

What's a Country For?

The Social Contract in the Global Era

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I have chosen as my title today a question: "What's a country for?" I have deliberately not chosen the title "What's a Border for?" as I will not be talking about issues of border management. Rather I wish to reflect on the role of "country" — or, if you prefer the role of the state — in the global era.

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 society. 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 has been 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.

In the contemporary period, however, there is an intense debate whether the balance has shifted decisively, and some commentators argue that there is precious little room left for domestic policy autonomy. Is it possible to engage fully in the global economy, and still preserve a distinctive national approach to core public policy questions? Or are competitive economic pressures narrowing the degrees of freedom enjoyed by the state? Are advanced democracies converging on transnational policy models? If this is the case, what answer do we give to my question: "What's a country for?"

In my comments, I will concentrate primarily on the social role of the state. This is an area in which I have done some research myself, and I have a mild preference for talking about things I know about. But the social role of the state has been at the heart of much of the controversy about globalization, so the choice is defensible on other grounds as well.

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. 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). Thus the postwar welfare state grew together with greater openness in the international economy, and eased the consequent adjustment processes. In this sense, the 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.

Around this 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 twilight of this era, the average among OECD countries was 18 percent of GDP, but the variation ranged from 8 percent 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 (Cameron 1978; Rodrik 1997; Agell 1999). But the rich variations also reflected differences in the domestic traditions, cultures and political coalitions in individual western nations (Esping-Andersen 1990). In the postwar era, therefore, the answer to my question was clear. Countries sought to balance international and domestic pressures, and in so doing, to protect room for the expression of domestic cultures and politics in designing the social contract.

Contemporary Variations: The Room for Manoeuvre

Fast forward to the contemporary period. The pressures inherent in

international economic integration and technological change have been discussed extensively, and do not need to be re-described yet again. But what's a country for in this global order?

We have clearly entered a new wave of economic liberalization, and virtually all western nations are redesigning their systems of social protection, adapting their traditional models to a new economic order. In this process of incremental adaptation, new common themes are emerging. A more flexible labour market, capable of adjusting to economic change, is a critical component, and a number of European countries face particular challenges here, as they struggle to build a more employment-friendly welfare state. Investment in human capital is another central component. In a knowledge-based global economy, the only true source of security — both personal and collective — is to be found in high levels of knowledge and skills, and the strengthening of education and training systems will be another common theme in the 21st century. A third component, less well developed at this stage, is the need to reduce social exclusion and sustain social cohesion. This stage is critical to re-embedding the contemporary wave of economic liberalization in a system of social security that is appropriate to a global and knowledge-based economy, but also sufficiently strong to sustain the legitimacy of an open economic order and preserve a civilized social order. These new central themes reverberate in social policy debates in virtually all OECD countries.

The need to redesign social policy in response to a new economic and technological order is, in itself, not evidence of the erosion of the social role of states. The critical issue for our purposes is whether

there is still scope for significant national variations around the new common themes. How many degrees of freedom do countries enjoy in redesigning their systems of social protection? Are countries free to chart distinctive social futures, or does economic integration compel movement towards some trans-national model in social policy?

It is important to sort out the underlying economic patterns from the more philosophical and political elements of this debate, in effect, to distinguish between the economic logic of globalization and the politics of globalization. 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 in the political centre and on the 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 leads to convergence is premised on the argument that freer movement of factor inputs, goods and services will lead to noncompetitive cost differentials being stripped away. This basic logic is real. It is not surprising that the redistributive role of the state is under pressure, and that the trade-offs are becoming more difficult. Nevertheless, there are also good reasons for assuming that the pressures are not all-powerful and that convergence is not an inevitable outcome.

- First, here is no clear evidence that countries with more expansive welfare states or lower levels on inequality invariably do less well economically than countries with more limited social commitments. It is the structure of social programs, not the overall levels, that are critical.
- Second, even in the contemporary period, mobility of factor inputs and goods and services is far from perfect; and in some countries, flexible exchange rates provide another instrument of adjustment.
- Third, globalization affects different countries differently, given their varied positions in the international economy, and there is no reason to assume it will drive countries in similar directions.
- Finally, the proposition that domestic political expectations and pressures now carry negligible weight, and that the state is no longer Janus-faced, is inherently

implausible. Countries remain communities of fate with distinctive political institutions and cultures which influence their response to the world. The contemporary determinism of the right is no more persuasive theoretically than the marxism of yesterday.

