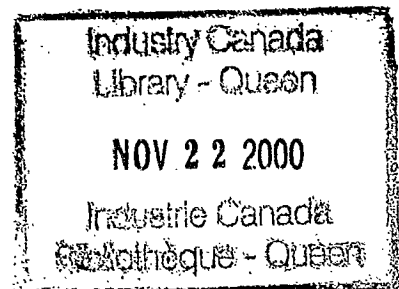


WHAT'S A COUNTRY FOR?

Globalization, Northern American Integration and Social Policy



Keith G. Banting

**Stauffer-Dunning Professor of Policy Studies and
Director of the School of Policy Studies, Queen's University**

**Address to the Industry Canada Distinguished Speakers in Economics Program
Ottawa, January 28, 2000**

I have chosen as my title today a question: "What's a country for?" Obviously, such a question admits of many answers, from the mundane to the metaphysical. In my comments today, I hope to steer between these two extremes, and to reflect on the role of "country" -- and of the governments of countries -- in balancing pressures emanating from the wider global context on one hand and domestic society on the other.

Since the dawn of the state system in Europe in the seventeenth and eighteenth centuries, each state has existed at the intersection between the international order and its own domestic order. In the words of Theda Skocpol, the Harvard scholar, the state "is fundamentally Janus-faced, with an intrinsically dual anchorage in domestic society and the international system" (1979: 32). Inevitably, the role of governments is to balance pressures from these two domains. In part, the state seeks to protect domestic society from external threats, and seeks to nudge as best it can the international system in directions consistent with domestic interests and concerns. But, in part, the state also conveys pressures emanating from the wider global context to domestic society, adapting internal policies to international conditions it cannot alter and helping domestic interests to adjust to the world beyond its borders.

The evolution of social policy has long been shaped by this Janus-shaped character of the state. In the contemporary period, however, there is an intense debate whether the balance has shifted decisively. Is it possible to engage fully in the global economy, and still preserve a distinctive national approach to the social contract? Or are competitive economic pressures narrowing the degrees of freedom enjoyed by the state? Are advanced democracies converging on a transnational model of social policy? If this is the case, what answer do we give to my question: "What's a country for?"

In thinking about these issues, I will be drawing on several studies completed with two colleagues, including a project completed recently for the Trends project sponsored by the Policy Research Initiative (Hoberg, Banting and Simeon, forthcoming; also Banting, Hoberg and Simeon 1997). I will also draw on a number of recent studies by others. My comments are organized in four sections: (a) a brief look backward at the postwar policy package in OECD countries; (b) an assessment of the implications of economic integration for social policy in general terms; (c) a more detailed examination of Canada in the context of North American economy; and (d) a brief look forward at the priorities for government action in a new century.

Looking Back Briefly: The Postwar Pattern

The pattern of public policy in western nations during the postwar period can be characterized in musical terms: it was a policy composition with a powerful common theme but also rich national variations. The central theme was a policy package that combined the liberalization of the international trading regime with an expansion of social security protections, a package which John Ruggie has labeled "embedded liberalism" (Ruggie 1983, 1994). Under the GATT and other initiatives, a steady process of economic liberalization broke down the barriers to international trade and many of the detailed regulatory regimes created during the depression and war years. However, this liberalization was accompanied by the development of social protections which provided greater security for citizens and populations as a whole. At one level, the welfare state represented a response to the need for health care, education and income protection during old age, unemployment, sickness, and disability. But at another level, the system of social protection contributed to society's willingness to accept the economic adjustments and disruptions inherent

in economic liberalization. In Ruggie's words, "governments asked their publics to embrace the change and dislocation that comes with liberalization in return for the promise of help in containing and socializing the adjustment costs" (ibid: 4-5). This social contract was a buffer against the kinds of social and political backlashes that undermined openness in the first half of the 20th century: protectionism, nationalism and international conflict.

This promise of embedded liberalism took the form of a set of *social rights*, codified in common access to a core set of universal social programs and statutory guarantees in cases of selective benefits such as social assistance. In effect, these programs provided a right to security, as security was understood by that generation. I will return to this theme in my closing comments.

Around the central theme of embedded liberalism, western nations created a rich pattern of national variations. Different countries built quite different systems of social protection. Some countries invested heavily, designing comprehensive security systems; other countries devoted less of their resources to the task. There was no single, transnational model of the welfare state, and public spending on social programs as a percentage of GDP varied considerably. In 1974, which represented the end of this era, the average among OECD countries was 18 percent of GDP, but the variation ranged from 8 in Japan to 27 percent in the Netherlands. Much effort has been devoted to analyzing these national differences in the social contract and the factors that shaped them. In part, different social contracts reflected the location of countries in the international economy; countries with more open economics and greater vulnerability to international economic shocks tended to construct more expansive social protections, a finding consistent with the theory of embedded liberalism (Cameron 1978; Rodrik 1997; Agell 1999). But the rich variations also reflected differences in the domestic traditions, cultures and politics of individual western nations

(Esping-Andersen 1990). In the postwar era, the answer to my question was clear. The role of a country was to give expression to domestic cultures and preferences, and to protect citizens from external shocks.

Contemporary Variations: The Room for Manoeuvre

Fast forward to the contemporary period. The pressures inherent in international economic integration have been discussed extensively, and do not need to be re-described yet again. The critical issue here is the extent to which these pressures change the central theme and scope for national variations in the policy packages of western nations. Is the common theme of embedded liberalism still viable? And is there still scope for national variations? How many degrees of freedom do countries enjoy in redesigning their systems of social protection? I turn first to the question of the scope for distinctive national choices, and return to the common theme in my concluding comments.

