Banting, Keith. The Social Policy Divide: The Welfare State in Canada and the United States.

Canada has always relied on foreign trade to a greater extent than the US. According to the compensation thesis, this explains why Canada has a larger welfare state. “The continued vulnerability of employment in Canada to economic shifts in the global economy contributed more directly to growth in social spending during the postwar years” (272)

Two mechanisms: (1) change creates victims: hence workers, regions of the country, and sectors of the economy that have been hurt create pressures for increased public spending; (2) global economic changes create pressures to limit expenditures and to redesign social programs in ways that reduce rigidities in the labour market, enhance the flexibility of the domestic economy, and reduce the fiscal burdens of the state. (273)

Inevitability of convergence? (1) If Canada established social programs and related taxes that raised the costs of production above those in the United States, investment would drift South, Canadian business would lobby for lower costs, and Canadian governments would have little choice but to reduce their social commitments; (2) if Canada established programs and tax policies that lowered the costs of production by socialising costs that are borne by employers in the United States, these programs might be interpreted in the US as subsidies and could be subjected to countervail (274)

Answers: (1) programs that do increase business costs would simply trigger a compensating change in the exchange rate; (2) social programs that are generally available in Canada would be immune from such actions under existing laws and the prevailing norms of international trade.

3 traditional explanations: Class: the two labour movements have diverged since the mid-1960s, with union membership declining dramatically in the US but remaining stable in Canada + NDP, not in the US; Race; region; institutions

Employers have reacted to the rise of healthcare in two ways: (1) they have reduced their health commitments by transferring more of the burden to both current and retired employees through reduced coverage and increased deductibles and co-payments… health insurance has collapsed in many small firms; (2) private corporations have been turning to health maintenance organisations (HMOs) to deliver healthcare to their employees. These agencies have the power to influence the pattern of care, access to doctors, the salaries and fees paid to service providers, staffing levels in hospitals… to control costs (289)

Income security: remained largely universal in the US; has become increasingly means-tested in Canada (290-291)

In the US, unemployment insurance is a federal-state program and is delivered by the state governments. The program is financed exclusively through a payroll tax on employers, with employees making no direct contributions. The federal government imposes a payroll tax on employers and then rebates the revenue to state governments that operate a federally approved program.

After a major extension in 1971, the Canadian program offered much broader protection…in the 1990s: major cuts in Canada… some improvements in the US (293-295)

Child benefits: convergence. In the mid-1970s the contrast between the two countries was clear. Canada had a universal program of Family Allowances, whereas the US had no child-allowance program. Since, US: Earned Income Tax Credit for working-poor families with children… CA: refundable Child Tax Credit.

Perhaps the broadest trend since the 1980s has been incremental divergence, with the traditional differences between the two countries growing more marked in certain areas – health care; universal/selective-income transfers; public pensions; inequalities.

Two cases of convergence: unemployment insurance and child benefits.

Convergence in child benefits has predominantly been a reflection of parallel (ideological) domestic trends (305).

Explaining convergence in unemployment insurance is more contentious. Ex: in the 1991 changes, the special benefit for fishermen, which has been a source of trade fiction with the US, was retained (voir Smardon, B.1991. *The Federal Welfare State and the politics of retrenchment in Canada*…).

It seems more plausible to interpret the changes on the Canadian side as the joint product of domestic conservatism and pressures implicit in the global economy…. Decisions to cut passive income benefits and transfer the savings to retraining initiatives are consistent with a broader approach to employment programs in a period of rapid economic restructuring… (306)

In effect, social policy and education policy are becoming instruments of industrial policy (249) Education, day care, and social welfare policies are seen as ways of enhancing or preventing the erosion of human capital that is the basis of competitiveness in the contemporary world