

**The Response of Government to the Economic Challenges Facing Canadians
Closing Session**

Remarks by Keith Banting

K. Lynch Fred thank you very, very much for that. Our next speaker is Keith Banting. Keith is the Director of the School of Policy Studies at Queens University and the holder of the Stauffer-Dunning Chair on Policy Studies. He has been at Queens since 1986. Prior to that he had taught in the Department of Political Science at the University of British Columbia. He has focused throughout most of his career on public policy issues in Canada and elsewhere. He's worked on a number of, or at least one, Royal Commission on the Economic Union. A year back he was a visiting Fellow at Harvard. He's one of our most distinguished observers of the public policy scene in Canada. Please welcome Keith Banting.

K. Banting I've entitled my comments this afternoon "What's a Country For?" And in tackling that question I'm not going to focus particularly on Ron Daniels' paper, but rather I'm going to take up a number of questions which our Chair sent to us a few days before the session. Being a dutiful person, I will of course do what the Deputy says. The questions I want to ask are: Can government make a difference? In what areas and what issues? How serious are the external constraints on government action? And what are the implications of Canadian/U.S. economic integration for our policies, programs and the scope of possible action in the 21st century?

In tackling these questions, I'm going to look backwards briefly at the post-war period and the basic policy package that emerged in that period. Then I want to discuss how much room for maneuver countries have in the contemporary period and are likely to have in the opening decades of the 21st century. Finally, I'm going to ask how we should use the room for maneuver we possess.

So let me begin with the post-war pattern. One can characterize the post-war pattern across the OECD nations in musical terms. There was a compelling theme, but also a set of rich variations on that theme. The central theme was a policy package that combined a steady liberalization of the international trading regime, with a steady expansion of social security provisions. Under the GATT and other agencies, economic liberalization broke down the barriers to trade that countries had inherited from the first half of the 20th century and that liberalizing effect eventually spilled over into domestic economic policy. But this trend was accompanied by a set of social protections that strove to provide a degree of security to citizens. These social programs protected citizens from the

social risks inherent in a modern society: unemployment and poverty during sickness, disability and old age. Not only did these programs help individual citizens; they also contributed to society's willingness to accept the economic adjustments and disruptions inherent in economic liberalization. Social protection was in effect, a buffer against the kinds of social and political backlashes that had undermined openness in the first half of the 20th century: protectionism, nationalism and international conflict. John Ruggie has labelled this central theme of the postwar era "embedded liberalism", a liberalization of the economy but a process still embedded in society.

If that was the central theme of the post-war experience, the post-war era was also characterized by rich variations. Different countries built different systems of social protection. Some countries invested quite heavily, other countries much less so. There was considerable variation in the level of social spending as a proportion of gross domestic product and there was variation in design. There was no single model of the welfare state. In part these differences reflected the location of countries in the international economy. It's not surprising that countries with more open economies, which were heavily dependent on trade and more vulnerable to international economic shocks, tended to develop more expansive systems of social protection. But the rich variations also reflected domestic traditions, domestic cultures, domestic politics within individual western nations. In effect, each country became an instrument for developing policy packages consistent with domestic cultural, political, and social preferences.

Fast forward to today. I don't have to rehearse for you all of the pressures embedded in contemporary economic integration on a global and regional basis. All of these have been discussed here by others more knowledgeable than I am. The issue that I want to tackle is whether these pressures mean that we must move to a new central theme, and whether there's less scope for rich variation. Can we balance, as we did in the post-war period, economic liberalization with social protection? And can different countries build their own variations on the central theme?

I want to tackle the second question first. Will countries be able to continue to develop distinct social futures, or will economic integration compel greater convergence or even harmonization not only in economic instruments, but also in social instruments? Will a form of economic determinism triumph?

There has been an interesting shift in the role of economic determinism in our political discourse. In the 1970s and 1980s, when I started my academic career, neo-Marxism was fashionable on the political left. Advocates of this tradition argued that the central organizing imperatives

implicit in a capitalist economy dominated, shaped and constrained the role that government could play. And it was people on the political right who argued that this analysis overstated the constraints, that there was a rich variety of policy stances in different countries, and that there was real autonomy for politics in contemporary societies. What I find rather curious is that there has been in a reversal of the role of economic determinism in our political discourse. Some commentators on the political right today insist that economic and technological imperatives compel a convergence or harmonization in our policy regimes, certainly among trading partners. Convergence is inevitable. This was the language made famous first by Mrs. Thatcher who argued that there is no alternative, or TINA for short. Today it is the political centre and the left that argue that there's room for distinctive variations in the contemporary world.

For me, the contemporary determinism of TINA is no more persuasive than the old Marxism of the left. So far at least, predictions of an inevitable convergence in social programs are not sustained by the evidence. Social spending across, as a proportion of GDP across OECD nations continues to be as diverse as in the past. Nancy Olewiler's survey of taxation policies across OECD nations demonstrates that there's no powerful process of convergence in taxation regimes. John Kesselman's recent survey of recent studies concludes that there is not any robust or systematic relationship between social spending or tax burdens on one side and the rate of economic growth on the other side.

But what about within trading blocks? If there is no general pattern of OECD countries converging on a single social model, what about within trading blocks such as the EU and NAFTA? Here the question is tougher because there are only two cases and the kind of evidence one can bring to bear is less compelling. But I would argue that, on balance, the answer is no. There is not a powerful convergence going on. Despite the distinctive political commitment within the European Union to "an ever closer union," European social policy is still marked by national variation. There is some convergence in spending levels as a proportion of GDP, but that is driven as much by the growth of social spending in the poorer countries of the south, such as Portugal and Spain which are in catch-up mode, as it is by constraints in northern Europe. A recent study by the European Commission looked at policy design and concluded that there was no consistent pattern of convergence in the social policy design of the countries of the the union.