It is hardly surprising, therefore, that when one looks carefully at current trends, 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 spending as a percentage of GDP 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 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 did not budge between 1980 and 1995, the last year for which consolidated data are available.

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 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 Communities 1994: 9). More recent academic studies come to broadly similar conclusions. For example, a recent NBER study by Alan Krueger concludes that "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).

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, students 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. Danny 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 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 — 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 is the clearest case: there has been a dramatic convergence in the proportion of the unemployed actually receiving unemployment benefits, with Canada moving down sharply towards U.S. levels. However, not every case of convergence can be laid at the door of economic integration. For example, there has been a partial 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. There are important differences between the two programs, to be sure; the Canadian benefit is more inclusive, incorporating both working poor and welfare poor. Nevertheless, the countries are closer than there were in the 1970s. However, this case is better interpreted as a reflection of similar domestic impulses rather than economic integration.

Standing back from specific examples allows a broader pattern to come into view. 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 approaches of 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. The two systems have changed, and they are different in different ways than they were in the 1970s. But convergence is not the big story. As final evidence, I direct you to the sophisticated study of the divergent trends in income inequality in the two countries completed by Michael Wolfson and Brian Murphy of Statistics Canada. They conclude that: "Canada and the US have remained socially and politically distinct, notwithstanding the more open border....The 49th parallel does appear to have a significant impact" (Wolfson and Murphy 2000).

In social policy, at least, the conclusion seems clear. The border still matters. Distinctive domestic cultures and politics still matter. The costs of distinctiveness may be rising, but significant degrees of freedom remain.

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 undoubtedly be influenced by globalization and continental integration. Ideas and images flash around the world today, penetrating porous national borders with impunity, and domestic political discourse is increasingly sensitive to developments elsewhere. Over time, economic integration may lead to greater cultural convergence, such that the values Canadians bring to their politics increasingly resemble those south of the border. If such forms of political convergence do emerge, then policy debates will echo these trends.

Such cultural integration would have to go much further than we have seen to date, however, to have a powerful steering effect. We should not make too much of suggestions, such as those from Maclean's annual survey of the attitudes of Canadians and Americans, that the values differences in the two countries are smaller than often thought. History tells us that small differences in values are consistent with large differences in policies. The development of Medicare in the two countries is instructive. During the mid-1960s, both countries debated an expansion in the role of government in the provision of health insurance. Public opinion polls at the time showed similar levels of support in both countries for an expansion of the role of government in

health care. Yet U.S. policymakers opted for a mixed model of public and private health insurance, while Canadian leaders adopted a universal system of Medicare. What was critical was the very different ways in which political institutions and processes in the two countries refracted relatively similar popular orientations.

The restructuring of taxation represents the most recent form of the debate about our social future. In an age of growing surpluses, tax cuts are not necessarily a sign of the abandonment of traditional social commitments. The upward drift in taxation levels in recent years was a response to deficit-fighting, and is politically sustainable in the post-deficit era. The critical issue is the nature of tax reductions, their relative impact on different income groups, and complementary adjustments on the expenditure side. If contemporary pressures constrain the tax side more tightly, then we can, if we wish, pursue social goals through clear-headed reforms on the expenditure side. The essential point here is that this balancing process is not pre-determined. There is a range of possible allocational balance points in this process, and the outcome will be resolved by fundamentally political processes.

In Conclusion :

Several points seem to stand out from this review:

- The state remains Janus-faced, balancing both international and domestic pressures.
- Globalization has increased the trade-offs facing policymakers as they redesign the social role of the state. Nevertheless, the process is not driven by an economic determinism. There is important room for national variations around the new com-

mon themes of the global era. Borders still matter.

- National politics remain important to our social future. If Canadians opt for greater convergence towards the American model of taxes and benefits, it will represent a political choice, not an economic necessity.

Having said that, I would be happier if Canadians continue to search for ways in which we can compose distinctive variations on the central themes of the 21st century, ones that reflect Canadian culture and values. After all, what's a country for?

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