

## The Class Struggle and The Rise of Private Pensions, 1900-1950

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Volume 20, 1987

URI: <https://id.erudit.org/iderudit/llt20rr05>

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### Publisher(s)

Canadian Committee on Labour History

### ISSN

0700-3862 (print)

1911-4842 (digital)

[Explore this journal](#)

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### Cite this document

Stafford, J. (1987). The Class Struggle and The Rise of Private Pensions, 1900-1950. *Labour/Le Travailleur*, 20, 147-172.

# The Class Struggle and The Rise of Private Pensions, 1900-1950

James Stafford

PRIVATE PENSION FUNDS have become one of the most important sources of investment capital in Canada. The book value of assets held in trustee pension funds in the second quarter of 1985 was \$113 billion and is increasing at the rate of \$14 billion annually.<sup>1</sup> Insurance companies held an additional \$22.9 billion in pension fund assets as of 31 December, 1984.<sup>2</sup>

The question of how such a large amount of what is called "deferred wages" came to be in the hands of capital, used to further capital's goals, is an important one. These funds are used to develop new technologies which replace workers. They are used to finance the movement of capital into regions of lower wage rates, causing the displacement of workers in established industrial regions. They are used for other purposes as well, but these particular functions suggest that labour's wages are being used against the interests of labour.

The purpose of this study is to locate the evolution of private pensions in Canada within the larger context of the class struggle between labour and capital and to document the activities of the state in manipulating the framework of this struggle. The first section deals with the theory of circuits of capital and the rise of the state. We focus on the circuits of capital because it is in this domain that worker's pension funds are used to benefit capital. We examine the class struggle and the rise of the state because they are causally related and because the state has been instrumental in encouraging the growth of private pensions to their present position of dominance in capital money markets.

The second section begins by tracing the historical context of capitalist

<sup>1</sup> Statistics Canada, *Quarterly Survey of Trusteed Pension Funds, First Quarter, 1986* (Ottawa 1986), 3.

<sup>2</sup> Statistics Canada, *Quarterly Survey of Trusteed Pension Funds, Third Quarter, 1985* (Ottawa 1985), 2.

James Stafford, "The Class Struggle and The Rise of Private Pensions, 1900-1950," *Labour/Le Travail*, 20 (Fall 1987), 147-171.

development and class struggle in Canada. It then focuses on issues directly relevant to private pensions. It begins with a description of the efforts of labour to wrestle adequate public pensions from the state. The refusal of the state to comply with the demands of labour and its creation of a framework making private pensions beneficial to capital provides us with an understanding of the dominant role of pension resources in the capital markets today.

## I

## Theoretical Perspective

*Private pensions as reproduction of labour*

THE PAYMENT OF A PENSION to retired workers from a private pension fund exemplifies the concept of the reproduction of labour.<sup>3</sup> Reproduction of labour refers to the process necessary in a capitalist society to sustain the working class at a standard which ensures the continued productivity of the class. In the Marxian framework, wages are that part of capital that are used to reproduce labour. In this sense, wages encompass all expenses associated with the support of this class including the support of those who are not currently productive such as the unemployed, the unemployable and the retired. Indeed, support of the latter is crucial if the working class is to remain loyal and motivated.

*Private pensions and the circuit of capital*

THE CONCEPTUAL PROBLEM created by private pension funds arises from the fact that interest accrued in pension funds is paid out to workers. Since interest is classified as surplus value, it cannot go to labour. By definition, variable capital goes to labour while surplus value goes to capital. The resolution of this anomaly requires a careful examination of the circuit of capital within which accrued interest is generated.

Surplus value is generated in the production process, but it is realized in the sphere of the circulation of capital. Under conditions of simple production, when no surplus value is created, commodities that have equivalent use-values are exchanged. As exchange proliferates, one commodity evolves, or is arbitrarily assigned a role, as a universal equivalent, a commodity by which to measure the value of all other commodities. This commodity is money.

<sup>3</sup> James Dickinson and Bob Russell, "Introduction: The Structure of Reproduction in Capitalist Society," in James Dickinson and Bob Russell, eds., *Family, Economy and State: The Social Reproduction Process Under Capitalism* (London 1986), 12.

It allows us to conveniently assign a use-value, a price, to all other commodities. The circuit of capital can be depicted as follows:

$$M_1 - C_1 \dots P_1 \dots C_1' - M_2 - C_2 \dots \text{etc.}$$

Money ( $M_1$ ) is used to purchase commodities ( $C_1$ ) which represent productive capital ( $P_1$ ), which produce new commodities ( $C_1'$ ) which are sold for money ( $M_2$ ) which represents the beginning of a new circuit. In this circuit, money is capital because it is used to obtain surplus value.

Marx was careful to develop two concepts of money because it is not unique to capitalist systems. Money, in various forms, can be found in all societies. He therefore elaborated on the two concepts, money as exchange, and money as capital, early in the first volume of *Capital*.<sup>4</sup> In simple form, the interchange of money and commodities can be depicted as C- M- C or as M - C - M. In the first case a commodity, for example, linen, is exchanged for money which is then exchanged for another commodity, for example, a bible. In this case, money is simply a medium of exchange. The individual who uses it does so in order to dispose of his linen which has no use-value for him, in indirect exchange for a bible, which does have a use-value for him.

In the second case, M - C - M, the individual begins with money, exchanges it for a commodity, and then disposes of the commodity for money. Money has an entirely different function here because its purpose is not exchange. The individual did not purchase and sell the commodity simply to exchange money for money. Rather he did so to obtain a greater amount of money. The two circuits can be distinguished by:

- a) an inverted order of succession;
- b) the function of the money. In C - M - C, money is spent; in M - C - M, money is advanced;
- c) the function of the commodity. In C - M - C, the commodity is purchased for its use-value; in M - C - M, it is purchased for its exchange value.

The circulation of capital is a complex process whereby hundreds of capitalists must save their money and locate other capitalists who will provide them with the commodities they want at the points in time when they have accumulated enough savings. Consequently, a system of credit arises to fine-tune the circuitry and to accelerate the rate of accumulation.

The credit system performs several important functions in the capitalist system. It reduces the cost and time of circulation of capital, thus allowing capitalists to realize their profits in shorter periods of time. It creates fictitious capital which can be utilized for productivity when there is no real cap-

<sup>4</sup> Karl Marx, *Capital*, Volume I (New York 1890), 76-82.

ital available. It allows for the centralization of capital by providing access to huge amounts of money by the largest firms.<sup>5</sup>

The basic function of the credit system is to augment capital accumulation. This system is operated by a sector of capital called finance capital. It does not create surplus value, and so must be supported by a share of the surplus generated by productive capital. Its inclusion in the circuit of capital requires a slight elaboration in the model<sup>6</sup>:

$$\begin{array}{r} M \\ M_1 - C_1 \dots P_1 \dots C_1' - M_2 \end{array} \quad M + 1$$

Money is lent to the capitalist at the initial stage and is repaid with interest at the end of the circuit. Thus we see that interest is part of the surplus value generated in the circuit of capital.

