively on the federal contribution since its creation (Campeau, 2005). This reform stresses the relationship between UI and the politics of fiscal austerity. Over the following decade, the close relationship between the UI trust fund and the federal budget would transform UI into a major tool to fight federal deficits and, later, generate major surpluses used in other policy areas. As Geoffrey Hale shows, during the 1990s, this increasingly central role of UI in the politics of fiscal austerity would gradually weaken the traditional influence of Human Resource and Development (HRD) on UI policy-making. This is true because "its ability to manage the political and policy trade-offs among stakeholder groups was increasingly constrained by the Department of Finance for additional restrictions in direct UI spending as part of the deficit-reduction strategy. Finance also imposed a multi-year fiscal strategy that would make UI/EI self-sustaining through a major recession" (Hale, 1998: 435). Interestingly, this push for actuarial soundness on the part of the Department of Finance had a very different meaning than in the field of CPP reform, where the program's trust fund remained isolated from the federal budget. In contrast, the Department of Finance pushed to transform UI into a major "milk cow" for the federal budget. Interestingly, during the mid-1990s debate on CPP reform, UI premiums would become a major issue, as Ontario and other provinces pushed for the reduction at a time when the UI trust fund started to generate major surpluses, which Paul Martin would use to balance the federal budget (Little, forthcoming). What is particularly interesting about UI

reform in the 1990s is the implicit synergy between “activation” and fiscal austerity. In the name of “activation,” the federal government tightened eligibility criteria and reduced benefits which, in the long-run, would help generate major UI surpluses that successive governments used to balance the federal budget.

*“Activation” at Work: Towards the 1996 Reform*

According to Hale (1998: 436), the changes enacted during the Mulroney years (1984-1993) reflected five major trends in UI policy. First, the program witnessed a major shift away from general revenue financing. Second, UI funding increasingly served to finance “activation” measures such as training policies. Third, maternity and paternity leave expanded in order to reflect changing gender and family relations (on this issue see Porter, 2003). Fourth, UI replacement rates declined from 60 to 55 percent in 1993-1994. Finally, growing restrictions on provisions for the “voluntary unemployed” ultimately paved the way to their abolition in 1993. These five trends suggest that fiscal austerity existed alongside the expansion of new family and “activation” benefits. From this perspective, the neo-liberal agenda meshed with progressive measures like training programs and schemes promoting gender equality. To a certain extent, such progressive measures may have helped Conservatives reduce political blame stemming from the fiscal austerity side of UI reform.

Although the changes adopted during the Mulroney years may seem bold, they are less far reaching than the reform the Liberal government of Jean Chrétien adopted in 1996. Entitled the *Employment Insurance Act*, this legislation promoted the combined logics of fiscal austerity and “activation.” This Act made two major sets of changes that altered the institutional nature of unemployment insurance in Canada.

First, following the “activation” imperative, the legislation further penalized repeat users, lowered the average replacement rate, tightened eligibility criteria, and reduced the maximum period for which benefits are paid (van den Berg, Parent, and Masi, 2004: 2). Second, this controversial legislation implemented new “activation” policies financed through existing EI contributions. These policies included training and job creation measures. In 1997, the federal government reached administrative agreements with Quebec and four other provinces, putting them in charge of these employment measures financed by the federal EI fund (Campeau, 2005: 158). By and large, cost-saving reductions in EI benefits and in the number of eligible workers helped finance “activation” measures.

In addition to reducing the number of beneficiaries, the *Employment Insurance Act* had at least two major consequences. First, the reform created a strong backlash against the federal Liberal Party in the four Atlantic provinces (MacDonald, 1998: 399). At the June 1997 federal election, the Liberals lost all the seats they held in these four provinces. This anti-Liberal backlash benefited both the Conservatives and the New Democrats, who now dominated the Atlantic region. In order to avoid another electoral disaster, on the eve of the 2000 federal election, Liberals promised to enact legislation (Bill C-2) that would repeal provisions from the *Employment Insurance Act* that explicitly targeted seasonal workers (Clarkson, 2001: 20-21). As a result, the Liberal Party made significant gains in the Atlantic Provinces at the 2000 federal election and, the following year, the House of Commons did enact Bill C-2. However, the Canadian Labour Congress noted several years later, “*Bill C-2* was a very modest attempt at reform. It repealed only two of the more than half dozen measures in the 1996 *EI Act* specifically targeting workers in seasonal industries and sectors of the economy.” (Canadian Labour Congress, 2004)