Are countries free to chart distinctive social futures, or does economic integration compel greater convergence or even harmonization in social policy? It is important to sort out the underlying economic patterns from the more philosophical and political elements of this debate. The key question is whether the global context has changed so much that the state is no longer balancing domestic and international forces, and that global economic imperatives will prevail. Is there a form of economic determinism at work? There has been an interesting reversal in the role of economic determinism in our political discourse. In the 1970s and 1980s, a form of neo-marxism was fashionable on the political left, at least in academic circles. Advocates of this perspective argued that the structure of the capitalist economy was the dominant force shaping

the role of government. Commentators on the political right replied that the rich diversity of policy packages across western nations demonstrated that marxists underestimated the scope for autonomous political choices in a market economy.

Today, positions are often reversed. Some commentators on the political right insist that economic and technological imperatives compel convergence or harmonization in the policy regimes of trading partners. In the language made famous first by Mrs. Thatcher, "There is No Alternative." TINA for short. Convergence is a powerful process, and countries that deviate from transnational norms inevitably jeopardize their economic futures. Today, it is commentators in the political centre and on the left who reply that there is still room for national variations on the central themes of the day.

As always, the underlying patterns are more complex. At a theoretical level, the case that economic integration will weaken social contract is premised on the argument that with freer movement of factor inputs, goods and services, noncompetitive cost differentials will be stripped away. This basic logic does make some sense, and we should anticipate pressures for change, pressures that would be felt most strongly in open economies (Krueger 2000). Nevertheless, there are also reasons for assuming that the pressures will not be all-powerful. Some aspects of the social contract may well enhance economic efficiency. Even in the contemporary period, mobility of factor inputs and goods and services is far from perfect. In some cases, flexible exchange rates provide another instrument of adjustment. And the proposition that domestic political expectations and pressures now carry negligible weight seems inherently implausible. That is, for me at least, the contemporary determinism is no more persuasive than the marxism of yesterday.

So far at least, predictions of an inevitable convergence of social policy regimes are not

sustained by the evidence. Take, for example, social spending as a proportion of GDP. Convergence in social expenditures across OECD countries was actually stronger during the 1960s and 1970s, the eras of rapid growth in social spending when countries were developing their distinctive versions of the social contract. In comparison, the pace of convergence has slowed in the contemporary era of globalization, at least in some parts of the world. Convergence in the current period is strongest among countries of the European Union where additional political factors are at work. The political determination to build an ever closer union generates dynamics that go well beyond those implicit in the global economy alone. Indeed, if one restricts the analysis to OECD countries outside of the EU, measures of the variation in social spending hardly budged in the 1980s and first half of the 1990s (Banting 1997).

Even within Europe, the dominant pattern is one of national responses to international pressures. Convergence in social spending has been due as much to considerable increases in spending in southern countries such as Greece, Spain and Portugal as to a slowing in northern Europe. Moreover, underneath the slow convergence in social spending lies continuing diversity in the design of social programs. Despite the adoption by member states of a formal resolution in favour of a voluntary strategy of convergence in social protection policies, a study by the European Commission could find no consistent pattern of convergence implicit in the program adjustments of the 1980s. "There has certainly been convergence of the problems to be solved...(but) there is no clear evidence of convergence of social protection systems in the Community of the 1980s" (Commission of the European Commission 1994: 9). More recent academic studies point to similar conclusions. For example, a NBER study by Alan Krueger released this month concludes that "the likely impact of economic integration on the labor

compact has been exaggerated, both by those who fear a deterioration of labour protections and by those who welcome it....Integration will cause some downward pressures on labor market protections, but the pressure will be modest, and European nations will continue to maintain their generous and distinct labour practices" (Krueger 2000: 2).¹ The broad parameters of European social policy still respond to national political impulses.

Other studies of OECD countries more generally point broadly in the same direction. Nancy Olewiler's detailed analysis of taxation trends finds no evidence of significant convergence across OECD nations (Olewiler 1999). In addition, studies of U.S. experience point to the durability of significant differentials in workers' compensation and labour standards across states despite a common currency and unrestricted mobility of labour, capital, goods and services. This is not to argue that economic integration is irrelevant. It clearly generates pressures, and those pressures are undoubtedly felt most strongly in countries with more open economies. For example, Garret and Mitchell have found that if one only looks at the relationship between *levels* of social spending to *levels* of trade dependence, the two are positively related. But relating *changes* in trade dependence to *changes* in social spending does reveal a small but statistically significant negative relationship, that is, between growing trade dependence and declining social spending (Garret and Mitchell, unpublished). Nevertheless, overall, the evidence suggests that the pressures for harmonization or a race to the bottom are not overwhelming. Rodrik probably has it about right when he argues that "while the tradeoffs facing policy makers have been rendered steeper by the increased trade and capital flows, there exists plenty of room for nation-states to maintain their own distinctive domestic social arrangements" (1998: 13). What's a country for? It seems that part of the answer remains that it is an instrument for reflecting distinctive domestic

cultures and politics.

What about the specific case of NAFTA and convergence between Canada and the United States? Is there evidence of a powerful convergence in social policy? Once again, the answer, on balance, is no. Programs have been restructured and benefits reduced in both countries, but restructuring is not the same as convergence. In many traditional social programs -- such as health care or pensions or other income support programs -- the gap between the Canadian and US approach is as great or greater as in the past. There are areas of convergence, to be sure. Unemployment insurance stands out, as the attached figure confirms. However, not every case of convergence can be laid at the door of economic integration. For example, there has been a remarkable convergence in the area of child benefits. Twenty-five years ago, Canada had a universal Family Allowances and the US was the only advanced country with no general children's benefit. Today, the Child Benefit regime in Canada and the Earned Income Tax Credit in the US reflect similar approaches to the problems of poverty and low incomes and the possibilities of integration of tax and benefit systems. This case is better interpreted as a reflection of similar domestic impulses rather than economic integration.