The type of interest payments on which Marx focused were those between capitalists but in the present era of monopoly capitalism we find a prevalence of interest payments between capital and labour in both directions. Labour makes interest payments to capital for mortgage and bank loans. Capital makes interest payments to labour for bank deposits and annuities. These complications lead some writers to make the remarkable statement that labour is now capital.<sup>7</sup> However, an awareness of the meaning of Marx's conceptualization would preclude any such erroneous thinking. Marx pointed out that money may circulate as money for exchange or as money for capital. When English workmen formed Friendly Societies in the nineteenth century, they did so for the purpose of pooling and redistributing part of their income to those in need. Benefits from Friendly Society Funds were simply redistributed wages.

Private pensions have also been classified as redistributed wages, but should not be conceptualized in the same way as those of Friendly Societies. Although the term "contributions" implies that employees set aside part of their wages to be placed in such pension funds, this process occurs in only a small proportion of cases.<sup>8</sup> Normally the employee receives his wages with the contributions already deducted. These remain in the control of the employer who transfers them to the pension fund which is also normally owned by the employer or by an institutional trustee from the financial sector of capital.

While the money is in the pension fund its accessibility by the employer is limited by provincial and federal legislation and occasionally by the terms

<sup>5</sup> David Harvey, *The Limits to Capital* (Oxford 1982), 260-72.

<sup>6</sup> *Ibid.*, 256.

<sup>7</sup> Peter Drucker, *The Unseen Revolution* (New York 1976).

<sup>8</sup> Statistics Canada, *Pension Plans in Canada 1982* (Ottawa 1984), 14.

of the pension plan.<sup>9</sup> These restrictions are liberal and generally allow companies to use excess earnings of the fund in lieu of contributions and to withdraw large sums of money for company use. In a nine month period in 1985, Ontario companies withdrew \$187 million from private pension funds.<sup>10</sup> Thus, pension funds are controlled by the capitalist class according to laws established by the state.

The timing and amount of payment of benefits to employees from the pension fund are determined by the terms of the pension plan which is a contract between the employer and the employee. Thus portions of the pension fund become the property of the worker only after he has fulfilled the requirements determined by the pension plan. These are easily conceptualized as part of variable capital paid out to reproduce the labouring class.

Given the paucity of cases in which workers own their pension funds the issue of labour receiving surplus value in the form of interest on capital becomes trivial. In cases in which this happens, however, the problem of conceptualization that arises can best be handled in a manner suggested by Harvey.<sup>11</sup> These workers have no reasonable alternative but to place such funds in those institutions of finance capital that are part of the circuit of money-as-capital. In this sense, finance capital appropriates the savings of labour and uses it to its own advantage even though the money being circulated is money for exchange.

### *The role of the state*

THE ROLE OF THE STATE in the rise of pension plans must be included in this analysis. The fundamental cause of the rise of the state, and the determinant of its role, is the struggle between labour and capital. The capitalist system is in perpetual instability because the goal of accumulation leads to imbalances between the system's capacity to consume and produce. Capital increases production by means of increasing exploitation of labour which renders workers incapable of providing levels of demand that are coordinate with supply. To avoid collapse, the system must make adjustments involving reductions in levels of exploitation, thus increasing workers' capacity to consume. But this can take place only when capital makes concessions to labour which reduce levels of surplus value. The system vacillates between these two extremes of imbalance, each representing a crisis, and each requiring concessions which neither of the two classes are willing to make. In times of overproduction, capital is not prepared to reduce its capacity to realize

<sup>9</sup> Robin Schiele, "Pension Reform Being Done Without Proper Authority," *Financial Post* (15 September 1984), 47.

<sup>10</sup> Linda McQuaig, "Ontario Won't Move on Pension Surpluses," *The Globe and Mail* (14 February 1986), A3.

<sup>11</sup> Harvey, *The Limits to Capital*, 274.

surplus value. In times of underproduction, labour resists capital's demands to increase exploitation.<sup>12</sup>

As the amount of capital accumulates the struggle between the two classes worsens. Workers lose their individual bargaining power as capitalist structures penetrate into all components of the economy, increasing its concentration, and segmenting the labour force. But in these very activities, capital is augmenting the autonomous strength of the working class through the concentration of labour. While individual bargaining power is eroded collective bargaining power is increased.<sup>13</sup>

A further by-product of the accumulation and concentration of capital is the increased need of both labour and capital for higher levels of wages, in the broader sense of the word, to be directed to labour in order to reproduce the labouring class. Increased levels of proletarianization that accompany the growth of accumulation result in losses of security and support inherent in traditional family production. In addition, proletarianization results in a loss of access to the means of production which workers had previously had during early capitalism, and upon which they had relied for sustenance while not engaged in productive labour. Urbanization resulting from the geographic concentration of capital has created demands for increased social capital to meet the needs of a spatially concentrated labour force. Money must be spent to coordinate the travel, housing, and control of a labour force that has become more conscious of its position *vis-à-vis* capital.<sup>14</sup>

The needs of capital itself for a capitalist workforce dictate that proportionately more wages must be directed to labour as accumulation increases. The workforce must be increasingly flexible, skilled, resistant to industrial stress, educated, and healthy. Thus, mature capitalism places strains on the average rate of profit by requiring that proportionately more of the accumulated capital be directed to sustain the labouring class.

The power of the state expands as labour turns to it for support in times of increased exploitation and as capital lobbys it for increased surplus when exploitation is reduced. The state takes on the role of legitimizing the system and augmenting accumulation. To do this it must maintain a position of relative autonomy, otherwise, it would jeopardize its legitimation function and lose its control over labour. At the same time it responds to the powerful pressures of capital because of its need for continued capital accumulation in order to finance its increasing responsibilities.

During the period of early capitalism, the function of the state was to regulate and ameliorate struggles between labour and capital. It did so by

<sup>12</sup> Giovanni Arrighi, "Towards a Theory of Capitalist Crisis," *New Left Review*, 111 (1978), 3-4.

<sup>13</sup> *Ibid.*, 7.

<sup>14</sup> Ian Gough, "State Expenditure in Advanced Capitalism," *New Left Review*, 92 (1975), 67, 73.

regulating access to land, limiting transfers of surplus value to labour, disuniting labour and protecting capital. As the system matured and the state's responsibilities broadened, the activities of the state became integrally bound with the economic system. The activities of the state itself contribute to capital accumulation and to crises that arise from class interactions.

## II

### Private pensions and class struggle

#### *Class Struggle*

WE SHALL FIRST outline the period of capitalist development and class conflict in Canada up to the 1950s. This will provide a context within which to examine the development of private pensions.