Second, at the fiscal level, the reform created large surpluses in the EI fund, which successive governments massively dipped into in order to fund other measures. This situation triggered an enduring political debate about the legitimate use of EI surpluses. Actors ranging from labour unions and anti-poverty organizations to provincial leaders and the Bloc Quebecois requested that the EI fund be made independent from Public Accounts. In May 2007, the Supreme Court of Canada agreed to hear labour arguments against the use of EI money for non-employment related projects (Canadian Press, 2007). Facing mounting pressure to do something about the seemingly illegitimate use of EI money, the Harper Government developed a reform of the EI trust fund. Mentioned in the 2007 Speech from the Throne, the reform became part of the 2008 budget. The key aspect of the 2008 reform is the Employment Insurance Financing Board (CEIFB), which the federal government defines as “an independent Crown corporation with a legislated structure which provides that EI premiums are dedicated exclusively to the EI program.” (Department of Finance, 2008: 12) Starting in 2009, the CEIFB will implement a new payroll tax setting mechanism that “will take into account any surpluses or deficits that arise on a go-forward basis, to ensure that EI revenues and expenditures break even over time.” (Department of Finance, 2008: 71) The federal government will provide two billion dollars to start the new EI trust fund and, “In the event of an economic upturn, any surplus beyond the desired reserve level would be used to reduce EI premiums in future years.” (ibid.) A Crown corporation reporting to the Minister of Human Resources and Social Development, the CEIFB “will have an independent board of directors and be staffed with the experts needed to manage the financing of the EI program.” (ibid.) Interestingly, this reform favours some convergence between EI and CPP, as both programs will now have an autonomous trust fund in which the federal government cannot dip into in order to pay for other measures. Yet, as opposed to what

left-leaning actors like anti-poverty organizations and the Bloc Québécois had requested, the 2008 reform will not improve EI benefits.

As evidenced above, the field of unemployment insurance has witnessed major reforms since the late 1970s. Over time, the combination of these reforms led to path-departing changes that reshaped this policy area and, as a consequence, considerably reduced the level of social protection offered.

## **Discussion**

Turning to both ideas and institutions helps explain major differences between the politics of pensions and unemployment insurance in the 1980s and 1990s. On the one hand, ideas refer to “claims about descriptions of the world, causal relationships, or the normative legitimacy of certain actions.” (Parsons, 2002: 48) On the other hand, political institutions refer to the human-made procedures, routines and conventions grounded “in the organizational structure of the polity or political economy.” (Hall and Taylor 1996: 938) Once a clear analytical line has been drawn between ideas and institutions, it is possible to combine these two types of causal factors in order to account for distinct patterns of policy change and variations from a policy area to another (Parsons, 2007).

First, as far as institutions are concerned, when comparing the two earnings-related programs (CPP and UI), it is clear that institutional variations between them related to federalism and existing policy rules shaped two distinct reform paths. As opposed to the federal-provincial CPP, UI is a purely federal program, which means that the ten provinces have no formal veto point in this policy area. Although this lack of formal provincial veto point does not mean that provincial interests are not represented within the federal caucus (Hale, 1998), the institutional

contrast between UI and CPP politics is striking because, as mentioned above, CPP reform requires the consent of at least two third of the ten provinces representing two third of the Canadian population (Banting, 2005). Interestingly, although it operates a distinct earnings-related pension scheme (QPP), Quebec must be consulted alongside the nine other provinces. As for Ontario, its sheer demographic weight means that it has a veto point on its own.

In the field of earnings-related pensions, the need to consult with the provinces and address the actuarial problem as it emerged complicated the task of the federal government, in the sense that a formal consultation process with the provinces must take place on a regular basis. The contrast with UI could not be greater. In this policy area, the provinces can only pressure the federal government from the outside, or through the intermediary of federal caucus members. If the CPP rules about provincial approval had extended to UI, it is likely that federal officials would have found it more difficult to reshape that program through a set of incremental reforms. For example, in the 1990s, the four Atlantic provinces, perhaps with the support of Quebec or British Columbia, could have united to veto major UI benefit cuts and changes in eligibility criteria. Moreover, in UI reform, the need to consult the provinces would have undermined the incremental “salami tactic” used between 1990 and 1996 to gradually transform the program.