Of course, the pattern is more complicated than this simple overview suggests. The persistence of difference is strongest in the major social programs developed during the postwar era, such as health care and pensions. Here the internal logic of the programs, their entrenchment in public expectations, and the accommodation of established interests to their presence in the market create a sort of path dependency. In effect, the distinctive national choices of the postwar era set the two countries along different paths, and each continues to move along a distinct path, adjusting to common pressures in different ways. In newer policy areas such as home care or child

care, however, the patterns of development in the two countries have been more similar, reflecting perhaps an element of convergence in the underlying cultural values in the two countries during the last half century. Nevertheless, overall, the Canadian and American welfare states are as different today as they were in the mid-1970s, the highwater mark of the postwar welfare state. As final evidence, I offer several figures to demonstrate that governments can make a difference and that there is a distinctive approach to the social contract on the two sides of the border [See attached figures].

The consequences of economic integration may not be the same in all areas of public policy. My colleague George Hoberg argues that environmental policy reveals greater convergence (Hoberg, Banting and Simeon, forthcoming). In this case, however, the US has a stronger track record of environmental protection, which has reduced downward pressures on standards that might otherwise have existed; and in some cases, such as automobile emission standards, developments south of the border have actually helped to pull Canadian standards up. A more sensitive area, where Canadian and US approaches differ more markedly is emerging in the case of immigration and security controls. The contemporary US presents a fascinating schizophrenia: at one moment, the confident single superpower; at the next moment the anxious paranoid, fearing its vulnerability to terrorists or missiles from rogue states. It seems to be attempting to build a defensive perimeter around itself, and the critical issue is whether Canada will be inside or outside the perimeter. Being inside the perimeter will require greater harmonization of Canadian policies in areas of security and immigration; being outside of the perimeter will impose significant inconvenience and costs on Canadians.

Yet, the conclusion in the domain of social policy seems clear, even when all of the throat-

clearing qualifications have been uttered. The border still matters. Distinctive domestic cultures and politics still matter. Choice still exists.

But what choices will Canadians make in the future? It is one thing to argue that choice exists in principle. It is another to anticipate the ways in which Canadians will exercise that choice. There is no reason to assume automatically that Canadians will make the same choices in the future that they did in the past. Much will depend on productivity trends, and the real incomes of Canadian families. The last decade has been a tough one for Canada from that perspective. Much will also depend on generational change. Public opinion polls confirm that young people have much less faith than their elders that key programs such as public pensions will be there for them. It remains to be seen whether concerns about inter-generational equity will lead them to a different ethic on core social values. Moreover, the evolution of our domestic politics will be influenced by globalization. In addition to the direct economic pressures, integration can have indirect, second-order consequences for Canadian social policy. A closer economic embrace can alter the balance of political forces within the country, strengthening those with a minimalist view of the role of the state and weakening those committed to a more expansive vision of the social contract. Over time, economic integration may also lead to greater cultural convergence between the two countries, such that the values Canadians bring to their politics increasingly resemble those south of the border. If such forms of political convergence do emerge, policy convergence will presumably follow. The processes of deep political change are much slower than economic change, to be measured in generations, not mere years. It is at this level, however, that the real answers to my question will emerge.

The current debate about taxation represents a good test of the trends. Changes in tax

policy have powerful implications for the political viability of a distinctive social contract on the northern half of the North American continent. In an age of growing surpluses, however, tax cuts are not necessarily a sign of the abandonment of traditional commitments. The upward drift in taxation levels during the era of deficit-fighting is unlikely to be sustainable in the post-deficit era. However, as Hufbauer, Olewiler and others have argued, we retain important degrees of freedom in economic terms to shape the mix of taxes and the overall level of tax revenues as a proportion of GDP. As a result, the overall impact of tax cuts on different income groups remains to be resolved in the political process. If Canadians opt for greater convergence towards the American model of taxes and benefits, it will represent a political choice, not an economic necessity.

A New Common Theme? Re-embedding Economic Liberalism

How should we use the room for manoeuvre that remains? This is the most important question. The real issue is whether the contemporary phase of economic liberalization can be re-embedded in a system of social security that is appropriate to a global era but also sufficiently strong to sustain the legitimacy of an open economic order and preserve a civilized social order. The postwar combination of economic liberalization and social protection mitigated the conflicts that turned the world away from openness in the first half of the 20th century. History seldom repeats itself precisely. Nevertheless, the social tensions generated by globalization represent a challenge today, as the battles in the streets of Seattle illustrated for all see.

The economic and social conditions that shaped the postwar social contract have changed, and the central theme of the policy package has to evolve as well. Contemporary analysts have built a compelling argument that in a global economy the only real security -- both personal and

collective -- flows from human capital, and that investment in human capital has to be the central theme for the 21st century. The emphasis on human investment is potentially a broad one, incorporating early child development and child care as well as education and training more narrowly defined. Nevertheless, the challenge to re-embed economic liberalization suggests that we need to think of investment in human capital in the language of social *rights*. In the postwar period, the social contract promised citizens a right to security, as the concept of security was understood at that time. We need to think about a similar commitment to security as we understand it in our own time: a *right* to the opportunity to build human capital. Rising debt loads being carried by graduates raise the question of whether we are retreating from collective investment in human capital, the Millennium Scholarships notwithstanding. Re-embedding economic liberalization, to my mind, is going to require a new definition of the issue: how do we guarantee a right to the opportunity to build human capital? Such a right does not necessarily imply free education. It does, however, imply a guarantee that no person with the ability to proceed should be deflected by financial circumstances or the prospect of daunting debt loads.

Finally, the central theme of human capital alone is not sufficient. Other instruments of social policy, such as health care and redistributive programs, will remain as critical to a civilized society in the future as in the past. A strategy premised powerfully on human capital does not offer much protection to a number of vulnerable communities, especially less skilled workers. In the words of Beaudry and Green, one realistic vision of the future suggests that economic "polarization is likely to create enormous tensions between generations and social classes, and to place new demands on the Canadian redistribution system (Beaudry and Green 1998, p. 69). More dramatically, it is not clear that strategies premised on human capital alone will offer an

adequate response to the complex problems posed by homelessness in major Canadian cities. This suggests a complementary theme focused on the use of the tax-transfer system to mitigate the growth in inequality implicit in the knowledge economy.