In the case of Canada and the United States I would also argue that the answer, on balance, is again no. There is no consistent pattern of convergence in the social policy regimes of these two countries, despite deepening economic integration. Social programs have been restructured,

and benefits in many cases have been reduced in both countries. But restructuring is not necessarily convergence. Although there are certain areas of convergence such as employment benefits and child benefits, in other areas the gap between the two countries is at least as great or perhaps greater than in the past.

Admittedly, this is a little simplistic. Long-established programs such as pensions and health care are moving along distinctive paths in the two countries; there is sort of a path dependency effect here. It is in the newer areas of social policy, such as child care or homecare, where one sees more commonality between the two countries. So one finds sort of a rich mix of path dependent differentiation and new areas of similarity. But overall, I am prepared to argue that the Canadian and American welfare states are as different today as they were in 1975, the high-water mark of the postwar welfare state.

And as final evidence I'd like to offer two slides that demonstrate that government can make a difference and that there is a distinctive approach on the two sides of the border. This is probably a familiar slide to people in this room. It simply measures the distribution of income in Canada, using Gini coefficients. The top line is market income and shows an increase in the level of inequality between 1971 and 1997. The next line the level of total income, which includes not only market income, but also government transfers; here you can see a moderating effect in the level of inequality. The bottom line is after tax income, which includes the effects of both government transfers and taxes. As you can see, there has been virtually no increase in the level of inequality in Canada between 1971 and 1997 by that measure.

My second slide complements the first by comparing this pattern with the United States. And this simply makes the point which you've undoubtedly heard in many other places that the level of inequality in the United States has risen sharply, but in Canada tax and transfer programs have offset this trend. As a result and there has been a marked divergence between the two countries in levels of inequality in after-government income. Surely this is evidence that there is still a distinctive society on the northern half of the North American continent.

So far at least, there is clearly still room for rich variations on common themes. But some would argue it's not sustainable. Some might argue that we've moved into a new paradigm, that the evidence of the last 20 years doesn't tell us much about the next 20 years. In making judgments such as this, one has to fall back as much on personal conviction and intuition as on evidence. This debate is engaged on the tax side at the moment, and I have largely the same views on this issue as expressed earlier in this session by Fred Gorbet. We may well need to restructure to position

ourselves well. But it's not clear, as Hufbauer said this morning, that we have to reduce the total level of resources available for social transfers. If we choose convergence in the future it will have been a political choice, not a product of economic necessity.

If there is still significant room for rich variation around common themes, what then should be the common theme of the early part of the next century? This clearly is the single most important question that's posed here. The economic and social conditions which underpinned the common theme of the post-war period have changed significantly, and the central theme must change. The primary source of personal and collective security in the new world is to be found in human capital and in investment in human capital. Clearly this is the central theme for the early part of the next century.

I'd add a number of personal refinements. First, I tend to think of investment in human capital very broadly, to include things like early childhood development and childcare, as well as education and training. We also need to think about human investment or investment in human capital in more collective terms. The postwar generation thought about security as something that should be offered to everyone. Their conception of security was based on income transfers and was perhaps too often a way of protecting people from change, rather than helping people to change. But it was a conception of security that was in one sense universal. Everyone was to have access to the instruments of security as it was understood in that generation. I don't think we're having the same debate today. If the source of security in the economy of the future is investment in human capital, are we really having a debate about universal access to the opportunity to invest in human capital? Are we giving the same sort of collective commitment that everyone in Canada should have the ability to prepare effectively for the economy of the next century? I'm not convinced we are. Rob Pritchard, President of the University of Toronto said a few years ago, it's a lot easier for a poor person to go to Harvard than to U of T. I'm tempted to take a cheap shot and suggest that governments tend to talk the talk, but they do not walk the walk.

Finally, human capital investment is not enough. We're going to need to employ the tax/transfer system to mitigate the growth of inequality implicit in the knowledge-based economy. We're going to want a society which is steadily polarized. I would invite any of you who have not done so to read the paper prepared by Beaudry and Green for this conference, especially the last couple of pages on the prospects for unskilled labour and the social tensions and conflict implicit their scenarios. I remind you of the original logic of embedded liberalism in the post-war period. The original policy package said that economic liberalization needs to be premised on or conditioned by a sense of security so that the public will

continue to support the liberalization process. A society that is increasingly polarized is a society which risks higher levels of social and political tension. In many ways the recent election in Saskatchewan underlines the point because, although the voters there were voting about a number of things, one of the issues they were voting on was the international context in agriculture. Governments cannot and will not ignore the political dynamics generated by the lack of a sense of security.

So in conclusion, I would argue governments can make a difference, Although the constraints are real, they do not justify a sort of economic determinism. They don't justify a sort of Marxism of the right. There is room for national variations around the common themes of modern life. We need to use our degrees of freedom to develop universal access to the instruments and security of the next century. In effect, we need to redefine the question. We too often ask what are the constraints. We need to ask the obverse of that question. Where are the areas of room for maneuver? And where can we expand our room for maneuver? I know this is really the distinction between a glass half full and a glass half empty. But I would prefer a definition of the problem which sets the analytical task as generating a search for the ways in which we Canadians can bring distinctive variations to the common themes of the 21st century. Ones that reflect Canadian traditions and Canadian values. After all, what's a country for? Thank you.