

“The Politics of Social Learning: Finance, Institutions, and Pension Reform in the United States and Canada,” *Governance*, 19(4), 2006: 559-583.

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Because the traditional concept of social learning has faced some criticism in recent years, more analytical work is required to back the claim that the lessons drawn from existing institutional legacies can significantly impact policy outcomes. Grounded in the historical institutionalist literature, this article formulates an amended concept of social learning through the analysis of the relationship between finance, social learning, and institutional legacies in the 1990s debate over the reform of earnings-related pension schemes in the United States and Canada. The article shows how social learning related to specific ideological assumptions and policy legacies in the public and the private sectors have impacted policy-making processes. At the theoretical level, this contribution stresses the political construction of learning processes, which have little to do with the technocratic model featured in the traditional literature on social learning. This article also distinguishes between high and low profile social learning while stressing the impact of private policy legacies on learning processes.

Over the last two decades, historical institutionalism emerged as a prominent approach to political and policy analysis. Underlining how political institutions, state capacities, and previously enacted policies impact interest formation and political behavior, historical institutionalism offers powerful intellectual tools to students of politics and public policy (Immergut; Pierson, 1994; Skocpol). Among these tools, the concept of social learning is probably the most controversial and analytically underdeveloped. In recent years, this concept has been criticized for its technocratic overtones (Fischer; Hall; Hansen and King). The objective of the present article is to make a case for an amended concept of social learning that moves beyond such apolitical, technocratic model to stress the truly *political* nature of learning processes. This article also distinguishes between high and low profile social learning. Finally, it underlines the impact of financial timing and *private* policy legacies on learning processes.

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To back these theoretical claims, the article explores the relationship between finance, social learning, and institutional legacies in the 1990's debate over the reform of earnings-related pension schemes in the United States and Canada. The intense deliberations about pension reform and financial investment that took place in these countries during the second half of the 1990s illustrate the impact of institutional legacies and social learning on policy-making. In Canada, where federal civil servants play a crucial role in policy-making and social learning, Quebec's investment board represented a source of low profile social learning that facilitated the advent of state financial investment for the entire Canadian earnings-related pension system. Furthermore, the federal decision-making process that derives from the organization of this system favored the exclusion of controversial reform options such as direct benefit cuts (Weaver 1999) and privatization. In the United States, where social learning concerns mainly experts located outside the federal bureaucracy, the high profile comparison between the return rates of Social Security and private savings accounts has been used to legitimize Social Security privatization at a time when exceptional stock-market performances stimulated financial optimism. Yet, although partial privatization was the most debated policy alternative in that country, the conjunction of divided government, the lack of trust between the President and the Republican majority in Congress, the absence of short term "fiscal crisis," and the privatizers' failure to gain widespread support from public opinion, prevented the enactment of this reform.

This article is divided into three parts. The first part discusses the historical institutionalist framework before formulating an amended concept of social learning that moves away from an apolitical, technocratic vision. The second part briefly surveys the two national earnings-related pension systems. The third part studies how shared ideological assumptions, institutional legacies, and the financial timing affected learning processes over pension reform in both countries during the 1990s.

Social Learning as a Political Construction

Since the 1980s, historical institutionalism has been the most debated theoretical approach to welfare state politics. Contrary to societal approaches that focus on economic and social factors, this perspective emphasizes how political institutions, state capacities, and previously enacted policies impact the formation of interests, access to political resources, and political behavior in general (Immergut; Pierson, 1994; Skocpol). For the current study, historical institutionalism provides at least two crucial theoretical insights.

First, formal political institutions and parliamentary rules influence political behavior and interests in a complex manner. On the one hand, political institutions like federalism and party systems create constraints and opportunities for interest groups involved in policy debates (Immergut; Maioni). On the other hand, these institutions affect the behavior and strategies of elected officials and state bureaucrats (Pierson; Pierson and Weaver). This article stresses the impact of federalism and formal political institutions on social learning processes and policy-making.

Second, previously enacted measures directly affect the policy-making process. In the institutionalist literature on social policy, the concept of policy feedback refers to the impact of previously enacted policies on policy-making. Underlying the fact that “policy creates politics,” this concept shows how policy-makers have to consider vested interests tied to well-established programs (Skocpol). Policy feedback is frequently related to social learning, the process by which civil servants, policy experts, and elected officials evaluate the performance of previously enacted policies (Bennett and Howlett; Hall; Hansen and King; Hecl; Rose; Sabatier). Through the process of social learning, existing policies affect the perceptions and the strategies of policy-makers, which could impact their decisions. But one must note that social learning is analytically distinct from policy feedback, a concept that is not necessarily embedded in the cognitive activities of social and political actors. If policy feedback can take the form of large constituencies or concrete economic consequences, social learning essentially refers to the evaluative activities these actors perform.

Beyond what most of the historical institutionalist literature assumes, the concept of social learning should also apply to *private* social benefits. This is especially true in the context of a liberal welfare regime in which employers and financial institutions are significant providers of economic protection (Béland and Hacker). One of the main claims of this article is that private benefits create strong policy legacies that experts and policy-makers often take into account when drawing lessons to evaluate debated policy alternatives, even those related to *public sector* programs like Social Security.

Far from being purely detached and technocratic in nature, social learning frequently takes the form of a contentious process that involves ideological and political struggles (Hansen and King). Social learning is a political construction tied to power relations (Fischer). This is why the evaluation of previously enacted policies could help policy experts and elected officials frame the issues to their advantage. Social learning and ideological framing are frequently related as they participate in “the social construction of the need to reform” (Cox) and in the justification of specific policy alternatives debated in the political arena.¹ This reference to framing points to the role of ideas and discourse in policy-making (e.g.