In Conclusion:

Several points seem to stand out from this review:

- Governments can make a difference. The constraints are real, but they do not represent an economic determinism. There is important room for national variations around the common themes of modern life.
- The extent of convergence between Canadian and US social regimes will depend as much on the evolution of domestic politics as economic imperatives.
- We need to find a new means of re-embedding economic liberalism in a system of social protection adapted to a new century. This will require a return to the language of social rights, although in a form suited to a global era.

Finally, we need to redefine the contemporary question. Too often, we ask what are the constraints on our scope for action? Too seldom do we ask the obverse question: where are the areas in which our room for manoeuvre remains important and how can they be expanded.

Admittedly, the distinction is between whether the glass is half full or half empty. But I would be happier if the analytical task was to search for ways in which we can bring distinctive variations to the common themes of the 21st century, ones that reflect Canadian traditions and values. After all,

what's a country for?

NOTES

1. For an analysis by political scientists that places somewhat more weight on the integrative potential of the political institutions of the European Union, see Leibfried and Pierson 1995: 44. Even they, however, see the primary determinants of social programs in the Europe of the future as national in origin.

REFERENCES

Agell, Jonas (1999). "On the Benefits from Rigid Labour Markets: Norms, Market Failures and Social Insurance," *Economic Journal* 109: F143-F164.

Banting, Keith (1997). "The Internationalization of the Social Contract," in Thomas Courchene (ed.), *The Nation State in a Global/Information Era* (Kingston: John Deutsch Institute for the Study of Economic Policy).

Banting, Keith, George Hoberg and Richard Simeon (1997). *Degrees of Freedom: Canada and the United States in a Changing World* (Montreal: McGill-Queen's University Press).

Cameron, David (1978). "The Expansion of the Public Economy: A Comparative Analysis," *American Political Science Review* 72: 1243-1261.

Commission of the European Communities (1994). *Social Protection in Europe: 1993*. Directorate-General for Employment, Industrial Relations and Social Affairs (Luxembourg: Office for Official Publications of the European Commission).

Esping-Andersen, Gosta (1990). *The Three Worlds of Welfare Capitalism* (Princeton, N.J.: Princeton University Press).

Garret, Geoffrey and Deborah Mitchell (forthcoming). "Globalization and the Welfare State," unpublished manuscript, July 1999, available at <http://pantheon.yale.edu/~gmg8/research>.

Hoberg, George, Keith Banting and Richard Simeon (forthcoming). "North American Integration and the Scope for Domestic Choice: Canada and Policy Autonomy in a Globalized World."

Hufbauer, Gary and J. Schott (1998). *North American Economic Integration: 25 Years Backward and Forward* (Ottawa: Industry Canada).

Krueger, Alan (2000). "From Bismarck to Maastricht: The March to European Union and the Labour Compact" Washington, D.C.: NBER Working Paper 7456.

Olewiler, Nancy (1999). "National Tax Policy for an International Economy: Divergence in a Converging World?" in Thomas Courchene, (ed.), *Room for Manoeuvre? Globalization and Policy Convergence* (Kingston: John Deutsch Institute for the Study of Economic Policy, Queen's University).

Rodrik, Dan (1997). *Has Globalization Gone Too Far?* Washington, D.C.: Institute for International Economics.

_____ (1998). "The Debate Over Globalization: How to Move Forward by Looking Backward" (unpublished manuscript).

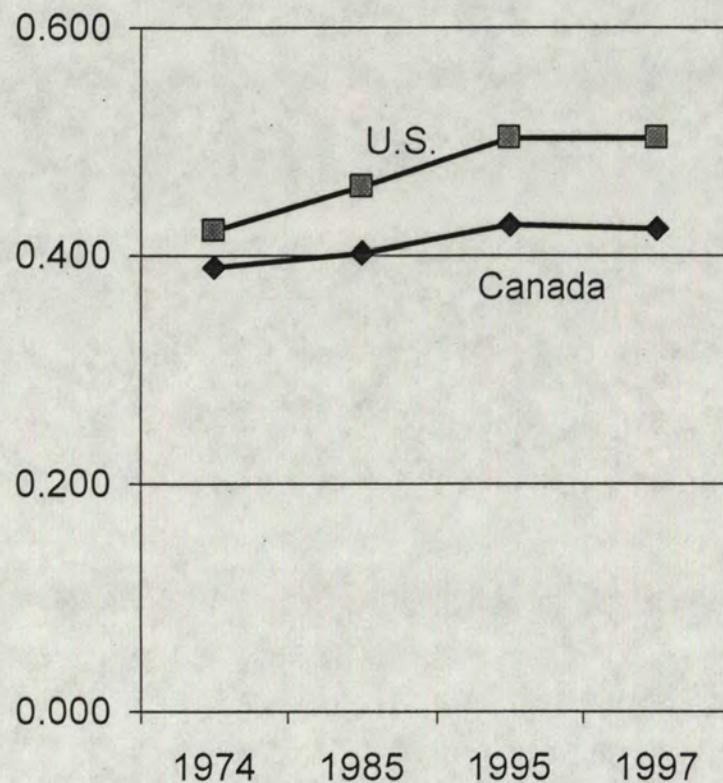
Ruggie, John (1983). "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Order," in S. Krasner (ed.), *International Regimes* (Ithaca, NY: Cornell University Press).

_____ (1994). "Trade Protection and the Future of the Welfare State," *Journal of International Affairs* 8: 1-12.

Skocpol, Theda (1979). *States and Social Revolutions* (Cambridge: Cambridge University Press).