From the perspective of blame avoidance theory (Weaver, 1986; Pierson, 1994), the comparison between UI and CPP reform is interesting because it points to how differences in institutional settings shape the strategies of political actors. With respect to CPP, the need to achieve a compromise with the provinces had a positive aspect for federal officials, who could blame provincial leaders in case of stalemate or share the blame for unpopular measures, such as payroll tax increases with these very leaders. The situation in the field of UI reform proved radically different, as the Chrétien government had to bear full responsibility for the controversial

1996 employment insurance reform that helped trigger an anti-Liberal backlash in Atlantic Canada at the 1997 federal election.

Second, beyond these institutional factors, changing ideas and policy assumptions related to the “social construction of the need to reform” (Cox, 2001) played a major role in the politics of pensions and UI reform. Apart from members of the Reform Party, few officials in Ottawa and in most provinces believed that CPP was a flawed program that needed to be replaced by Chilean-style “super RRSPs” (Little, forthcoming). Considering the marginal political status of this path departing policy alternative, the impetus for CPP reform centered on long-term actuarial issues related to the “unfunded liabilities.” (Jacobs, 2004; Little, forthcoming) This means that policy-makers focused almost exclusively on the socially constructed long-term imperatives of pension accounting. Whereas, in the field of unemployment insurance, since the 1970s, a growing number of experts and political actors had criticized the program’s very nature in the name of “activation” and work incentives. As Campeau (2005) shows, the progressive and Keynesian ideas that justified higher and more comprehensive UI benefits back in 1971 became increasingly marginal during the 1980s and 1990s. Over time, most federal experts came to believe that unemployment insurance prevented “normal” market adjustments. In a changing economic context characterized by higher unemployment rates than during the post-war era, this increasingly dominant economic belief helped legitimize the turn to “activation” and the related cuts in benefits and changes in eligibility rules adopted in the 1980s and 1990s. During that decade, the obsession with work incentives and “activation” meshed with the imperative of fiscal austerity according to which unemployment insurance surpluses stemming partly from benefit cuts and eligibility restrictions helped fight the federal deficit. In the end, UI became EI, and this name change reflected a major transformation of the economic ideas and assumptions that guided unemployment insurance reform (Campeau, 2005).

Overall, institutional and ideational factors interacted to shape the reform process in the fields of pensions and unemployment. The roles of federalism and policy legacies confirm the historical institutionalist assumption that existing institutional settings are instrumental in shaping the politics of social policy retrenchment and restructuring (e.g. Bonoli, 2000; Myles and Pierson, 2001; Pierson, 1994; Pierson, 2001; Weaver, 2000). Clearly, institutional factors such as the presence or absence of formal veto points can have a direct impact on social policy reform. At the same time, as the discussion about “activation” and “unfunded liabilities” suggests, changes in policy ideas, assumptions, and objectives can play a major role in shaping reform paths (e.g. Blyth, 2002; Hall, 1993; Jenson, 1989; Rice and Prince, 2000; Schmidt, 2002). If a growing number of federal policy-makers had not believed that UI was inherently flawed, the “activation” model that legitimized major changes in unemployment insurance would not have emerged in the first place. In the 1990s, increasingly dominant ideas about “activation” and work incentives, combined with the quest for a balanced federal budget, paved the way to path-departing UI reform initiatives largely made possible by the lack of provincial veto point in that policy area.

Overall, this paper suggests that scholars can draw a straightforward analytical line between ideational and institutional factors before combining them in order to explain various forms of policy change. From a methodological standpoint, the paper also demonstrates the added value of a systematic comparison between distinct policy areas located within the same country. Although legitimate and useful, the analysis of a single policy area and the superficial overview of broad policy trends are problematic ways to analyze the politics of policy change within one country. Focusing on only one policy area can prevent scholars from understanding what is specific about it. Conversely, simply commenting on broad policy trends without taking a close comparative look at specific programs and policy areas may lead to unsubstantiated generalizations. Keeping in mind the limitations of these two types of analysis, a systematic



comparison between the institutional and ideational features of distinct policy areas can help scholars grasp the “big picture” while keeping the uniqueness of each policy area in mind.

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