

CanadaWatch

PRACTICAL AND AUTHORITATIVE ANALYSIS OF KEY NATIONAL ISSUES

SPECIAL DOUBLE ISSUE ON CANADA–U.S. RELATIONS IN THE NEW MILLENNIUM

Convergence or divergence?

*Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler . . .*

—from “The Road Not Taken,” by Robert Frost

HOW SIMILAR OR DIFFERENT?

The question is whether Canada and the United States are converging or diverging in important respects concerning society and economy. In Canada, a presumption may exist that long after having completed its gradual shift away from “the Empire” and British values and customs, Canada now is veering toward a more “American” way of doing things. In the United States, the opposite view is likely to hold—namely, that although set against a world scale of national comparison, Americans per-

ceive Canadians to be quite similar to themselves in preferences, appearance, and behaviour, but they do not observe or expect additional convergence.

Ascertaining whether Canada and the United States are converging or diverging appears a quite simple exercise. Observe whether the U.S. and Canadian economies, or social policies, or political institutions are becoming more similar. Plenty of casual evidence exists

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BY CHARLES F. DORAN

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Canada–U.S. relations at the dawn of the new millennium

How public policies designed to strengthen a nation might end up destroying it

One of the major consequences of the development of the global economy is that, while the *raison d'être* for much of Canada’s traditional industrial policies may still be present, the ability of any government to continue such policies is over. As a result convergence between Canada and the United States will be much greater in the 21st century than it was in the 20th—not because of external threats, but rather because of internal indifference.

BY JAMES GILLES

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INDUSTRIAL POLICY: A PRIMER

Canada’s economic prosperity is largely based on international trade.

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is a major story and ordinary Canadians not only care about the program but pay attention to reports about it. As a result, they hear from the media more about distress than anything else. Mainstream journalists in both countries treat dramatic problems as more interesting than explanations of complicated programs. American interest groups provide a spur to critical stories and the richest of such groups overwhelmingly want to attack the Canadian model. It is precisely because Canada has achieved comparatively good value for money through medicare that it represents an ideological threat to these American interest groups and their Canadian counterparts. To the extent that these North American interest groups bring stories and documentation to the press, the media's commitment to evenhanded-

ness actually undermines a balanced view of medicare.

That is once again why systematic evidence of the kind presented in the first annual CIHI report is so vital. The portrait of medicare will never be painted properly by episodic, dramatic representations of particular trouble spots. What those trouble spots suggest can be revealed only by systematic evidence. Moreover, the very structure of medicare brings with it necessary and open conflict. Paying for medical care from a single provincial budget—where other competitors for public funds help restrain medical demands—means necessary and predictable controversy. That controversy is about how much to spend, on what, for whom, and under what conception of fairness. This brings accountability, but the other side of that

program accountability is constant media attention, constant claims of need, and considerable exaggeration of the state of medicare.

As long as stories are the mechanism for understanding medicare, distortion of the program's strengths and weaknesses will continue. Evaluating a system requires systematic evidence and that is what the CIHI has provided. From the perspective of an American analyst of Canadian medicare, the CIHI presents a program not critically flawed, but simply in need of targeted adjustments. But you would never know that from the tales political adversaries tell or the portraits painted by the North American media. One hopes the availability of systematic evidence will condition the future behaviour of the press and the politicians. ❀

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Defined in the broadest sense, public industrial policy has, with some minor aberrations such as Macdonald's National Policy, been directed at gaining access for Canadian products into as many world markets as possible. In the 1930s, the Canadian government hosted the Ottawa Conference on Imperial Preferences, designed to increase free trade within the British Empire. Immediately after the First World War, Canada was a leading advocate of the formation of the International Trade Organization and the liberalization of trade. In the 1960s, the Auto Pact was enacted by the federal Liberals. The ultimate culmination of this policy direction, free trade with the United States, was achieved when the North American Free Trade Agreement was signed in 1989.