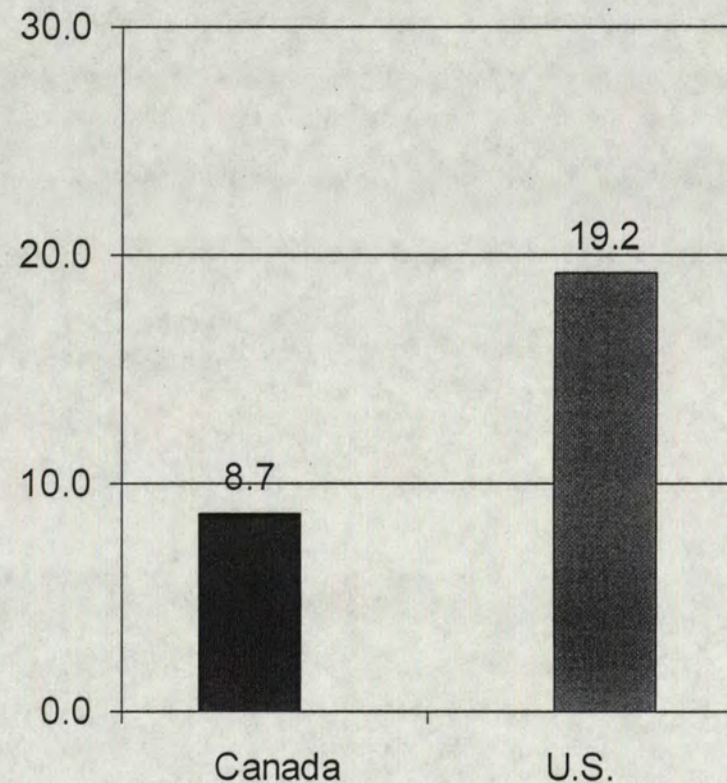
Market income inequality increased more in the U.S.

Gini Coefficients, 1974-97



Source: Statistics Canada

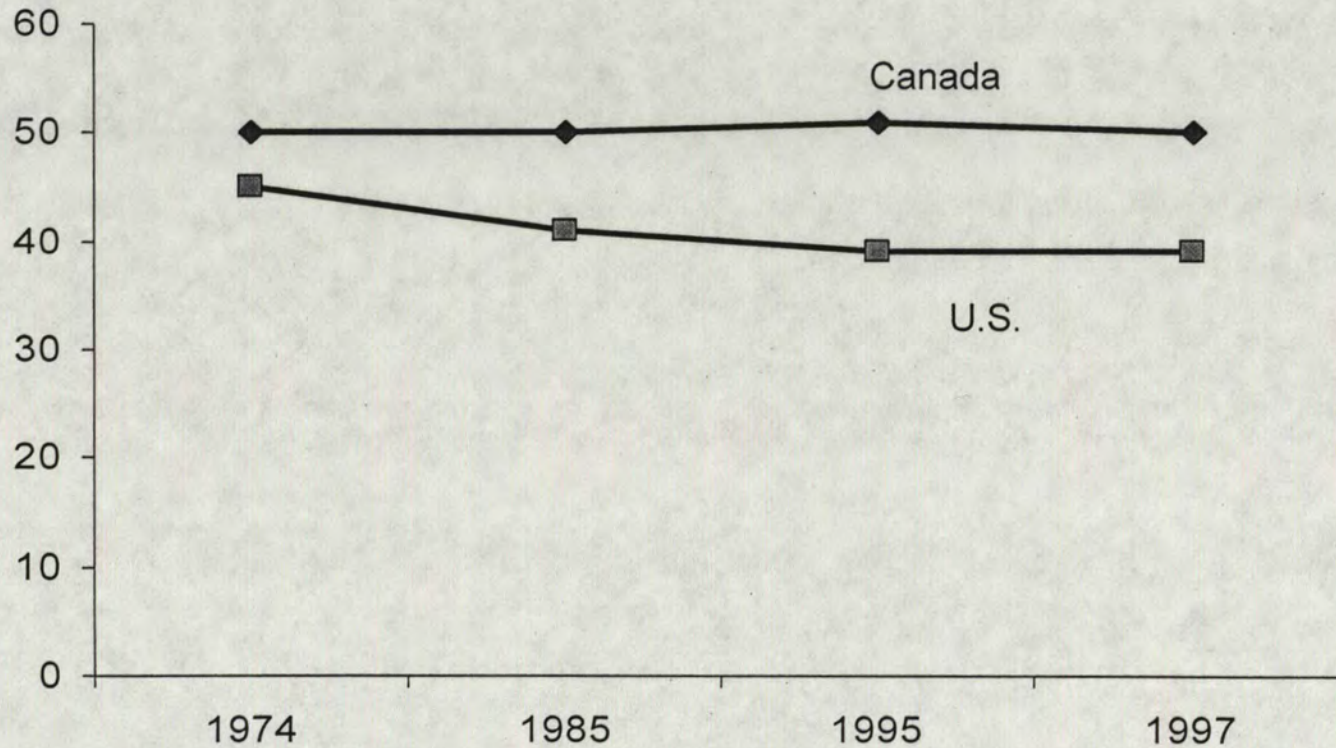
Percentage change in Gini Coefficients, 1974-97