Before the turn of the century, labour's limited strength arose from its independent access to the means of production and from the conflicts which arose from the competition within the capitalist class. As the nineteenth century drew to a close those capitalists who were able to gain profits, used them to buy out their competitors, resulting in the growth of monopoly capitalism. Associated with monopoly capitalism is the agglomeration of labour with its heightened sense of class position and propensity to organize. Thus, the nature of the class struggle shifted to one of conflict over workers' rights and the control of labour.

The actions of the state during this period were limited to minimal activities aimed at assisting the capitalists to add surplus value. The occasional legislation of the pre-war period reflected a gradual involvement of the state in the class conflict between labour and capital as incidents of strikes and lock-outs increased. Accompanying the heightened capital-labour confrontations was a stronger labour lobby to pressure government to legislate rights for labour.

The state flexed its muscles in 1914 by drawing up the War Measures Act and promptly invoking it in the name of a war that didn't even involve Canada. In response to needs for military manpower it pressed for conscription. One of the concessions it offered in return was near-universal suffrage. Thus we see the Military Voters Act and the Wartime Elections Act legislated in 1915. Women first won the right to vote in various provinces from 1916 to 1922 (except Quebec which postponed such legislation until the next world war). They obtained national suffrage in 1918, and the right to hold public office in 1919.

The achievement of formal democratic rights for the working class represents a watershed in the history of capitalist nations. It was gained in



most of these nations during the brief period from 1900 to 1925.<sup>15</sup> The impact of near-universal suffrage should not be under-estimated. Once labour was able to influence the selection of members of the legislative arm of the state, it realized an opportunity to exert pressure for laws dealing with living and working conditions and with various civil liberties.<sup>16</sup>

While granting access to political power to labour, the federal state made inroads into the economy by increasing its spending from \$185 million in 1913 to \$574 million in 1917. In order to finance its expanded activities, it introduced a tax on business profits in 1916 and another on personal income in 1917. The latter act came to play a crucial role in the nature of pensions in following decades.

Direct conflicts between capital and labour continued to escalate throughout the wartime periods, culminating in the Winnipeg strike in 1919, the year of greatest incidence of strike activity in Canada until 1946. But the war had ended, and with it, the brief support of labour by the state. Now the Borden government set about putting the lid on the labour movement by outlawing strikes, sending police spies to watch labour and political meetings, and declaring fourteen socialist and radical organizations illegal.<sup>17</sup>

The 1920s saw labour effectively immobilized while profits rose after an initial post-war depression. This period of economic prosperity was quickly terminated by the depression, brought on by the over-production of the preceding decade. The condition of labour at that time is reflected in cold, hard statistics. In 1932, one-third of the labour force was unemployed. The swell of union militancy in the later years of the depression led to some concessions by the state. The most significant was an amendment to the Criminal Code making it an indictable offence for employers to hire or dismiss, or to intimidate, workers for purposes of influencing legitimate union activities.

The second World War materialized to propel western societies out of the crisis of the 1930s. The war began inauspiciously for labour. The state set up wage controls and ignored its own laws regarding strike activity. The prime example is the Kirkland Lake strike of 1941-1942 when 3,000 miners struck for union recognition. The state refused to intervene although the mine owners were acting in direct violation of state legislation. This and other disputes led to a landmark Order In Council, P.C. 1003, in 1943, which established government machinery to enforce collective bargaining and union recognition and to investigate and correct unfair labour practices. It gave

<sup>15</sup> Goran Therborn, "The Role of Capital and the Rise of Democracy," *New Left Review*, 103 (1977), 11-12.

<sup>16</sup> Samuel Bowles and Herbert Gintis, "The Crisis of Liberal Democratic Capitalism: The Case of the United States," *Politics and Society*, 11 (1982), 67.

<sup>17</sup> Irving Abella, *The Canadian Labour Movement, 1902-1960* (Ottawa 1975), 10; Desmond Morton, *Years of Conflict, 1911-1921* (Toronto 1983), 68-9.

unions necessary legal status allowing them to conduct strikes and organize campaigns.<sup>18</sup>

### *The rise of pensions*

PENSIONS HAVE ALWAYS EXISTED. Pensions were provided for survivors of various military campaigns. Favoured artists and performers received pensions by patrons when they grew too old or became debilitated. Medieval manors often provided pensions in the form of consumer goods for those unfortunates who did not have relatives to support them in old age.

But in the general case, pensions were unnecessary before the advent of capitalism. The extended family included the older generation which contributed to its economic well-being by performing some of the numerous menial tasks required to sustain the household. There were garden plots and chickens to tend, clothes to mend and meals to make, all of which could be handled by an elderly grandparent or aunt.

The rise of capitalism with its need for a mobile, disciplined workforce changed the structure of the family and the opportunities for familial support of the elderly. Proletarianization of labour eliminated opportunities for self-sustaining activities. Migration of young families separated them from their elder kin. With the growth of capitalism in Europe the dominant form of support became municipal poor laws and Friendly Societies. When it became obvious that these were inadequate, labour began to lobby the state for public pensions to support broad classes of elderly citizens.

The first public pension for an occupational group, seamen, was introduced in France in 1791, but the first significant public plan was established in Germany in 1889 for all wage earners and lower-paid, salaried employees.<sup>19</sup> Bismark, who introduced the plan, specified that the value of such a plan was its encouragement of political loyalty among the masses. The plan was closely examined by other capitalist democracies. Variations of public retirement plans were introduced in the ensuing decades, earlier in cases where labour had supportive political representation in the national parliaments. Lack of such representation in North American parliaments delayed elderly welfare legislation until 1911 in Newfoundland, 1927 in Canada and 1935 in the United States.

Public pensions preceded private pensions on this continent. One of the earliest pensions for this class of worker in the United States was a plan for the New York City police force set up in 1857.<sup>20</sup> Among the earliest public

<sup>18</sup> Abella, *The Canadian Labour Movement*, 20.

<sup>19</sup> Kenneth Bryden, *Old Age Pensions and Policy-Making in Canada* (Montreal 1974), 45.

<sup>20</sup> William C. Greenough and Francis P. King, *Pension Plans and Public Policy* (New York 1976), 49-50.

plans in Canada were those of the Federal civil service, 1870, the Bank of Montreal, 1885, and the Bank of British North America, 1886. Such plans were in place because of the prevailing disparity in wages for public and private employees and, more important, because the nature of public employment required the use of more subtle forms of control of labour. The output of a public servant could not be measured to the extent of that of a factory worker. The function of control is apparent in the title of the Act establishing the Federal civil service pension: An Act for better ensuring the efficiency of the Civil Service of Canada, by providing for the Superannuation of persons employed therein, in certain cases.<sup>21</sup>

The first private pensions in North America were established in the transportation industry. Railroad companies were the prototypical monopolies. They were large, depended on skilled workers, many of whom belonged to unions, and they extended across broad geographical areas. The industry was beset with numerous economic, labour and public relations problems in the latter part of the nineteenth century. One of the solutions chosen to help solve these problems was the introduction of pension plans administered by the company. The terms of the plan were designed to hold the employee hostage until retirement. They specified that he would forfeit his pension if he quit the company or if he acted in any way disloyal, such as joining a union or going on strike.