Blyth; Schmidt). Emphasizing that role helps distinguish social learning from a naïve, purely technocratic vision of learning without contradicting historical institutionalism's core assumptions about the political impact of institutional legacies (Béland). Yet, social learning remains analytically distinct from framing activities in part because learning can occur without the emergence of a public discourse about the need to reform. An autonomous set of evaluative activities, social learning generally predates and, in only some cases, informs framing processes.

Recognizing that learning processes are political in nature is not sufficient to move beyond the technocratic model depicting social learning as an apolitical reality. Drawing on recent research in the field of cognitive psychology, Kurt Weyland argues that specific cognitive shortcuts move learning processes away from the idea of purely detached technocratic actors seeking information in order to draw unproblematic policy lessons. Among these shortcuts, particularly interesting is the logic of availability, which refers to “people’s tendency to place excessive importance on information that—for logically accidental reasons—is especially immediate and striking, grabs their attention, and is therefore uniquely ‘available’” (Weyland: 282-283). Variations in stock-market performances discussed below occasionally take the form of such striking events. Yet, from an historical institutionalist perspective, one can argue that the logic of availability frequently reflects policy legacies that are more “available” than others to specific national actors. This means that such actors have a tendency to look at the policy legacies surrounding them. As argued in the discussion about Canada, the institutional “availability” of Quebec’s investment board to federal policy-makers impacted learning processes leading to the 1998 reform of the Canada Pension Plan.

Institutional legacies do more than distort learning processes through the logic of availability: cross-national variations in state capacity and political institutions largely explain whose national actors draw policy lessons that may significantly impact policy outcomes. For example, centralized states like France rely heavily on civil servants for policy evaluation (Marier), while the fragmented American polity stimulates the massive development of think tanks and other learning resources located outside the state apparatus (Rich). Although Canada is a federal polity, power at the federal level is far more concentrated than in the United States, and Canadian civil servants carry much more weight in policy-making processes. Federal bureaucrats also consult regularly with a limited number of provincial and interest group representatives (Montpetit). These cross-national variations explain why it is crucial to focus on civil servants when dealing with Canadian pension reform while, when dealing with the United States, far more attention should be devoted to experts located outside the state’s bureaucratic apparatus. This is especially true of recent years, because the political influence of

the American Social Security Administration has declined since the mid-1970s (Berkowitz: 261).

If formal political institutions help explain *who* is drawing the lessons that can directly impact policy outcomes, policy actors' ideological commitments and economic assumptions usually affect both the *object* of their learning processes and the lessons drawn from specific policy experiments. For example, conservative experts located outside the state apparatus may have a greater tendency than civil servants to look extensively at private benefits, especially if they support privatization. Following the same logic, conservatives are inclined to view these benefits in a positive manner as they frequently assume that private benefits are inherently superior to public social programs.

Moreover, timing is crucial because economic and financial cycles influence the lessons actors draw from existing policies (Hall). For example, financial cycles impact lessons that can be drawn from a comparison between private and public pension benefits. Additionally, such cycles affect the agenda setting process because variations in financial outcomes may reduce or increase the apparent "need to reform" public pension programs.² If favorable stock-market performances raise the profile of alternatives tied to the financial logic, downturns have the opposite effect. Beyond the issue of financial investment and pension reform, this remark illustrates the relationship between agenda setting, social learning, and economic cycles in public policy. By and large, the importance of timing for learning processes stems in part from the fact that "people commonly generalize from a narrow set of observations and prematurely infer a broad regularity" (Weyland: 284). As it is the case for stock-market performances, policy-makers are "eager to extrapolate from conjunctural upswings or downswings" (*ibid.*). This is especially true when such swings confirm the actor's pre-existing assumptions.

Overall, it is possible to classify social learning processes into two broad categories: low profile and high-profile learning [**insert Table 1**]. While bureaucratic processes that offer technical guidance to policy-makers frequently maintain a low media and political profile, policy lessons whose main purpose is to convince the population to back a specific policy alternative have a much higher profile. The very objectives of the policy lessons largely determine their mode of diffusion within and outside a specific policy community. Furthermore, the intended "public" of such lessons will affect the way in which policy experts and elected officials formulate them. Lessons used to frame a specific policy alternative in the popular media are likely to take a simplified form that could more readily convince the population that this alternative is the most appropriate one. In general, think tanks and elected officials opt for high profile learning while civil servants are more regularly involved in low profile learning processes. Yet, low profile,

bureaucratic lessons can gain public exposure through media leaks, public commissions, or controversial governmental reports.

At this point, one can formulate a cautionary remark about social learning: despite the weight of institutional legacies and ideological commitments, policy actors generally face a certain level of uncertainty that makes learning processes necessary to them. Recognizing that institutions and ideological commitments affect the learning process does not mean that external forces totally shape the lessons these actors will draw. Most policy issues are rather complex and, in some cases, many possible lessons can be drawn from a specific policy episode. The following comparative analysis takes this cautionary remark seriously while underlining the political nature of social learning processes as well as the central role of timing and institutional legacies in the drawing of policy lessons. Furthermore, the analysis refers to the distinction between low and high profile learning.

Institutional Legacies

Over the years, Canada and the United States have developed relatively modest contributory pension schemes supplemented by private benefits covering less than half of the workforce. Beyond these common characteristics, major differences exist between the Canadian and the American earnings-related systems. First, the Canadian system is located on the top of a universal flat pension, which is not the case in the United States. This largely explains why the Canadian earnings-related system has a lower replacement rate on average than American Social Security, the most massive social program in the United States in terms of budget spending (Lynch). Second, the Canadian earnings related program is divided into two distinct, yet highly coordinated, schemes: one for Quebec (QPP: Quebec Pension Plan) and one for the nine other provinces (CPP: Canada Pension Plan).