Size of U.S. middle class declining while Canadian middle class stable

Economic family income polarization, 1974-97

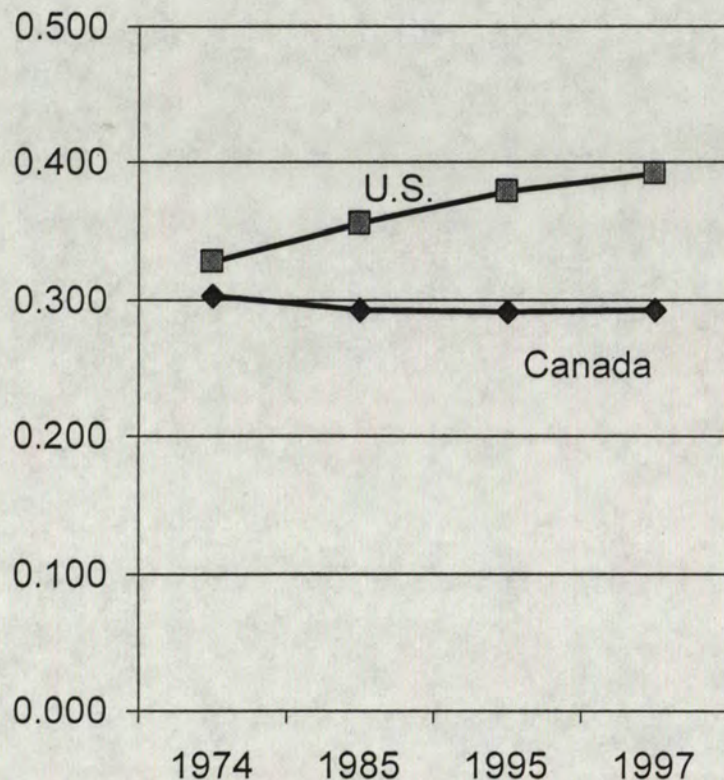
(Population share with 75-150% of median earnings)



Source: Statistics Canada

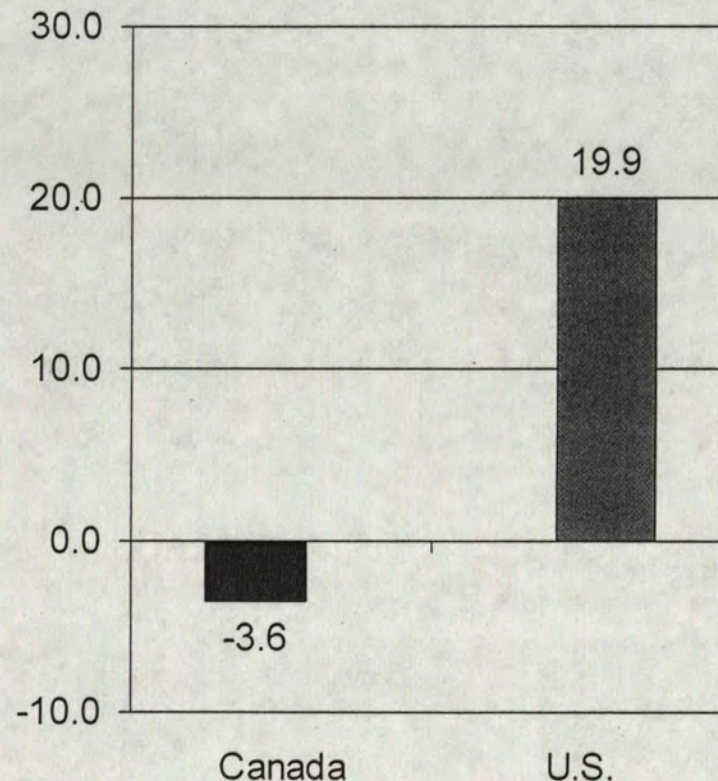
After-tax income inequality declined in Canada and increased in the U.S.

Gini Coefficients, 1974-97



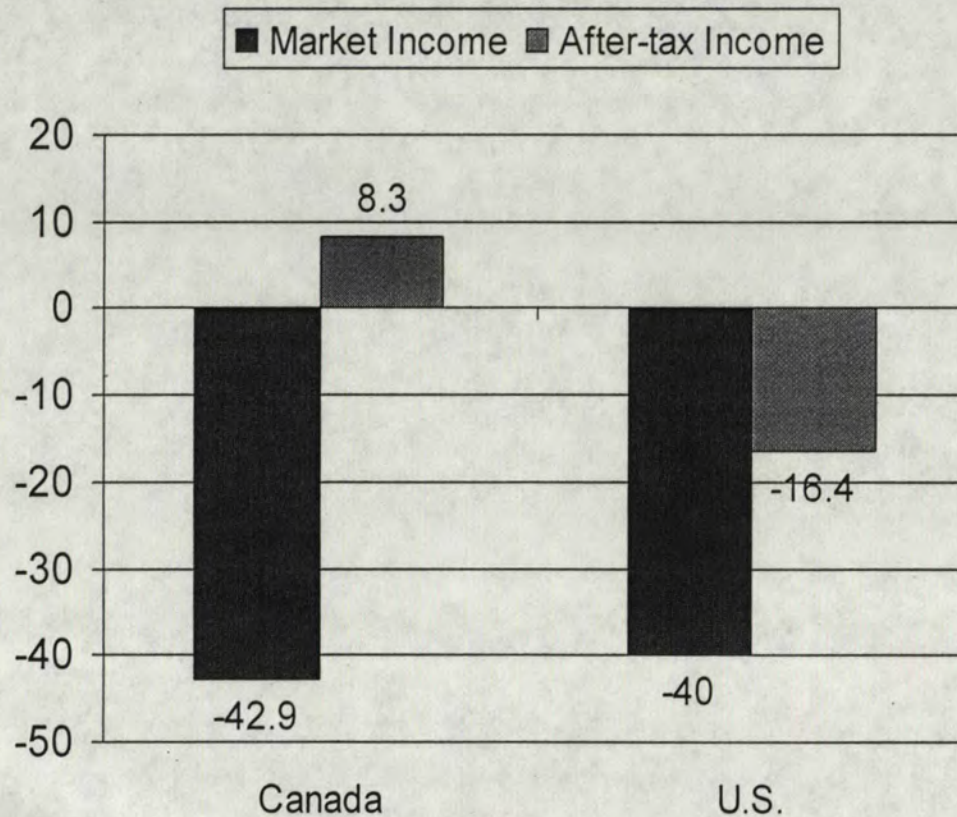
Source: Statistics Canada

Percentage change in Gini Coefficients, 1974-97



Tax and transfer system has increased lowest quintile's share of income in Canada