The number of pension plans introduced in Canada before 1900 was only seven,<sup>22</sup> but these were significant in their blatant function to control labour. The first pension plan to be put into operation in North America was that of the Grand Trunk Railway in 1874. It was a British-owned railway with the managing office in Montreal. The President of the Company, Richard Potter, was the father of Beatrice Potter Webb but did not share her socialist ideals. He expressly established the plan as a means to encourage greater efforts from Grand Trunk employees. The Grand Trunk plan was followed by pension plans for employees in the American Express Company in 1875, the Baltimore and Ohio Railroad Company in 1880 and the Pennsylvania Railroad Company in 1900.<sup>23</sup> Two major railroads in Canada, the CPR and the Intercolonial Railway adopted plans in Canada in 1902 and 1904 respectively.<sup>24</sup>

These plans represented a new wrinkle in the struggle between capital and labour. To put them in perspective we must examine the developments of the struggle at that period in history. In general terms, the struggle was shaped by efforts of capital to control the labour process and efforts of labour to

<sup>21</sup> Canada, *Statutes of Canada* (Ottawa 1870), 27.

<sup>22</sup> Canada, Health and Welfare Division, Public Health Sector, *Survey of Pension and Welfare Plans in Industry* (Ottawa 1950), 29.

<sup>23</sup> Greenough and King, *Pension Plans and Public Policy*, 30-1.

<sup>24</sup> Department of Labour, *The Labour Gazette*, 3 (1903), 552; 4 (1904), 968.

achieve legislative rights.

As monopoly capitalism took shape in North America at the turn of the century, it brought new problems of control in the workplace. Expanded scales of production meant that the capitalist could no longer directly oversee the industriousness of his employees. Instead he was required to depend on the loyalty and diligence of selected workers, foremen and managers, to ensure that the necessary work was done in its allotted time.

The capitalist also turned to technology not only as a replacement of the troublesome worker, and so a threat thereto, but also as a device to direct the worker's specific tasks. Machines and assembly lines could be used to dictate the speed and the tasks which the worker must perform. They could also be used to standardize procedures and to deskill workers, so that craftsmen could be replaced by technicians, years of apprenticeship by hours of training.

At the same time, the carrot, in the guise of corporate welfare schemes, was placed before the workers. The larger firms offered health, disability, insurance, profit-sharing, and pension plans, but virtually all of these were administered by the company and carried the proviso that payment of benefits was contingent upon loyalty and long service to the firm. Thus did capital gain control of the labour process and remove labour's involvement in decision-making and influence on productivity.<sup>25</sup>

Labour fought these new policies and practices bitterly. The incidence of strikes in Canada increased with each successive decade from 1840 to 1920. An equally onerous struggle was waged with the state in an attempt to gain personal rights and political power. In the beginning labour had very little of either.

The right to form unions is a case in point. Such a right is now fundamental, but Canadian labour began with no such right and did not get full legislative support until the Second World War when there was a shortage of labour and a need for national loyalty. A quick review of legislation dealing with union formation and activities underlines the extent of the struggle by labour to gain these fundamental rights. Before 1872 unions in Canada were classified as criminal conspiracies if members attempted to influence their working conditions.<sup>26</sup> The Criminal Law Amendment Act of that year converted this situation to one in which a registered union was allowed to strike as long as it did not interfere with the employer's business. Needless to say, this caveat eliminated virtually all effective actions from the union's repertoire. Ensuing amendments had a minimal effect in protecting union members from criminal prosecution by their employers in times of conflict.

The rising tide of industrial strike forced the state to take remedial steps. The Conciliation Act of 1900 established a Department of Labour responsi-

<sup>25</sup> Richard Edwards, *Contested Terrain* (New York 1979).

<sup>26</sup> H.A. Logan, *Trade Unions in Canada* (Toronto 1948), 38-43.

ble to collect and publish labour statistics and empowered the Minister of Labour to investigate the cause of labour disputes and to appoint a conciliator upon the request of either party engaged in the dispute.<sup>27</sup>

The federal government passed the Industrial Disputes Investigations Act in 1907 which provided for compulsory conciliation in certain industries upon request of either party. Strikes were suspended during the conciliation process which worked to capital's advantage. When labour struck, capital called in the state as conciliator, forcing employees back to work and providing time for the employer to hire replacement workers or to engage the services of strike breakers.

This procedure was used regularly. Labour was powerless to improve workplace conditions as long as capital could remove or intimidate workers engaged in union activities. Throughout World War I and the ensuing depression labour fought for legislation opposing these practices. The rising militancy of labour in the 1930s combined with the Wagner Act and the Social Security Act of 1935 in the United States finally caused the Canadian state to amend the Criminal Code in 1939 to make such action on the part of employers an indictable offense. The state remained reluctant to enforce its own legislation until a series of lengthy strikes over the right to form unions led the war-time government to introduce P.C. 1003 which established government machinery to enforce collective bargaining and union recognition, and to investigate and correct unfair labour practices. It gave unions the necessary legal right to conduct strikes and to organize more effective campaigns.<sup>28</sup> The legislation forcing capital to recognize the basic rights of labour to organize for self-protection also had the effect of rendering most early pension plan terms illegal. All such terms that threatened employees with suspension of benefits became invalid, thus removing the more coercive aspects of their function as a form of control.

### *The struggle for public pensions*

THE PROLIFERATION of pensions that followed World War II could easily be construed as a victory for labour resulting from its new-found position of strength. However, the allocation of points in the class struggle are not as obvious as in a tennis match. Private pensions can better be seen as a compromise to the state rather than as a victory over capital, because labour did not struggle for private pensions. It fought long and hard for public pensions but was forced to turn to private pensions as the result of machinations of the state and capital. To appreciate this development we must briefly

<sup>27</sup> H.D. Woods and Sylvia Ostry, *Labour Policy and Labour Economics in Canada* (Toronto 1962), 45.

<sup>28</sup> Abella, *The Canadian Labour Movement*, 20.

trace the struggle for public pensions that had ensued.

When public pensions were introduced in Australia, New Zealand, and European countries at the turn of the century, labour began lobbying for the same welfare benefits in North America. The first evidence of this effort among large unions occurs in the 1902 A.F. of L. convention when a resolution was put forward requesting the state to establish pensions for the elderly.<sup>29</sup> The request was quickly taken up in other labour conventions throughout Canada and the United States, to be repeated year after year.

The Canadian state responded in 1908 with a voluntary program of sales of government annuities. Workers were free to purchase them although few did because their average wage at that time approached the level of subsistence. Instead the middle class was the primary group to take advantage of the generous terms of the annuities. They provided interest rates that were higher than those of annuities of life insurance firms. They used mortality rates in the actuarial calculations that were out-of-date and they were administered free of cost to the participants by the state.

