PUBLIC POLICY

Social policy: U.S.–Canada convergence or divergence?

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LOOKING AND HEADING SOUTH

Over the last two decades, Canada's market sector has become not just convergent with that of the United States—Canada has become an integrated part of the North American market. All firms, including those in the financial sector, now see their future in terms of North America, not Canada. In the auto sector, production processes extend across the international boundary as if it did not exist, and the idea that a car is "made" in any particular country is becoming a peculiar bit of old-fashioned terminology left over from another day. The auto sector is not special in this regard, perhaps only a little more advanced.

There can be little doubt that over the coming decades Canada's market sector will become increasingly indistinguishable from that in Anyplace, U.S.A. Driving into a mall in suburban Toronto or Boston or Atlanta, perhaps with a few cute local features dreamed up by a mall designer, who is also a resident of Anyplace, U.S.A., will be largely a homogeneous experience. Same shops, same sales, same ads, same food, and—if much of Canada's business sector has its way, and everything we have seen in the past would indicate that it will have its way—same currency too.

SO WHAT'S SO SPECIAL ABOUT SOCIAL POLICY?

Rather than asking whether Canada and U.S. social policy is convergent, the question can be phrased more aptly as: is there any reason to suppose that Canada will maintain an independent social policy as its economy becomes fully integrated with that of the United States?

My answer to this question is that Canada can maintain a distinct social policy, but only if we do so as a conscious and deliberate political act, accepting the tradeoffs inherent in that distinctiveness. However, if we continue to stumble along, some Canadian regions will retain certain social policies that are unique and different. But the range of social policies in each region will fit quite comfortably and indistinguishably within the range of variation among U.S. regions. For all intents and purposes, we will have converged.

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To explain what is meant by "fitting within the range of variation among U.S. regions," let me pursue a short methodological digression.

In comparing circumstances in Canada with those in the United States, we often commit the classical error of contrasting averages for each country without inquiring too closely about distribution. But if the variation *within* the United States is as great as the variation between the United States and Canada, what does the difference in averages mean? Put another way, rather than comparing the United States, as one great lump of an entity, to Canada, another little lump of an entity, we should be comparing regions in North America. If we line up the United States and the Canadian regions, and measure according to any given criteria, say, personal income, where would the Canadian regions fall? Would all the Canadian regions be clumped together as a recognizable entity or would they be scattered amidst the United States, as unrecognizable as North Carolina or New Jersey? The answer for most economic measures is that Canadian regions are distributed among the U.S. states and are not recognizably different as a group.

So when we ask whether any particular circumstance is the *same* in Canada as the United States, what we really need to know is whether the variation between Canada and the United States is greater than the variation between regions of the United States.

MEDICARE: A CRITICAL BUT FRAGILE INSTITUTION

Returning to social policy, let us look at the social program that most distinguishes Canada from the United States—medicare. In Canada, every resident is entitled to hospital and physical care without charge at the point of service, based only on health needs. In this we are not all that different from some European countries. But we have gone one step further and do not allow our citizens to purchase access to a private tier

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of health care, at least not in Canada. In this regard, we have what is perhaps the most egalitarian medicare system among modern nations with market economies.

The Canadian system of medicare has many advantages, which have been well documented. It is also wildly popular and even critical to our sense of being Canadian. Nevertheless, medicare is a fragile institution.

At the heart of medicare, as we have known it, is "the middle-class bargain." The vast majority of Canadians whose incomes fall somewhere around the middle are willing to forgo their right to buy health care services on their own, in return for the government maintaining a very high quality health care system. If large numbers of Canadians feel this bargain is not being kept and lose faith in the quality of care that they and their families receive, then the political basis of Canada's system is undermined. Today this faith is being put to the test.

To keep this faith, governments must respond by extending and modernizing public coverage. They need to improve the perceived quality of care, find ways to provide new technologies where these are efficacious, decrease waiting lists where they do exist, and implement other measures that will improve Canadians' perceptions and experiences of medicare. Most of these strategies, however, cost money, and, if the system is to remain publicly funded, the money must be paid through taxes. This is the essence of Canada's system: governments must pay the entire bill from tax revenues. But does this run contrary to emerging economic realities? Aside from Canadians' usual reluctance to pay taxes, Canada may be losing some of its ability to set its own tax levels on an independent basis, due to the integration of our economy in North America.

If governments *today* cannot or will not muster the resources needed to respond to the current threats to medicare, we may end up following a path that leads inexorably in exactly the opposite direction to where most Canadians want to go.

NORTH AMERICANIZATION

If the pressure of North Americanization means that we cannot maintain our tax revenue base, not only today, but also when times are not as buoyant as they are now, then government cannot respond to these pressures and cannot restore the middle-class bargain.

Ironically, the eventual result may well be higher, not lower, taxes for Canadians. Although the public sector is responsible for a much lower percentage of total costs in the United States than in Canada—46.4 percent, and the private sector for 53.6 percent of the total health care budget, while in Canada the public sector is responsible for 69.8 percent and the private sector for 30.2 percent—the cost of health care is so much higher in the inefficient U.S. system that the public system in the United States absorbs about 6.6 percent of that country's GDP, while Canada's public system absorbs about 6.3 percent of GDP.

But the probable end result of still higher taxes for Canadians does not matter right now. If governments *today* cannot or will not muster the resources needed to respond to the current threats to medicare, we may end up following a path that leads inexorably in exactly the opposite direction to where most Canadians want to go.

Unfortunately, there are plenty of signs that this is exactly what we are doing. Not the least of these signs is Alberta's health privatization Bill 11. If the Alberta government survives public reaction, and if the federal government is not effective in its response, I predict that after the next election in British Columbia, assuming there is a change of government, similar measures to permit private health services will be introduced there.

The result of these and other pressures a few decades from now could be a patchwork medicare system across Canada, with some provinces continuing to offer a single-tier public system, while others have moved definitively to a two-tier system, perhaps a kind of hybrid of the U.S. and the U.K. systems. In comparison with the United States, this will mean that some Canadian provinces will be similar to the U.S. states that now have close-to-universal medicare—for example, Hawaii—while others will retain the distinctive Canadian system, at least for the time being.

Medicare is our strongest social program. More forceful arguments could be made for the potential convergence of income security programs, especially as we have seen support so quickly erode for the social safety net.

While all of this convergence is probable, none, in my view, is inevitable. If Canadians are willing to take a step back and accept that better social programs are going to require ongoing support, if we are willing to accept tradeoffs, then we can maintain a distinctive social policy even in the face of economic integration. The challenge, however, is enormous.