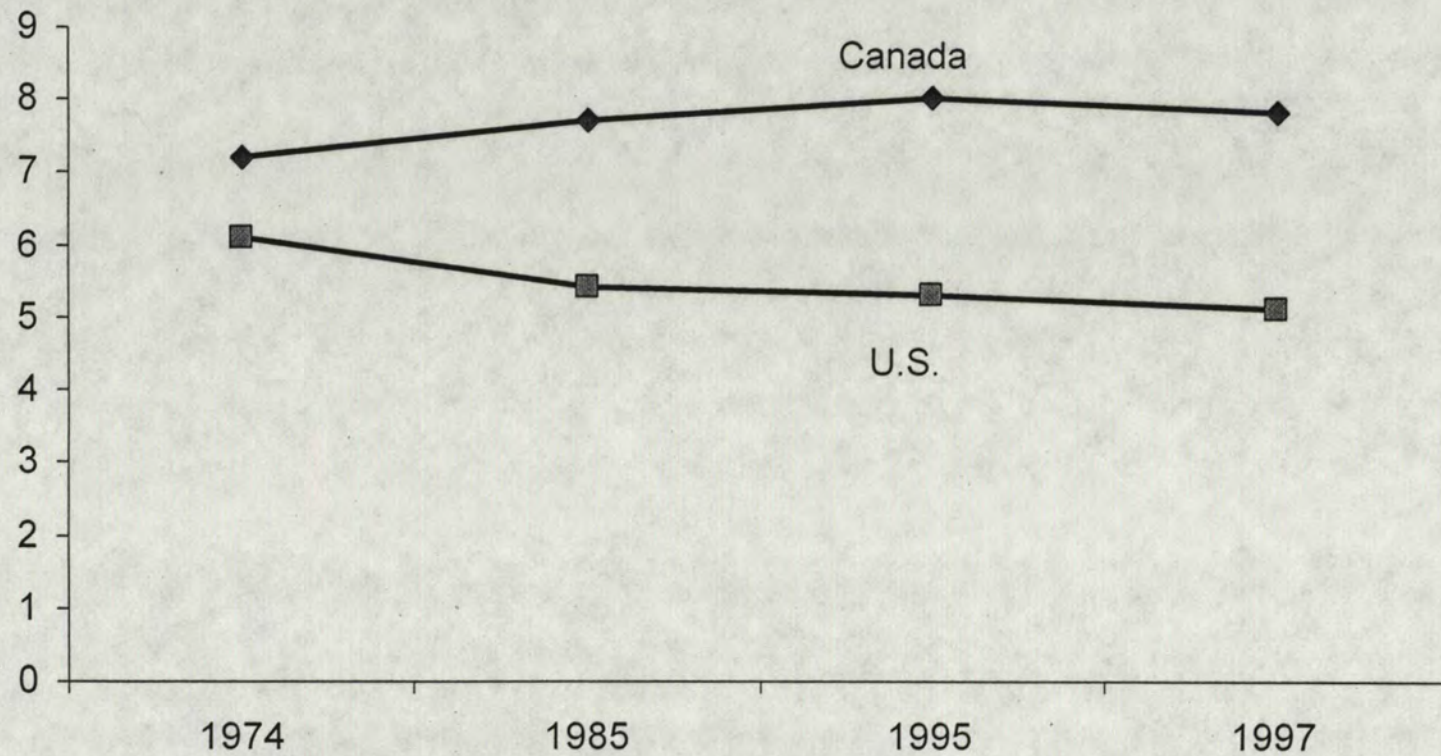
Percentage change in lowest quintile's share of income, 1974-97



Source: Statistics Canada

Lower-income families do better in Canada

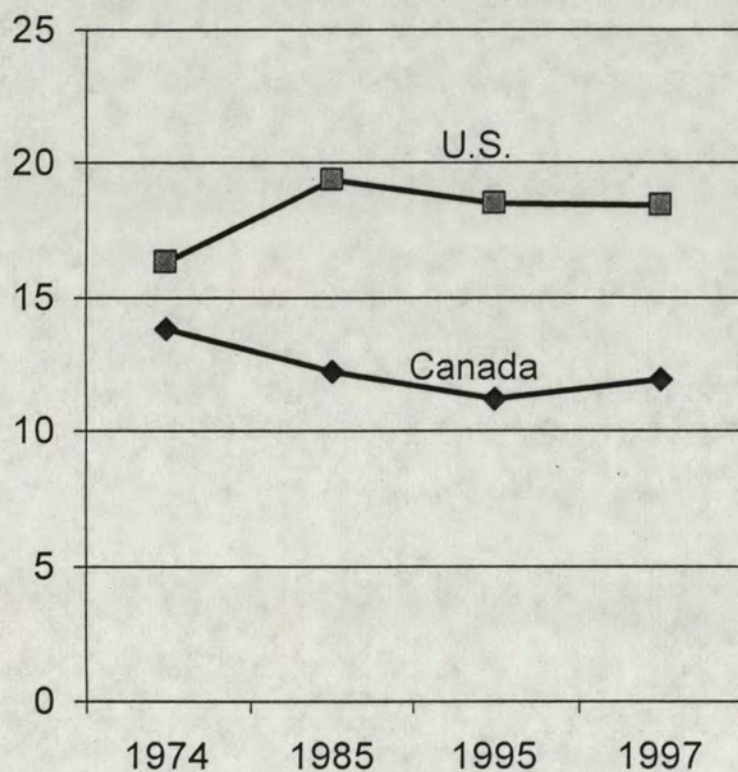
Lowest quintile's share of family after-tax income, 1974-97