The insurance companies fought their existence. In 1931 they saw the maximum amount of an annuity reduced from \$5,000 to \$1,200, and in 1948 their lobby caused the interest rates and mortality assumptions to be reduced to those of insurance company annuities.

The popularity of the government annuities was just beginning to rise during the war years when some workers earned enough money to save for their retirement and many firms began using them to provide retirement pensions for their employees. The number of annuities sold each year increased rapidly from 8,600 in 1941-42 to 41,000 in 1947-1948.<sup>30</sup>

After 30 years of existence they were finally performing the function for which they were intended, providing a source of retirement savings for labour on a voluntary basis at a minimal cost to other sectors of society. However, the life insurance industry saw them as unfair competition, leading to the adjustments of 1948 and eventually to their termination in 1967.

After the introduction of government annuities in 1908 labour continued to lobby for a bona fide old age pension program sponsored by the state. Eventually, with pressure from a minuscule Labour Party and the left-leaning "Ginger Group," Mackenzie King brought in the Old Age Pensions Act of 1927.<sup>31</sup> It provided a monthly sum of \$20 to all Canadians over the age of 70 who could meet a "means test" demonstrating their need for the pension. the pension.

Labour immediately pressed for improvements in the minimal system of

<sup>29</sup> American Federation of Labor, *Report of Proceedings, 22nd Annual Convention* (Washington 1902), 112.

<sup>30</sup> Robert M. Clark, *Economic Security for the Aged in the United States and Canada*, II (Ottawa 1960), 7.

<sup>31</sup> Martin Robin, *Radical Politics and Canadian Labour, 1880-1930* (Kingston 1968), 271.

old age security that was provided, but no substantial amendments were made until 1951 when the means test was dropped for those over 70. Monthly payments increased and a subsidiary, means-tested pension was added for those between the ages of 65 and 70. By this time private pensions were in vogue and public pensions were seen by capital and the state to play a supplementary role.

Throughout the period from 1902 to the present, labour organizations in both Canada and the United States pressed the state for an humane, comprehensive old age pension system. No mention is made of private pensions among the proceedings of meetings of large unions until 1935 when the A.F. of L. unanimously adopted a resolution to oppose private pension plans.<sup>32</sup>

Finally conceding, labour reversed its stand in the latter stages of World War II. A resolution was adopted in 1946 by the C.I.O. recommending the establishment of adequate pension plans through collective bargaining.<sup>33</sup> The Canadian Congress of Labour followed with a similar resolution in 1948.<sup>34</sup> The A.F. of L. issued a pamphlet in 1952 entitled "Pension Plans under Collective Bargaining" designed to assist union executives in the technical aspects of establishing and operating company pension plans.<sup>35</sup>

### *Pension funds as finance capital*

THE ACCEPTANCE of private pensions by labour did not occur until after 50 years of state resistance to the provision of an adequate public pension system. An important factor that led to the popularity of private pensions was state action to streamline the circuit of capital and to provide advantages to employers who instituted pension plans.

Efforts were made in this regard when the persistence of the depression was seen as a consequence of inadequate flows of money through the circuits of capital. The Bank of Canada was set up in 1933. The Mackenzie King government fought to rid itself of preferential Empire tariffs, signing trade agreements with the United States in 1935 and 1938 and with the United Kingdom in 1937.<sup>36</sup> In 1939 the Canadian state set up the Foreign Exchange Control Board which stabilized the Canadian dollar. The most important development of the period was the establishment of the International Monetary Fund in 1944 designed to improve international trade and

<sup>32</sup> American Federation of Labor, *Report of Proceedings, 55th Annual Convention* (Washington 1935), 798.

<sup>33</sup> Department of Labour, *The Labour Gazette*, 46 (1946), 1716.

<sup>34</sup> Canadian Congress of Labour, *Proceedings* (Toronto 1948), 49.

<sup>35</sup> American Federation of Labor, *Report of the Executive Council* (Washington 1952), 94.

<sup>36</sup> J.L. Granatstein, "The Road to Bretton Woods: International Monetary Policy and the Public Servant," *Journal of Canadian Studies*, 16 (1981), 177.

to create provisions for easy credit on an international scale.

At the same time that circulation systems were being streamlined, efforts were made in Canada to encourage accumulation. The most striking attempts appeared toward the end of World War II when the government was faced with disposal of \$200 million worth of war production plants. By 1947, \$107 million worth had been sold or leased to private industry, generally at one-third of their original cost of construction. C.D. Howe's Department of Munitions and Supplies helped to engineer tax write-offs by introducing accelerated depreciation rates, forward averaging, and tax exemptions for mineral exploration, formation of new companies, capital expansion, and research and development.<sup>37</sup>

The efforts of the Canadian State to improve the circulation and accumulation of capital are also reflected in legislation that has led to the current importance of pension plan funds in financial markets. Very little was done before the 1930s. The only noteworthy legislation was passed during the First World War and had to do with taxation efforts to help the war cause. Before the War the bulk of the State's income came from tariffs and duties, but the need for war-related income led to the introduction of a series of Acts, the Special War Revenue Act of 1915, The Business Profits War Tax Act of 1916, and the Income War Tax Act of 1917, which introduced personal and corporate taxation to Canada. The 1917 Act and 1919 amendments allowed tax exemptions for income of an employer and/or an employee that was paid into a pension fund.

No further legislative efforts were made in Canada at that time to encourage the use of private pensions. In the ensuing decade, only a few pension plans were introduced. A study in 1938 shows that ten plans were introduced in the period 1915 to 1920, and 25 more during the period 1922 to 1932.<sup>38</sup>

Since most of the earlier plans introduced in this period were initiated by parent companies in the United States, we should briefly summarize private pension activities in that country. Pension plans in the United States had first been funded on a pay-as-you go basis, with employers contributing amounts necessary to meet expenses from year to year. After 1916 companies began to establish pension funds which they tended to use for self-investment purposes, or to insure their funds with insurance companies which also used the funds as investments. Table 1 reveals that non-insured pension funds grew to significant proportions from 1922 to 1952, and that their primary use was as investment capital. What it does not show is that most

<sup>37</sup> David A. Wolfe, "Economic Growth and Foreign Investment: A Perspective on Canadian Economic Policy, 1945-1957," *Journal of Canadian Studies*, 13 (1978), 5-6.

<sup>38</sup> Queen's University, Industrial Relations Section, *Industrial Retirement Plans in Canada, 1938* (Kingston 1938), 15.



of the funds made available for business were directed into that of the sponsoring company.<sup>39</sup>

Equivalent data regarding pension plan investments in Canada are not available before 1953 but since many Canadian plans were introduced by American branch plant firms, it is safe to say that such funds were used in a similar manner during that period, and that the federal state, which provided tax exemptions for them, was aware of this function.