The United States

The modern pension system in the United States took shape during the 1930s and in the immediate post-World War II era. It is divided into three main parts: 1) federal old age, survivors, and disability insurance (OASDI)—a centralized earnings-related pension scheme that covers more than 95% of the workforce; 2) Supplemental Security Income (SSI), a means-tested federal assistance program offering modest benefits to the needy elderly (less than one million people in 2003); and, 3) tax-subsidized private pension plans that cover less than 40% of the working population and take different forms, from traditional defined-benefit plans to individual savings accounts (Sass, 1997).

Enacted in 1935 as part of the Social Security Act, the earnings-related federal pension scheme (OASDI) is the foundation of the American pension system. More generous than its Canadian equivalent, Social Security still offers relatively modest replacement rates. The political need to keep pension contributions low—combined rate of 10.6% in 2003 for old age insurance alone—explains this situation. Less than 40% on average, Social Security replacement rates are in fact progressive in nature. While the replacement rate for poorer workers is more than 50%, for the wealthiest income category it is less than 25%.

During the mid-1970s, stagflation and the enactment of an overly generous indexation system under the Nixon presidency worsened the actuarial situation of the program. In 1977, Congress enacted legislation that revised the indexation system while raising tax rates in order to prevent fiscal imbalance and restore confidence in Social Security. Six years later, further technical changes were made—for example new payroll tax increases—in order to solve another short-term “fiscal crisis.” Furthermore, this legislation made provisions for an increase in retirement age from 65 to 67 that would take place between the years 2000 and 2022 (Light). With the help of subsequent economic growth, the 1983 reform improved the overall fiscal situation of the program: since the mid-1980s, Social Security has moved towards partial advanced funding while accumulating enough reserves to guarantee its actuarial soundness for the next four decades.

Canada

The Canadian retirement income system took its present shape during the 1960s. It is also divided into three tiers: 1) Old Age Security (OAS), a universal, flat-rate pension enacted in 1951 and supplemented since 1967 by Guaranteed Income Supplement (GIS) providing a guaranteed income for poorer seniors, both financed from general revenue; 2) the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP), which provide a second tier of earnings-related public pensions financed from payroll contributions (benefits from either scheme are based on pension credits accumulated under both, as if only one scheme existed); and 3) private, though tax-subsidized, employer-sponsored Registered Retirement Plans (RPPs)³ and individual retirement savings accounts called Registered Retirement Savings Plans (RRSPs).

The earnings related tier—the Canada/Quebec Pension Plan (C/QPP)—was enacted in 1965. This legislation was the result of an extended bargaining process between the federal government and the ten provinces. Because of Quebec’s campaign for increased provincial autonomy, two distinct, but coordinated, earnings-related pension schemes were created. Financed through contributions from employers and workers, the C/QPP integrates the large majority of workers aged 18 to 70. Like American Social Security, these two social insurance schemes

protect the contributors and their relatives against the loss of income due to retirement, disability, and death. As compared to their American counterpart, however, the C/QPP have a modest replacement rate, as the C/QPP monthly retirement pension represents 25% of a beneficiary's average monthly earnings during his/her contributory life (Béland and Myles).

From the outset both the CPP and QPP relied on modest partial funding as a result of the surplus of contributions built up in the early years of the plans. Importantly, however, assets from the QPP trust fund were invested in equities and real estate to support provincial economic growth and French Canadian entrepreneurship (Thomson 1984), while CPP surpluses were lent to the provinces at preferred rates to subsidize provincial debt. This difference was a direct outcome of the 1960s Quiet Revolution, an attempt to modernize Quebec society and to improve the socio-economic status of the province's French-speaking majority. There, an autonomous investment board (*Caisse de dépôt et placement*) was created. Since the late 1960s, the Caisse has invested money from the QPP as well as other provincial insurance and pension funds in bonds, equity, and real estate. The Caisse has emerged as the holder of the largest portfolio of Canadian equities, as well as the largest real estate portfolio in the country (Weaver, 2003).

In the Mulroney era (1984-1993), pension retrenchment became a contentious issue in Canadian politics, yet the debate essentially concerned indirect—and limited—cutbacks affecting OAS. During that period, no major reform of the C/QPP took place (Béland and Myles).

Social Learning, Timing, and Financial Investment

During the second half of the 1990s, the world witnessed three essential trends that influenced the politics of pension reform in Canada and the United States. First, demographic aging emerged as a major source of concern among citizens and policy-makers alike (Prince). Second, the push for financial investment in the field of pension reform has been related to the enduring prominence of financial ideas linked to market liberalism, an economic paradigm that often supports the development of personal savings and financial investment (Quadagno). Third, exceptional stock-market performances [**insert Figure 1**] and the multiplication of tax-sponsored individual accounts created a sense of financial optimism, as the financial sector expanded while affecting an increasing number of individuals (Teles). For these reasons, the idea of relying on stock-market returns to improve the long-term financial situation of public pension systems has gained much ground throughout the world, particularly after the publication of the World Bank's report *Averting the Old Age Crisis* in 1994 (Brooks; Myles and Pierson; Quadagno; Weaver 2003).

In the field of pension reform, one can identify at least four essential—and not always mutually exclusive—policy alternatives that may increase the reliance of citizens on financial investment: full privatization; partial privatization; supplementary savings accounts alongside existing public pensions; and, finally, direct state investment of public pension surpluses [insert Table 2]. Full privatization involves a complete shift from state-guaranteed, defined-benefit pensions to defined-contribution, individual savings accounts. Such a policy alternative constitutes a highly problematic option for policy-makers because current workers would have to finance the pensions of current Social Security beneficiaries and, at the same time, save for their own retirement. This is known as the “double payment problem” (e.g. Green-Pedersen and Lindbom; Myles and Pierson). For that reason, partial privatization—diverting only a fraction of the pension contributions to personal savings accounts—has increasingly been perceived as a more realistic policy option in the 1990s. A third policy alternative is the creation of voluntary savings schemes alongside traditional PAYGO programs. As opposed to privatization and partial privatization, this alternative does not involve the “carving out” of the existing payroll taxes (i.e. channeling part of the tax money into individual accounts rather than to the trust fund). Finally, state investment is about moving to partial advanced funding while investing new pension surpluses in equities. State investment is a financial alternative to privatization that does not involve a shift from defined benefits to defined contributions. This means that the state does not shift financial risks to individuals while it still guarantees the level of their public pensions.