Source: Statistics Canada

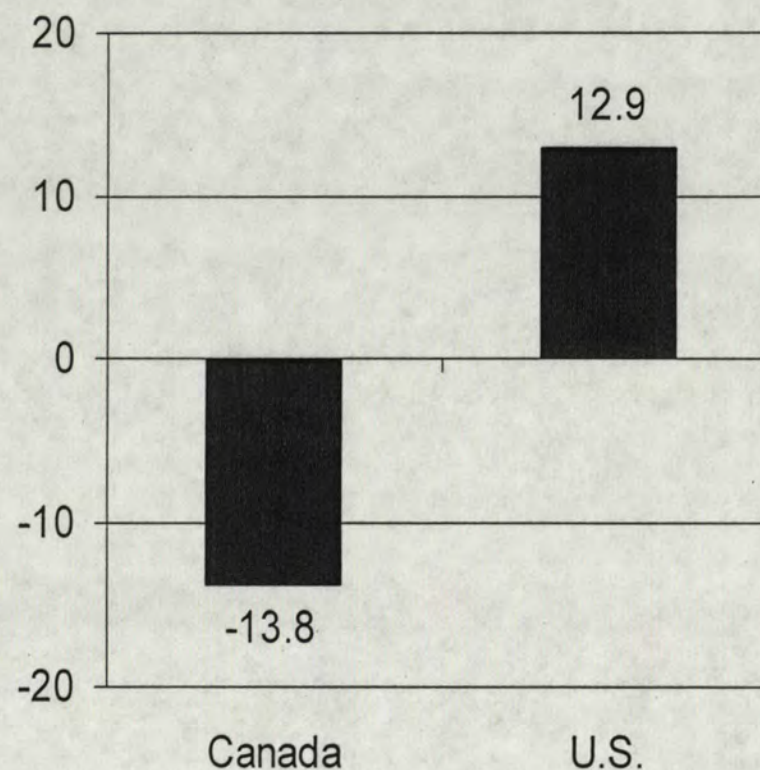
Poverty rate higher in the U.S., gap narrowing slightly in the 1990s

Percentage of families with less than 50% of median adjusted income, 1974-97



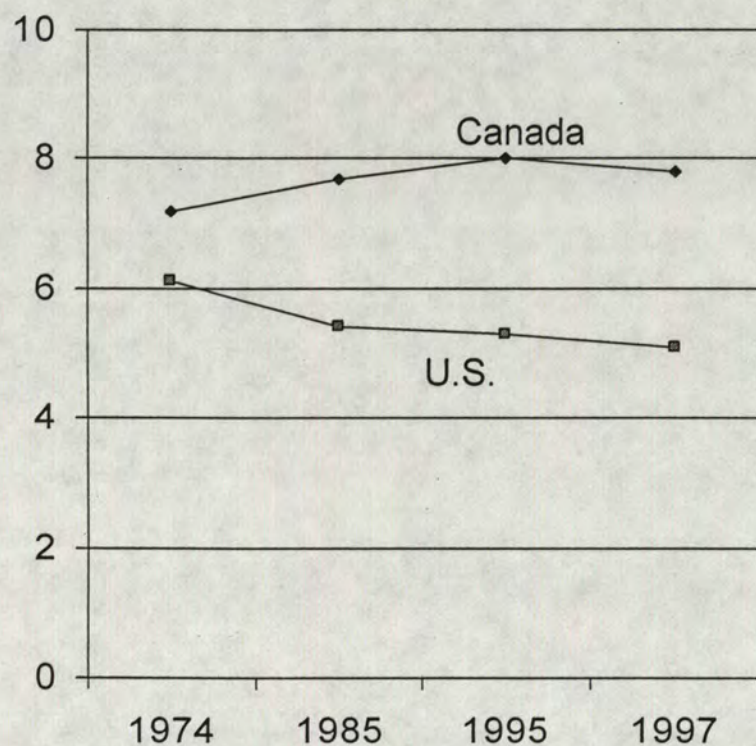
Source: Statistics Canada

Percentage change in number of families, 1974-97

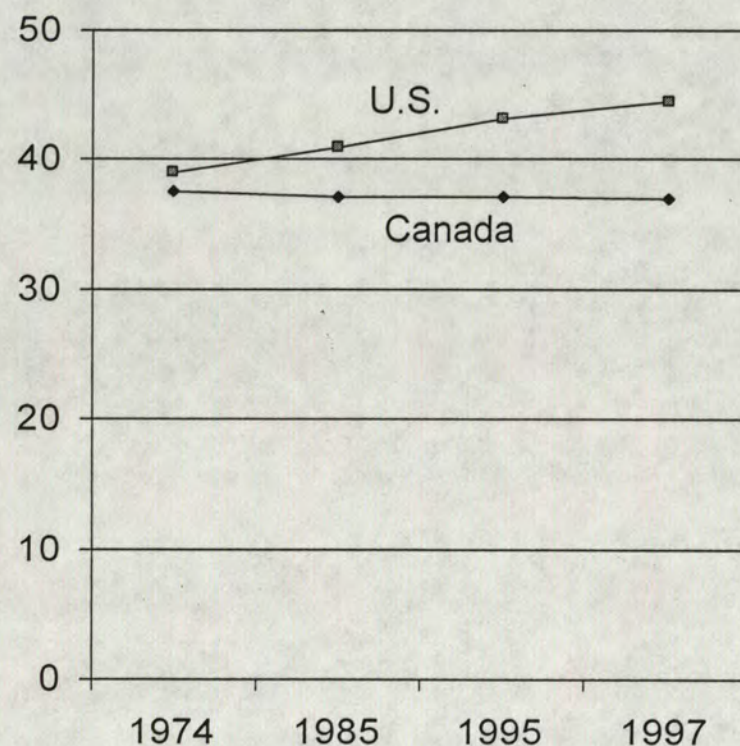


Lower-income families do better in Canada, but higher-income families do worse than U.S. families

Lowest quintile's share of family after-tax income, 1974-97



Highest quintile's share of family after-tax income, 1974-97



Source: Statistics Canada

QUEEN HF 1418.5 .B3 2000 c.2
Banting, Keith G., 1947-
What's a country for? : glob

INDUSTRY CANADA/INDUSTRIE CANADA



146163