The first official evidence that the Canadian State actively supported private pension plans occurs in the 1938 Budget speech. The Honourable Charles Dunning, Minister of Finance, announced that an amendment to the Income War Tax Act would be introduced to " . . . allow Canadian Companies a deduction in respect of lump sum contributions to employees' pension funds covering past years' services, such deductions to be spread forward over a ten-year period."<sup>40</sup>

In the ensuing debate, Honourable J.L. Isley, Minister of National Revenue, pointed out that this amendment was a response to requests from "several large companies" that had expressed a desire to make lump sum payments for past services.<sup>41</sup> Oddly, the amendment was made retroactive to 1928, suggesting that one or more of the payments of lobbying companies had already been made.

TABLE I  
Private Noninsured Pension Funds in the  
United States, 1922-1952

	1922	1933	1945	1952
	(in millions)			
Total Assets	\$90	\$700	\$2,900	\$9,000
Cash	4	35	87	180
Investments in Business:				
Fixed-interest bearing securities	55	420	1,045	4,500
Stocks	18	140	347	1,800
Other	4	35	116	270
Total	77	595	1,508	6,570
Federal government Securities:	9	70	1,305	2,250

Source: Raymond W. Goldsmith, *Financial Intermediaries in the American Economy Since 1900* (New York 1975), Table A-10.

The period 1938-1941 saw a flurry of legislation in the federal and provincial parliaments to guarantee the tax exempt status of pension contributions

<sup>39</sup> Greenough and King, *Pension Plans and Public Policy*, 137.

<sup>40</sup> Canada, House of Commons, *Debates* (Ottawa 1938), 3924.

<sup>41</sup> *Ibid.*, 4216.

and to clarify the opportunities of companies to set up pension funds. The Ontario, Manitoba and Alberta legislatures amended Acts to coincide with those of the federal government. Prince Edward Island introduced a parallel Income Tax Act, and the Canadian parliament amended the Trust Companies Act and the Loan Companies Act to make clear the opportunities of these firms to establish pension funds.

With the onslaught of the war, the state introduced legislation that had the unintended effect of accelerating the proliferation of pension plans. The need for income to finance the war-time activities led to the introduction of the *Excess Profits Tax* in 1940 which applied a 75 per cent tax on all profits over 116 2/3 per cent of average profits of 1936-1939. This was amended in 1942 to allow 100 per cent taxation of excess profits with a promised 20 per cent rebate at war's end. Companies looking for ways to avoid this tax chose to invest in pension plans.

The precise number of plans introduced as a result of the Excess Profits Tax cannot be determined because the Canadian government did not keep records of such information until 1953. However, occasional surveys show that the numbers rose from 615 in 1936 to 3,425 in 1947 and to 4,407 in 1951.<sup>42</sup> The function of pension plans from the perspective of capital became one of protection of profits from state taxation during this period. An Order in Council in 1943 prohibited companies from using the threat of suspension of pension plan benefits to discourage union activities, which had been their primary function up to that date.<sup>43</sup>

The final cluster of amendments made in parliament to ensure the success of private pensions were those relating to the circulation of capital. Once trust companies had control of the money, the state assumed the responsibility of ensuring its efficient use in the best interests of capital. One of the controls exercised by the Department of Revenue in approving plan funds for tax-free status limited the pattern of investment of the funds. Before 1956 it required pension fund investments to conform with those of insurance companies as dictated by the Canadian and British Insurance Companies Act. This restricted investments to those that were considered to be secure. Pension funds could be invested in government bonds of the United States, United Kingdom, Canada, its provinces and members of the Commonwealth. They could also be invested in corporate bonds that met minimum dividend standards. But several limitations were applied to the investment in stocks including one which specified that a maximum of 15 per cent of all fund investments could be put into private stocks.<sup>44</sup>

<sup>42</sup> Clark, *Economic Security for the Aged*, 81.

<sup>43</sup> James Stafford, "Retirement Pensions: Reinforced Exploitation," in Dickinson and Russell, *Family, Economy and State*.

<sup>44</sup> Government of Canada, *Report of the Royal Commission on Banking and Finance* (Ottawa 1965), 242.

purchased with pension and insurance funds.<sup>48</sup> By 1986, pension funds held about 28% of the shares in companies whose stock was widely held.<sup>49</sup>

TABLE 2  
Estimated Book Value of  
Trusteed and Insured Pension Fund Assets

	Trusteed	Insured (in millions)	Total
1960	\$ 3,616	\$ 1,208	\$ 4,824
1965	6,600	2,427	9,027
1970	11,059	3,683	14,742
1975	20,962	6,819	27,781
1980	50,753	14,273	65,026
1985	110,103	22,900	133,003

\*1984 data

Sources: Statistics Canada, *Trusteed Pension Plans Financial Statistics 1969, 1983* (Ottawa 1970, 1985); *Quarterly Estimates of Trusteed Pension Funds, Fourth Quarter, 1984, 1985* (Ottawa 1985, 1986).

The growth of enormous amounts of private savings has introduced a new element to capitalist competition as investment counsellors and insurance companies have shifted their activities into the field of pension fund management which was traditionally the domain of trusts. Trust companies have countered by establishing subsidiaries whose sole function is to manage the assets of pension funds. As pension funds have increased in size, some companies have hired their own pension management specialists to manage the investments. At the same time, thousands of smaller funds are pooling their resources to strengthen their investments.<sup>50</sup>

This extreme competitiveness is creating conditions under which pension fund managers are directing funds, which are workers' savings for retirement, into riskier operations in the hope of gaining greater profits and thus attracting more funds. Pension fund managers have urged the state to relax restrictions on foreign investment, giving them greater freedom to pursue profits in foreign markets.<sup>51</sup> They are also pressing for opportunities to

<sup>48</sup> Toronto Stock Exchange, Submission to The Royal Commission on the Status of Pensions in Ontario, quoted in Richard Deaton, "The Political Economy of Pensions: The Political and Economic Framework of the Canadian Pension System," in Canadian Centre for Policy Alternatives, *Public Solutions vs. Private Interest* (Ottawa 1982).

<sup>49</sup> *The Financial Post*, 9 August 1986, 8.

<sup>50</sup> *The Globe and Mail*, 24 August 1984, R2.

<sup>51</sup> *Ibid.*, 16 November 1982, B2.

A comparison of investment patterns of Canadian and American trustee funds reveals a considerable difference in the extent to which stocks were purchased:<sup>45</sup>

	Fed. Govt. Bonds	Other Bonds	Stocks	Mortgages	Other	Total
Canada, 1957	21%	60%	6%	8%	5%	100%
U.S., 1956	14%	52%	26%	1%	7%	100%

Efforts to rectify this deficiency were announced in the 1956 budget speech. The Honourable W.E. Harris announced that the restrictions of investment of pension funds in equities would be lifted in response to "urgent representations."<sup>46</sup> This change in Department of Revenue policy combined with trust company procedures introduced in 1955 to pool reserves of small pension plans for investment purposes has led to the present role of pension funds as the most important form of investment capital in Canada.