United States

Despite the absence of a short-term fiscal crisis, the United States witnessed the emergence of a broad movement supporting Social Security privatization during the 1990s. Sketched in the 1970s by conservative economists like Feldstein, the idea of Social Security privatization is far from being new. Since the 1980s, however, many conservatives have pursued what Butler and Germanis labeled a long-term “Leninist strategy” that could gradually undermine the support for Social Security through the multiplication of fiscal measures instrumental to the expansion of the financial logic in the pension domain (Butler and Germanis). In order to achieve their long-term goals, conservative experts and politicians have encouraged the development of private savings schemes that could reduce people’s reliance on Social Security while making individuals aware of the apparent financial rewards associated with 401(s)s and other savings schemes (Béland; Hacker 2004; Teles). Beyond this support for private schemes, privatizers have depicted the future of Social Security as bleak while arguing that forthcoming fiscal problems related to

population aging would create intergenerational wars. This is what one scholar refers to as “apocalyptic demography.” (Prince)

More importantly, privatizers have embraced financial optimism, which influences the policy lessons they draw from existing public and private policy legacies. Considering favorable financial timing (i.e. the higher than expected rates of return witnessed in the mid-late 1990s), the development of personal savings and defined-benefits schemes in the private sector supported the idea that Social Security privatization represented a positive historical fate coherent with economic rationality and financial progress. Exceptional stock-market performances reinforced the faith in these savings schemes. To convince the public that Social Security privatization would enrich individuals, privatizers emphasized anticipated personal gains related to privatization. In this context, high profile social learning about the comparative merits of Social Security and private savings schemes appeared as a method of framing the policy debate in a way that could convince the population and the political elite to support Social Security privatization. At this point, however, one must restate the analytical distinction between learning and framing processes. Many conservative experts drew policy lessons related to Social Security reform without using them to convince citizens and journalists that one policy alternative should prevail over others (Rose and Celarier). In that case, social learning kept a low public profile, as academics and policy experts discussed these issues amongst themselves. Yet, many conservative experts did draw high profile lessons from existing private and public pension schemes or, at least, transformed low profile lessons into high profile ones in order to serve their policy agenda. Grounded in financial optimism and the assumption that personal gain is superior to economic redistribution, these lessons served as framing tools. Related to the unilateral comparative evaluation of private and public pension benefits, such high profile lessons can be found in many conservative publications. In a brief conservative book entitled *Common Cents, Common Dreams: A Layman’s Guide to Social Security Privatization*, for example, CATO experts Peter Ferrara and Michael Tanner suggest that Social Security is “a bad deal” for workers and that it will be unable to pay benefits to future retirees. As the only genuine alternative to this inefficient bureaucratic system, privatization would enrich workers through higher return rates similar to those of 401(k)s savings accounts. According to the authors, lessons from the current return rates of private savings schemes provide ground to the idea that Social Security privatization would benefit workers and their families (Ferrara and Tanner).

Although exceptional stock-market performances and neo-liberal assumptions drive most conservatives to draw positive lessons from private savings and investment schemes, a limited number of right-wing experts and policy-makers have reached different conclusion regarding the performance of these schemes and

their relevance as a model for Social Security reform. Overall, they argue that Social Security privatization would generate more administrative costs than expected while justifying new federal regulations of the financial sector. These conservatives, even those working for the financial industry, oppose Social Security privatization (Rose and Celarier). This suggests that even well defined assumptions and policy legacies can leave room for autonomous learning processes. The complexity of public-private policy legacies makes learning outcomes uncertain, even when strong ideological commitments exist. Yet, the fact that most American experts spend a lot of time evaluating the performances of *private* social benefits underlines the prevalence of the logic of availability defined above and, more precisely, the weight of specific policy legacies. In the United States, the central role of private pension benefits and the prevalence of financial ideas related to market liberalism make social learning about private benefits unavoidable regardless of one's ideological and partisan orientations.

It is hard to measure the impact of the conservative campaign on public opinion. First, confidence in the future of the current program has sharply declined since the mid-1970s (Béland). This trend reflects the extensive dissemination of “demographic pessimism” in the United States (Skidmore). Second, Social Security remains popular, and support for privatization never became as strong as many conservatives had hoped. In the mid-late 1990s, no strong consensus over Social Security privatization crystallized in the United States (Cook, Barabas and Page: 254-255).

Stressing the enduring popularity of the program and the risks associated with Social Security privatization, many experts and politicians—especially Democrats—firmly opposed this policy alternative while drawing their own lessons from the comparison between that program and existing savings schemes. From their perspective, Social Security has contributed to a massive reduction in poverty affecting the elderly. Furthermore, this federal program offers defined-benefit pensions that better protect workers against economic insecurity than defined-contribution savings schemes, which are vulnerable to bad investment choices and stock-market downturns. For those who oppose privatization, this type of reform would transfer unnecessary financial risks onto the shoulders of American workers, especially those living with a lower income (Béland: 175). Moreover, Social Security privatization would generate high transition costs derived from the “double payment” problem mentioned above. Even partial privatization proposals would prove difficult to finance without a significant payroll tax increase. Higher administrative costs inherent to individual accounts would also penalize workers, especially low-income ones (Aaron and Reischauer; Ball and Bethell). Overall, the ideological assumptions of left-leaning experts and politicians lead most—but not all—of them to depict financial risks as bad for workers, and existing defined

benefits and social rights as a more genuine source of protection than any form of Social Security privatization.