Since the days of Confederation, however, industrial policy with respect to domestic activity has been interventionist and protectionist. To induce Nova Scotia to join the new confederation, the national government agreed to build a railroad linking it to central

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Canada. A few decades later, the government of John A. Macdonald was involved in financing the CPR. In the 1930s, R.B. Bennett laid the foundation for the CBC, while C.D. Howe formed Air Canada. In the 1970s, René Lévesque nationalized Quebec Power and Pierre Trudeau brought forth the National Energy Policy and the *Foreign Investment Review Act*. Throughout the 20th century, practically every economic sector, from farming to automobile production, enjoyed a direct subsidy or some other form of government assistance. By the mid-1970s, more than 50 percent of the gross domestic product flowed through government hands and half of the 10 largest corporations in the nation were owned by government. More than 700 Crown corporations were involved in

everything from selling liquor to producing nuclear reactors.

"DEFENSIVE EXPANSIONISM"

This enormous intervention by government in the economy was justified by all political parties, on the grounds that a public policy strategy was essential to maintain the identity, indeed the sovereignty, of the nation. This strategy, which came to be known as "defensive expansionism," was recognized as necessary because without it the proximity and power of the United States would overwhelm the country.

Interestingly enough, although these domestic policies were designed to keep control of the economy in Canadian hands, to a great extent they failed.

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By the mid 1920s, when the United States became Canada's largest trading partner, more than 30 percent of Canadian manufacturing had been acquired by American firms. Since then, petroleum refining; production of chemicals, electrical machinery, and automobiles; much of retailing; as well as a host of other sectors have become dominated by foreign ownership. In fact, by the end of the 20th century, the largest degree of foreign ownership in any Western industrialized country was in Canada.

AS THE NEW CENTURY BEGINS

The current extent of foreign ownership does not appear to be a major concern for most Canadians. Today it is difficult to believe that in the early 1970s Canadian nationalists, led by Walter Gordon, a prominent Liberal politician, achieved considerable political support by attacking foreign ownership. Their argument was that foreign-owned subsidiaries operating in Canada did not make an appropriate contribution to the economy because they did little research and development work; their Canadian boards did not determine strategy or appoint senior officers; their donations to the community were inadequate; and their legal, accounting, and professional management work was not done in Canada. They charged that Canada was becoming, if it was not already, a branch plant economy. The political power of the nationalists was such that during the 1972 Trudeau minority government a *Foreign Investment Review Act* was passed.

How times change. With enormous developments in communication and transportation, and the decline of trade barriers, the very large multinational firms no longer even operate on a country level. Their strategies and methods are global, not national. Ironically, only three decades after the height of the nationalists' strength, if there is any major concern in Canada, it is that, since the enactment of the *North*

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American Free Trade Act, the Canadian economy is being "hollowed out" because transnationals are closing their Canadian subsidiaries.

THE HOLLOWING OUT OF CORPORATE CANADA

The results of more than 100 years of schizophrenic Canadian industrial policy—international free trade and domestic intervention—have now become abundantly clear. Support for and membership in international organizations has led to almost universal free trade in goods and services in Canada and a situation whereby the traditional nation-building policies based on subsidies, tariffs, and regulations are no longer legal. Although these domestic policies had significant consequences for the economy, in terms of the stated reasons for their adoption—that is, maintaining domestic ownership and control over business and resources—they have failed. As a result, it is reasonable to expect that within a quarter of a century there will be much more integration between the United States and Canada, perhaps the adoption of some type of common North American currency and with it a single North American monetary policy.

This inevitability is not necessarily a cause for concern. While nothing in economics is totally predictable, greater integration should result in a higher

standard of living for more Canadians. They will become part of a larger market, where the economies of scale are great and the management is, arguably, the best in the world. What is a cause for alarm, however, is that the cost of embracing globalization and greater free trade—that is, giving up the ability to enact domestic industrial strategies—may be greater than the structure of the nation can withstand.