The value of pension fund assets has skyrocketed in the past 25 years. The data in Table 2 indicate that trustee and insured pension fund assets increased by \$10 billion in the 1960s, by \$50 billion in the 1970s, and by almost \$70 billion in the first half of the 1980's. Table 3 provides evidence that by 1983, \$150 billion had accumulated in all forms of employee-sponsored pension plans. This represents a significant source of investment capital, and one which has played an important role in money markets with the steady decline in corporate savings, the only other source of investment capital, since 1963.<sup>47</sup> Between 1966 and 1975, over one-third of all stocks and bonds were

<sup>45</sup> Dominion Bureau of Statistics, *Trusteed Pension Plans, Financial Statistics, 1957* (Ottawa 1959), 9; William C. Hood, *Financing of Economic Activity in Canada*, Royal Commission on Canada's Prospects (Ottawa 1958), 374.

<sup>46</sup> Canada, House of Commons, *Debates*, 1956, 2331.

<sup>47</sup> Barbara Murphy, "Corporate Capital and the Welfare State: Canadian Business and Public Pension Policy in Canada Since World War II," M.A. Thesis, Carleton University, 1982, 78.

direct funds into stock options and futures contracts, which can be used as speculative vehicles by investment advisors.<sup>52</sup>

TABLE 3  
Accumulated Reserves, Canadian Retirement  
Income System, 1983

Program	\$000,000	%
CPP/QPP	35,254	16.6
Employer Sponsored Pension Plans		
Trusteed	83,064	39.1
Insurance Company	20,618	9.7
Canadian Government Annuities	558	0.3
Consolidated Revenue Funds	45,932	21.5
Sub-Total	149,932	70.5
RRSP's	27,445	12.9
Total	212,631	100

Source: Statistics Canada, *Trusteed Pension Plans Financial Statistics 1983* (Ottawa 1985).

TABLE 4  
Contributions to RRSP's by Total Income, 1983

	% Tax Filers Making Contributions	Total Contributions (in millions \$)	Average Contributions (\$)
Less than \$10,000	1.6	78	781
\$10,000-19,999	12.5	769	1,464
\$20,000-29,999	25.0	1,323	1,960
\$30,000-39,999	36.6	1,130	2,227
\$40,000-49,999	47.4	646	2,461
\$50,000 or more	53.4	1,051	4,042
Total	15.2	4,997	2,145

Source: Statistics Canada, *Pension Plans in Canada 1984* (Ottawa 1986).

Financial corporations are establishing structures to funnel more pension funds into venture capital, an area with greater risk but, in successful cases,

<sup>52</sup> *Ibid.*, 16 August 1984, B5.

higher rates of return on investment. Canadian venture capital companies are encouraging growth in this field and urging the state to fashion taxation laws in order to encourage such investment.<sup>53</sup> Some trust firms are establishing special subsidiaries to encourage smaller, more vulnerable pension funds to purchase units of pooled funds which could then be invested in venture capital projects at reduced risk.<sup>54</sup>

The movement of pension funds into riskier enterprises is beginning to take its toll on some worker's retirement savings. One case that has recently attracted the attention of the press is the collapse of the Canadian Commercial Bank whose major shareholders include employee pension funds of Air Canada, Canadian National Railway, Manitoba teachers, and Quebec provincial employees. The bank was bailed out by the Alberta and Canadian governments and by six other banks at a cost of \$255 million, but only under the condition that the value of shareholders investments be reduced to 25 per cent of their original value.<sup>55</sup>

A second case, representing behind-the-scenes manipulations which occur when large amounts of money become the responsibility of financial managers, takes place in the field of real estate into which pension funds are in the process of moving. The value of real estate investments of pension funds increased from an estimated \$53 million in 1974 to \$2 billion in 1984, and is projected to increase to a staggering \$50 billion by the 1990s.<sup>56</sup> But Canadian real estate markets have attracted off-shore investors and high-rolling speculators, making them a risky marketplace for funds designed to provide long-term security for retiring workers. The case in point is Bimcor Inc., the pension management subsidiary of Bell Canada Enterprises, which purchased office buildings in Toronto in 1986 for \$32 million from three individuals who had paid \$23 million for them just three months earlier. In the previous year, Bimcor had been prevented from participating in a similar flip when it had arranged to purchase property for \$63 million from a development company which was to pay \$36 million for the same property on the same day.<sup>57</sup>

The incredible expansion of the pension fund sector of finance capital hides the increase in concentration and centralization that is taking place. Pension funds have become the second largest financial intermediary in Canada, second only to banks. They account for over 25 per cent of all non-bank assets.<sup>58</sup> The five largest trust companies in Canada had assets of \$24 billion in 1978, constituting 74 per cent of the total assets of all such compa-

<sup>53</sup> *The Financial Post*, 16 June 1984, 27.

<sup>54</sup> *Ibid.*, 17 November 1984, 20.

<sup>55</sup> *Thunder Bay Chronicle-Journal*, 28 March 1985, 4.

<sup>56</sup> *The Globe and Mail*, 24 August 1984, R6.

<sup>57</sup> *Maclean's*, 14 July 1986, 38-41.

<sup>58</sup> Deaton, "Political Economy of Pensions," 78.

nies operating in Canada.<sup>59</sup> "About 100 senior fund managers are making 80 percent of the investment decisions in Canada today."<sup>60</sup>

The state has watched with approval as private industry stepped in to relieve it of the costs of providing social wages to those segments of labour that could no longer contribute to the production of capital. But in spite of the rise of private pensions, unions and political parties sympathetic to labour continued to press for improved public pensions. Labour did not feel comfortable with its retirement income in the hands of capital.

A minor achievement was gained in 1952 when the state responded to these pressures to pass the Old Age Security Act which provided the first universal pension plan in Canada. Although the legislation was enacted because of the concerns of labour, it also had the support of capital which saw a minimal, universal plan as necessary in order to provide it with the freedom to develop private plans.<sup>61</sup> Two other essential factors leading to the legislation at that particular time were the post-war economic expansion which made such legislation economically feasible, and the memory of the social unrest of the depression and the war years. These forces combined to bring about Old Age Security legislation but even at that early date, caution was advised lest it interfere with the functioning of private pension plans.<sup>62</sup>

Legislation dealing with pensions came before parliament with increasing regularity as the state streamlined procedures for the growth of private pension funds while adapting public plans to accommodate inflation. One important piece of legislation in 1957 which did not attract very much attention at the time was the provision for individual registered retirement savings plans (RRSP's) which operated on the same principle as private pension plans. Pressure for such legislation came from representatives of business and profession groups which saw them as vehicles for avoiding taxes while accumulating private savings.<sup>63</sup>

Once in place, RRSP's quickly drew the attention of critics for the blatant way in which the wealthy used them to avoid taxes with little concern for their intended use as retirement savings.<sup>64</sup> Their popularity with the well-to-do is reflected in Tables 3 and 4. By 1983 the accumulated savings of R.R.S.P.'s exceeded that of insured pension savings which have been in place for more than half a century. The bulk of this money came from persons with annual incomes in excess of \$30,000.