Although they argued that modest reforms could adequately guarantee the long-term fiscal soundness of Social Security, some defenders of the program found it politically difficult to resist the financial logic. Considering the actual stock-market performances, politically savvy pension experts such as Robert Ball promoted a financial alternative to partial privatization: the investment of Social Security surpluses in equity. In his book *Straight Talk about Social Security*, this former commissioner of the Social Security Administration explicitly opposes risky privatization and the apparently cautious reliance on stock returns to improve the long-term fiscal soundness of the program (Ball and Bethell: 20). Increasing national savings and direct investment would preserve security associated with defined-benefit pension plans, while improving the long-term fiscal balance of the program. Drawing on existing financial optimism, Ball and other liberal authors (Aaron and Reischauer) depicted the direct investment of Social Security surpluses as a low-risk stock-market alternative to partial privatization.

Most members of Congress took a cautious stance towards the policy alternatives formulated by proponents and adversaries of Social Security privatization. Labeled as the “third rail of American politics” (touch it and you die), Social Security is a source of major electoral risks, and even politicians interested in privatizing the program stated that they actually wanted to “save Social Security.” Rarely the object of explicit attacks, this program nevertheless constituted a blame-generating issue for Republicans who faced a Democratic President repeatedly accusing them of plotting against Social Security (Béland). Nevertheless, the multiplication of Congressional hearings on Social Security after 1995 showed that partial privatization—a far more realistic policy alternative than full privatization—became a persistent issue on the federal policy agenda during the second half of the 1990s.⁴ Figure 1 suggests that this increase in the number of hearings occurred at the peak of the stock-market boom of that decade. The timing of stock-market performances stimulated financial optimism and helped push the issue of partial privatization off the policy agenda. Yet, enduring electoral risks and the President’s reluctance to strike a deal with Republicans on partial privatization made talk about Social Security privatization a safer political option than concrete legislative action (Weaver 2005).⁵

Finally, President Clinton clearly rejected partial privatization and attempted to capitalize on the popularity of Social Security to prevent the Republican majorities in Congress from enacting massive tax cuts. During the two last years of his Presidency, Clinton made numerous public references to Social Security reform,⁶ just as Social Security reform proposals multiplied in Congress (Derthick 2001: 206). Considering the optimistic financial mood related to exceptional stock-

market performances evidenced in Figure 1, Clinton explicitly embraced the financial logic in his 1999 State of the Union address. Opposing partial privatization, he supported the establishment of new savings accounts *alongside* the existing Social Security program. Following Robert Ball and other liberal pension experts, the President also embraced the idea of investing part of Social Security surpluses in equity: “I propose that we commit 60 percent of the budget surplus for the next 15 years to Social Security, investing a small portion in the private sector just as any private or state government pension would do” (Clinton). Unfortunately for the President, who probably saw Social Security reform as a key legacy-building issue, conservatives strongly opposed this type of investment. After the President first talked about investing part of Social Security surpluses in equity, American Enterprise Institute senior fellow James Glassman formulated a traditional conservative objection against state investment in equity: “having Washington become a major shareholder in American corporations presents terrible dangers and could undermine the system of free enterprise itself” (Glassman). A most respected economist, the Chairman of the Federal Reserve Bank, Alan Greenspan, attacked state investment on the same ground (Dionne). Simultaneously, influential voices within and outside the financial sector criticized direct state investment as a measure that could favor the “‘politicization’ of the stock-market system” (Fitzgerald). And although state investment could have increased the demand for equities, partial privatization—a potentially greater source of equities demand—appeared as a more attractive reform option to most representatives of the financial industry.⁷ Considering that policy legacies can strongly impact social learning, one can argue that this strong opposition to state investment was related to the historically modest role of the federal state in the American economy. The comparison with Canada will provide more ground to that argument.

Because of the widespread conservative reservations about state investment, and the political tensions created by the impeachment debate, President Clinton failed to strike a deal with Congress over Social Security reform, and no legislation was enacted before the 2000 presidential election.⁸ Although Clinton’s 1999 Social Security proposal went nowhere, the President at least had the satisfaction of having prevented partial privatization from gaining more ground in an era of financial optimism. Immediately following the 2000 federal elections, President George W. Bush appointed a commission on Social Security reform (*Strengthening Social Security and Creating Wealth for all Americans*) that cautiously supported partial privatization. Unfortunately for privatizers, the debate over tax cuts and the terrorist attacks of September 11, 2001 relegated Social Security to the periphery of the federal policy agenda. Massive financial downturns related to this tragic event also underlined the vulnerability of tax-sponsored savings plans related to the idea

of partial privatization and the financial logic itself (Kuttner). The decline of financial optimism undermined the short-term political support for partial privatization. It is only during the 2004 presidential campaign, after the American economy and financial sector had begun to recover (Figure 1) that President Bush began to push aggressively for Social Security privatization (Béland). The analysis of this second failed attempt to partially privatize Social Security lies beyond the scope of the present contribution.

To conclude this section, one can draw certain conclusions regarding the role of learning processes during the 1990's debate over Social Security privatization. It is clear that high profile learning played a significant role in that debate, although efforts to convince the public that Social Security privatization would benefit them largely failed. The fact that liberals and even some conservatives drew different, more pessimistic lessons regarding the consequences of financial investment certainly reduced the effectiveness of the campaign in favor of Social Security privatization. Overall, policy legacies and the growing influence of financial ideas and optimism pushed experts and policy-makers to draw lessons from private institutional legacies such as 401(k)s. As the next section suggests, social learning about private schemes, although important, proved less central in Canada than in the United States as public pension legacies in the former country included a much debated provincial investment board that turned out to become a major source of social learning.