A FEDERATION IN DISTRESS

Canada is a confederation of regions—the Maritimes, Quebec, Ontario, the West, and British Columbia. While to differing degrees these regions do not have a great deal in common, they have all historically benefited substantially from being part of a larger entity. They have done so because of the implementation of a host of national domestic industrial strategies, most often designed to meet regional needs. Federal governments, since Confederation, have negotiated tariffs for Ontario manufacturers, organized farm price support programs for Quebec milk and egg producers, subsidized the Maritime and British Columbia fisheries, sold western grain through the Wheat Board, and protected the lumber industry in British Columbia. It has been the role of national political parties to broker these benefits in such a way that, as well as helping the regions,

they also strengthen and maintain the national interest.

Many programs were designed, or at least justified as necessary, to maintain the integrity of the state against external forces, such as foreign ownership. The actual result of their implementation, however, has been quite different. It has been to link, in very positive, understandable, and recognizable economic terms, the various parts of the nation to the centre. Because of international treaties, these types of policies are no longer permissible. Consequently, in terms of domestic industrial policy, the most the federal government can now do is manage the equalization grants from the richer to the poorer provinces, make small direct loans for social purposes, and negotiate with the provinces the costs of shared responsibilities. The linkages are breaking down.

Given the federal government's loss of the ability to enact major domestic industrial strategies, it is not surprising that there has been a major decline in interest in the national government and national parties. Many Canadians believe that their parliamentary system leaves them with little true representation, that the defence of the nation and Canada's role in international affairs are really not that important, and that the federal government spends all its time on constitutional problems that should have been settled years ago. The major public issues that citizens have a direct interest in—health, education, and welfare—are all provincial responsibilities.

POLITICAL REGIONALISM: A STEP TOWARD CONVERGENCE

In the past two federal elections, Canadians have voted overwhelmingly on a regional basis. At the time, many believed the 1993 election was an aberration, the result of the great dislike for Prime Minister Mulroney and the rise of the Parti québécois in Quebec. They were wrong. In the next election, in 1997, the results were repeated. Canadians voted on a regional basis according to regional interests. The evidence of the most complete and comprehensive

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study of voting patterns ever made in Canada, the 1997 *Canadian Election Study*, indicates that Canada, politically, has become a nation of regional political parties and that the day of the all-embracing national party is over.

One of the major reasons for this political regionalization may well be the devolution of national sovereignty to international organizations, in pursuit of free trade. Devolution has resulted in the inability of the central government to enact specific domestic industrial policies—tariffs, subsidies, grants, and regulations—for the benefit of regions. Consequently, the prosperous regions no longer have any major economic reason to maintain allegiance to the centre. What do they need Ottawa for? Do they really want their taxes to support less prosperous areas? Cynics make the case that the federal government doesn't do anything except collect taxes and continuously debate how the national state should be organized.

As Canada enters the 21st century, a small industrialized country, without any natural boundaries, situated next to an economic giant, it finds that the economic policy weapons that had been used by the federal government are gone. Because they are gone, the power

at the centre is greatly diminished, and because the power at the centre is diminished, the pressure, and possibly the economic and social advantages, for the regions to go their own way is undoubtedly increasing. The forces leading to convergence with the United States are much greater, or, put another way, the weapons to prevent convergence are much weaker.

Whether or not this scenario comes to pass depends on the capacity of political leaders to develop and enact "imaginative new public policies" designed to meet effectively the needs of all citizens. When such policies are being designed, the lessons of the 20th century should not be forgotten. Schizophrenic policies always result in conflicting conclusions and have unpredictable consequences. There must be clear recognition that the old policies—subsidies, tariffs, regulations, etc.—are basically, in this world of international treaties, often illegal and not very useful. Canadian leaders and Canadian citizens must define themselves by something other than who owns the factories and who they are not. To the extent that they can do so in a global village will determine the viability of the country of Canada in the 21st century. 