The major pension issue in the 1960s surrounded the establishment of

<sup>59</sup> *Ibid.*, Table VI.

<sup>60</sup> David Cockfield, Toronto investment counsellor, as quoted by Patricia Lush in *The Globe and Mail*, 11 November 1986, B8.

<sup>61</sup> Murphy, "Corporate Capital", 20.

<sup>62</sup> *Canada, House of Commons, Debates*, 1951, 4569.

<sup>63</sup> *Debates*, 1953, 2646, 3702-3, 3707; 1957, 2554.

<sup>64</sup> *Debates*, 1977, 2546, 2792-3, 3031.

the Canadian and Quebec Pension Plans. They arose because of labour's dissatisfaction with the lack of portability and inadequate coverage of private plans.<sup>65</sup> But when the state responded with declared intentions of adopting an earnings-related, contributory public plan, capital became concerned with the impact of such a plan on private pension funds.<sup>66</sup> However, the state pushed forward with such a plan, not only to satisfy labour, but also to counter its own rising fiscal crisis by appropriating workers' savings in much the same way as had capital.

The funds of the Quebec Pension Plan are invested through the Caisse de Dépôt at Placement. Investments are vulnerable to state manipulation because the Chairman and Board of Directors are appointed by the provincial government.

Contributions to the Canadian Pension Plan Fund are loaned out to the provinces. Although the terms of the Plan require provinces to pay interest at the federal longterm bond rate, which is slightly less than market rates, the real reduction in interest rate is much greater because new contributions to the fund are credited to the provincial debts.<sup>67</sup> Thus, the effective interest rate, assuming that the provinces will eventually repay the loans, is only 2.5 per cent.<sup>68</sup> In order to keep the fund solvent, the state is raising the contribution rates of workers rather than demanding adequate compensation from the provinces.

### III

#### Summary

THE STRUGGLE BETWEEN capital and labour led to a number of developments in the period 1900 to 1950. The most important of these has been the development of monopoly capitalism, although of course its primary cause has been capitalist competition. Monopoly capitalism has created a need for new forms of control of labour by capital, one of which was the private pension plan with its threat of deprivation of benefits with any act of defiance towards company power.

A second spin-off of monopoly capitalism is the concentration of labour that accompanies the concentration of capital. Labour concentration leads to a heightened awareness of labour's position *vis-a-vis* capital. This leads to increased efforts to gain freedom and independence in the work-place and

<sup>65</sup> Murphy, "Corporate Capital", 32; *Debates*, 1962-63, 2598-99, 2602-3; Helen O'Donnell, "A Diagnosis of Ideology: Ideological Perspectives on the Formation of Pension Policy in Canada," Ph.D. thesis, McMaster University, 1984, 252-3.

<sup>66</sup> Bryden, *Old Age*, 153.

<sup>67</sup> A. Asimakopulos, "Financing Canada's Public Pensions - Who Pays?" *Canadian Public Policy*, 10 (1984), 165.

<sup>68</sup> *The Globe and Mail*, 10 December 1985, A6.



rights and privileges in the political arena. Capital's overwhelming concern with productivity has led to a trade-off whereby capital controls the workplace, but labour has made some gains with respect to its political and civil rights and privileges.

A third consequence of monopoly capitalism has been a need for a greater wage to sustain the labouring classes. Not only must the labour force be educated and supported in large urban agglomerations but it must be controlled through various social and recreational services to be compliant and docile. Labour must be separated from production activities at the first sign of depletion of vigour to ensure maximum productivity. It must be supported in old age because traditional independent forms of support have been eliminated. It must also be supported to ensure loyalty on the part of those currently in the labour force.

Thus the rise of monopoly capitalism has exacerbated the class struggle, creating a necessity for the state to intervene. During the early years of monopoly capitalism the state set up a few rules of the game to maintain and legitimize the status quo. It provided superficial support for labour to organize but made little effort to enforce these rights. It also created channels for conciliating and diffusing class conflicts.

The financial crisis of the state has inadvertently influenced the state's policy with respect to old age security and private pensions. First, its refusal to introduce public pensions stemmed from a desire to allow capital to maximize capital accumulation. But exceptional demands for state income, fueled by war-time state expansion led to the Income War Tax Act of 1917 with an innocuous proviso that deductions from income for pension funds were exempt from taxation. This was to become a crucial factor in the proliferation of pension plans during World War II.

Another significant by-product of the period of World War I was the introduction of near-universal suffrage. The need for a loyal citizenry willing to serve diligently in the factory and selflessly on the battlefield put pressure on the state to broaden the franchise. This problem faced by the state was exacerbated by conditions of full employment and the unwillingness of Canadian labour to fight in a war that was not Canada's. The introduction of near-universal suffrage, although not directly influencing pensions, provided labour with long-range leverage. When conditions of full employment prevailed during World War II, labour was able to achieve legislation relating to strikes and union rights in 1943. This eliminated the coercive aspects of the function of pensions as a mechanism of control by capital.

During the two decades following World War I, labour continued to struggle fruitlessly with the state for adequate public pensions. It achieved unsatisfactory pension reform in 1927 but this provided small relief for labour during the ensuing depression. Meanwhile, completely unincumbered by state regulations, firms in the United States and Canada began introducing pen-

sion plans and using their funds to avoid state taxation and to gain profits from the workers' "deferred" wages.

The Canadian state revealed its support for this system in 1938 when it instituted legislation to encourage private pension fund development. This was done during a protracted depression that impoverished labour and raised questions about the viability of the economic system. In these conditions the state provided no legislation to establish support for the elderly. It introduced minimal legislation to ameliorate the rights of labour to confront capital, and concentrated its energies on streamlining the circuits of capital which it believed to be the cause of the depression.

World War II increased the state's need for money, causing it to pass an Excess Profits Tax on capital. Looking for loopholes, capital proceeded to set up private pensions at a rate never before realized in order to retain profits and encourage an appearance of paternalism among its workers. As the war drew to a close, labour acquiesced to this new form of security. It has little other choice given that the state had effectively resisted its demands for public pensions for 50 years.

It only remained for the state to revise money circuits to make pension plans more effective financial intermediaries. This took place following the war. Labour has continued its fight for public pensions, and has made some gains, but these have been resisted by capital. Any further changes in the pension system will be shaped by the threats of capital warning of the imminent collapse of the economic system if private pension funds are eroded by the further expansion of public pensions.

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