Canada

Usually less central to Canadian political debates than health care reform, the C/QPP surged on the national policy agenda in the mid-1990s. As in other nations, new actuarial provisions created fears about the long-term financial sustainability of this earnings-related pension system. The publication of the Fifteenth Actuarial Report of the CPP in 1995 exacerbated these fears. As a result of economic downturn, as well as a notable increase in disability benefits, this report projected a higher payroll tax schedule than forecasted by the previous actuarial report. In the absence of a significant alteration of the current tax schedule, by the year 2015 the CPP's revenues would prove insufficient to pay all the pension benefits under the existing payroll tax schedule (Battle: 537).

This report created a window of opportunity for conservative writers and politicians supporting the privatization of the CPP. As in the United States, demographic fears were exploited to justify path-departing reforms. In a brochure issued in 1997, for example, the right-wing Reform Party suggested that incremental reforms cannot guarantee the long-term financial integrity of the CPP, and that this program is "the worst investment imaginable for our youth."

Mobilizing an American-style individualistic rhetoric to legitimize privatization, they argued that Canadians “should be given a CHOICE to stay in the CPP, or to redirect premiums to their own personal retirement account” (Reform Party). The expansion of private, tax assisted, savings schemes provided another argument in favor of privatization, as financial investment appeared more profitable than social insurance. Alberta’s conservative government of Ralph Klein and some Canadian think tanks also backed privatization (Townson).

During the 1990s, however, the movement in favor of pension privatization was less prominent in Canada than in the United States. Three main factors explain this situation. First, in that decade at least, conservative think tanks and interest groups as well as libertarian ideas carried less weight in Canada than in the United States (Abelson), especially as the emergence of regionalist parties like the Reform Party and the Bloc Québécois favored the durable electoral dominance of the moderate Liberal Party, which formed majority governments following the 1993, 1997, and 2000 federal elections. Second, because the Reform Party essentially remained a regional party carrying the traditional Western Canadian grievances towards the federal government, this party’s crusade echoed less in central and Eastern Canada. And because only the Alberta government strongly supported privatization, this option remained marginal within provincial policy circles. Third, privatization—as much as direct cuts in benefits—represented an especially unpopular policy alternative in Quebec, a province that has an implicit “veto point” in the reform of earnings-related pension schemes. Because the pressure not to alienate Quebec voters became stronger than ever after the 1995 referendum when separation almost triumphed, privatization became implicitly related to “national unity” issues.

Rejecting privatization, the Liberal government launched a consultative process in order to reform the program in an incremental and consensual manner. A key institutional logic mentioned above made this process necessary: because the federal and provincial governments share constitutional responsibility for the C/QPP, Ottawa had to reach an agreement with at least two-thirds of the provinces with two-thirds of the population prior to enacting a reform (Banting; Battle: 538).

After consulting the ten provinces, the Department of Finance formulated a joint report evaluating the long-term financial situation of the CPP while setting the agenda for a consensual reform. Published in February 1996, this report (Federal/Provincial/Territorial CPP Consultations Secretariat 1996) constituted the starting point of public consultations on the CPP that were held across Canada that year. The consultations formed a key element of the statutory review of the CPP undertaken by the federal and provincial governments (Government of Canada, 1996a).⁹ During this time, voices supporting privatization remained marginal, and

representatives of the Alberta government failed to convince the other provinces to support that option (Townson).

In November 1996, the federal and provincial governments issued a joint statement to organize the principles that would frame the elaboration of the next CPP reform. Two of the nine principles outlined in the statement seemed particularly significant: “4. The CPP must be affordable and sustainable for future generations. (...); 8. CPP funds must be invested in the best interests of plan members, and maintain a proper balance between returns and investment risk.” (Government of Canada, 1996b) These two principles illustrate the double logic of the future C/QPP reform. First, greater partial advance funding resulting from rapid payroll tax increases would reduce the need for bolder tax hikes in the long run. Second, and more interestingly, the subsequent principle reflects social learning towards Quebec’s Caisse. This organization appeared as a natural source of policy lessons because the Caisse is tied to the QPP, a program identical to CPP with the exception of the investment formula. Because federal policy-makers were questioning the investment formula of the CPP, learning from the Caisse seemed obvious. Furthermore, as a former businessman living in Montreal, Finance Minister Paul Martin knew the Caisse well, and he must have had informal contacts with people involved with this organization. As mentioned above, the Caisse has been investing QPP money in equity and real estate since the late 1960s.

In the mid-1990s, exceptional stock-market performances boosted the Caisse’s financial returns. A few statistics illustrate this logic. While the Caisse’s total return averaged 10.2 percent between 1987 and 1996, it earned 15.6 percent more during that last year (Caisse de dépôt et placement). Like other Canadian pension funds, the Caisse appeared increasingly successful. The relative financial “success” of this provincial investment board implicitly paved the way to the investment of CPP surplus funds in equities by providing the federal and other provincial governments with a positive financial precedent.¹⁰ The Caisse’s three-decade-long experiment in financial investment showed that a public pension fund, if properly managed, could achieve higher rates of return than the current CPP. During the review process, federal policy-makers consulted with the Caisse’s officials, as well as with representatives of other Canadian public investment funds—especially Ontario Municipal Employers Retirement System (OMERS) and Ontario Teachers’ Pension Fund (Foster; Walker). Representatives of the private financial sector, who were divided over the issue of state investment, were also consulted. Overall, the Caisse’s existence helped promote the enactment of the CPP Investment Board, because the Caisse represented a financially successful public investment fund related to the Canadian public pension system through the QPP.

Yet, the CPP Investment Board emerged as a slightly different organization than the Caisse (Weaver, 2003). On the one hand, policy-makers involved in the

CPP reform formally rejected the idea of assigning a secondary investment objective to the new federal board. For this reason, the new CPP Investment Board would only have a single objective, similar to the one of most private pension funds: generating the highest returns possible without undue risks for plan members (Salgo). The decision to reject economic development as a second possible investment objective can be related to social learning from the Caisse's history. During private discussions with federal civil servants, Caisse's officials actually warned them about the political risks associated with the existence of a double investment mandate. Many provincial leaders and civil society representatives also expressed their opposition to "social investment" during the CPP consultation process (Foster; Federal/Provincial/Territorial CPP Consultations Secretariat 1996; Walker). Rejecting Quebec-style economic nationalism, the state investment model that triumphed in the Rest of Canada (ROC) during the late 1990s aimed exclusively at increasing financial returns.¹¹ Giving full investment power to private managers represented the best way to generate higher returns without creating major political controversies traditionally associated with the Caisse.

On the other hand, federal policy-makers made sure that no government official would sit on the CPP Investment Board, a decision meant to increase its autonomy. Policy-makers also designed complex appointment procedures for the CPP Investment Board that would reinforce its autonomy from the federal state while allowing each province to have a stake in the nomination process.¹² This decision contrasts with the current organization of the Caisse, which allows high ranked civil servants to sit on the board of directors. Although the Caisse is officially autonomous from the provincial government, the presence of civil servants on the board, and the fact that the government appoints all its members, undermine the organization's independence. In fact, the "Caisse CEOs have generally had close ties to the provincial governing party." (Weaver, 2003) During the 1980s, the Caisse did face criticism and suspicion from the business community and federal officials who perceived this increasingly powerful investment board (already one of Canada's most important financial institutions) as a mere political tool in the hands of Quebec's nationalist leaders (Brooks and Tanguay). More recently, authors, such as Pierre Arbour, have criticized what they consider politically motivated investments that ultimately generated significant financial losses (1993; 2002).¹³ The presence of top provincial civil servants on the board of directors did not help dissipate doubts about the Caisse's political autonomy. And when investment performances are not perceived as satisfactory, members of the opposition depict the government as responsible for this situation. While pushing the Caisse to adopt a more cautious investment strategy, these attacks made federal policy-makers particularly aware of the political risks associated with direct state investment in stock markets. Yet as the Caisse's returns jumped in the mid-1990s,

it became increasingly tempting to create a similar investment board for the ROC that would generate significantly higher returns than existing provincial bonds while improving the CPP's long-term financial health. Because the Caisse had a spotty reputation within the English-speaking Canadian business community, however, federal officials strategically limited references to this organization in their public statements (Walker). For political reasons, social learning about the Caisse remained a low-profile exercise.

Quebec's experiment illustrated the financial rewards of state financial investment as well as the political uncertainties associated with it. Justified by cautious financial pragmatism that contrasts with the rhetoric of American privatizers, the decision to invest CPP surpluses in equity while creating a fully independent investment board exclusively centered on financial returns—as opposed to economic development—thus seems at least partially grounded in feedback effects from Quebec's long-term financial experiment. And despite the fact that conservative opposition to state investment proved far less vocal in Canada than in the United States, warnings emanating from influential academic and financial circles (Lindgren) also made the need for political independence more pressing.

Although lessons drawn from Quebec's investment board seemed ambiguous, dominant neo-liberal assumptions supporting the financial logic and exceptional stock-market performances made this policy alternative look irresistible. The Caisse and the other Canadian pension funds were generating superior returns while feeding the stock markets. Because current stock-market performances reinforced financial optimism, social learning about the Caisse and other pension funds was rooted in the then dominant financial logic, which transformed potential obstacles to state investment as solvable technical matters, not major economic and political threats.¹⁴ Yet, one must note that policy-makers could have drawn far more pessimistic lessons from the Caisse's experiment. Although financial ideas and optimism impacted these processes, federal policy-makers *could* have opposed financial investment of CPP surpluses after drawing different lessons from the development of Quebec's investment board. As mentioned above, its political history is rather ambiguous and, in the past, federal officials had criticized that provincial institution. However, the dominance of financial ideas related to market liberalism and the higher return rates of Quebec's investment board in a context of increasing stock-market performances (Figure 1) impacted learning processes before convincing most policy-makers that state investment would prove beneficial to the CPP.

In February 1997, Finance Minister Paul Martin presented the draft of the new CPP legislation. It proposed to increase combined employer and employee payroll taxes to the CPP from 5.6% to 9.9% by 2003, in order to build up a larger

reserve fund and avoid more massive tax hikes in the long run. In 1997, the fund had a value equivalent to about two years of benefits, and that was expected to decline in the future. As a result of the final legislation enacted in January 1998 (Bill C-2), the CPP trust fund is scheduled to grow to five years of benefits, with the reserves invested in a diversified portfolio of securities “to earn higher returns and help pay the benefits as Canada’s population ages” (Martin). With the purpose of investing a portion of the reserve fund, the legislation created the CPP Investment Board, an autonomous organization governed by a board of directors. As mentioned above, only independent professionals from the private sector make the investment choices. Although the main goal of the CPP Investment Board is to generate high returns, the existence of a 20% limit on foreign investment—later increased to 30%—constitutes a significant institutional constraint that reduces the freedom of these financial professionals. Moreover, most of the CPP fund is still invested in fixed-income assets such as federal and provincial bonds. Finally, since the CPP mostly operates as a PAYGO system, state investment cannot directly jeopardize pension entitlements because the program still operates on a defined-benefit basis.

Assessing the performances of the CCP Investment Board lies beyond the scope of this article.¹⁵ Regarding the Canadian case in general, one can acknowledge that social learning played a crucial yet low profile role in the process leading to the CPP reform. As the logic of availability suggests, experts and federal policy-makers spent much time evaluating the experience of Canadian pension funds and, more importantly, Quebec’s investment board. Available to them as a central element of the existing Canadian pension system, this investment board provided policy lessons coherent with the neo-liberal assumptions dominant within the Chrétien cabinet and the federal civil service at a time when exceptional stock-market performances oriented most learning processes toward support for state investment. To explain why state investment created less opposition in Canada than in the United States, one can argue that, because the Canadian state had long played a more direct role in economic regulation, business leaders and neo-liberal experts were less prone than their American counterparts to view state investment as a dangerous departure from existing economic institutions. Moreover, as privatization remained off the Canadian federal legislative agenda, business interests could perceive state investment as the only politically acceptable method for using the public pension system in order to generate new demands for equities. Finally, the fact that the CPP Investment Board would rely heavily on expertise emanating from the financial industry constituted an additional reward for the private sector.

Conclusion

The above discussion about social learning and institutional legacies explored the meshing of pension politics and financial investment in the 1990s. During that decade, the debates over financial investment and pension reform took a very different shape in Canada than in the United States. The idea of privatization remained marginal in Canada, a situation that contrasts with the scope of the American debate over that issue. The federal decision-making process associated with C/QPP reform largely contributed to the *a priori* exclusion of highly controversial policy alternatives such as privatization. In the United States, partial privatization appeared as a more debated policy option than state investment: the one that finally triumphed in Canada, a country in which one of the provinces had invested earnings-related pension contributions in equity since the late 1960s. In contrast to the Canadian experience, American social learning in the field of financial investment mostly concerned a comparison between Social Security and private savings schemes, as the growth of 401(k) and other savings schemes in a time of exceptional stock-market performances legitimized financial optimism and, ultimately, privatization. Comparing rates of return of Social Security and private pension schemes made sense for conservatives because 401(k) constituted an explicit model for privatization. Considering the weight of divided government, the lack of trust between the President and Congress, and the absence of short-term “fiscal crisis” and the mixed results of the conservative campaign to convince public opinion to support partial privatization, no major reform occurred.

The present article provides general insights about the politics of social learning in advanced industrial societies. First, as evidenced above, social learning deals with both public and private policy legacies, and it can hardly be described as a purely detached technocratic process. Second, policy lessons can have a high profile and serve as framing tools aimed at convincing the population to support a specific policy alternative. Third, financial timing and changing economic conditions generally affect the way policy-makers perceive the functioning of existing social and economic policies. But because these performances are unstable and actors tend to extrapolate from short-term episodes, timing is crucial as economic and financial downturns may reduce the support for specific policy alternatives such as pension privatization. Fourth, ideological commitments, institutional legacies, and the related logic of availability (i.e. drawing lessons from not too distant policy legacies) impact social learning processes. Yet, policy lessons are not always the mere consequence of pre-existing ideological commitments and institutional legacies. Recognizing that policy-makers have some level of cognitive autonomy is necessary to sustain the concept of social learning, which is analytically distinct from—and cannot be reduced to—framing processes and

policy feedbacks. Although more research is necessary to understand the conditions of such autonomy, future scholarship could start from the perspective that social leaning is a genuinely political construction, not a mainly detached and objective technocratic process.

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Notes

¹ On framing, see Powell, Bronco, and Williamson, 1996.

² John W. Kingdon's theory rightly underlines the role of economic conjunctures in agenda setting.

³ In 1998, 39.1% of the workforce participated in an employer-sponsored plan (Statistics Canada: 16).

⁴ In 1994, only one congressional hearing on the future of Social Security was held. In 1997, Congress held ten different hearings dealing directly with that issue. After a small decline in 1998, the number of Social Security hearings increased to 18 in 1999 (Cook, Barabas, and Page).

⁵ According to the official actuarial forecast of the Social Security Administration, the anticipated trust fund "exhaustion" moved further away—from 2029 in 1997 to 2034 in 1999.

⁶ The number of presidential addresses in which Social Security is mentioned jumped from 48 in 1997 to 225 in 1998 and 230 in 1999 (Cook, Barabas, and Page: 241).

⁷ In addition to making direct political contributions, many banks and financial services firms financed think tanks, research projects, and public-policy forums that promoted Social Security privatization. Yet by 1999, the support for Social Security privatization within the financial industry had already faded as concrete legislative proposals showed the administrative problems associated with this policy alternative (Darby and Celarier).

⁸ The White House staff spent thousands of hours in total during the last two years of Clinton's second mandate dealing with various Social Security proposals (Burman).

⁹ Simultaneously, Quebec conducted its own pension consultations within the province.

¹⁰ The original investment target for the CPP Investment Board (4% above the rate of inflation) "is based on rates of return in the Quebec Pension Plan" (Drover: 97).

¹¹ The Caisse has modified its practices since the 1980s to favor higher returns and invest outside Quebec's economy.

¹² Since it relies heavily on outside managers, the CPP Investment Board has a far more modest staff than the Caisse: less than thirty employees against more than 500 (Weaver, 2003).

¹³ These attacks reflected concerns emanating from business interests. In Quebec, the left largely supports the Caisse, which is perceived as a tool for French-Canadian economic development. In English-speaking Canada, the left expresses doubts about state financial investment and the functioning of the CPP Investment Board, which lacks a "social investment" component (Nystrom).

¹⁴ Informal discussions with several federal officials confirmed this intuition.

¹⁵ For details about these performances, see Sass, 2006.

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Table 1: Types of Social Learning

Types of learning	Low profile	High profile
Main objective	Guiding policy-makers	Convincing the public
Principal mode of diffusion	Bureaucratic	Mass media
Who is drawing the lessons	Advisors, bureaucrats, elected officials, policy experts	Journalists, elected officials, think tanks
Link with framing processes	Weak	Strong

Table 2: Types of Pension Reform Tied to Financial Investment

Type of reform	Full privatization	Partial privatization	Supplementary savings accounts	State investment
Benefits	Investment-based	Part Investment-based, part defined benefits	Investment-based on the top of defined benefits	Defined benefits
Level of risk for workers	Higher	Moderate	Low	Low
Transition costs	Very high	High	Nonexistent	Limited

**Figure 1
Dow Jones Industrial Average**

