NAFTA, THE REDESIGN, AND RESCALING OF CANADA’S WELFARE STATE

Robert Johnson and Rianne Mahon

Introduction  Although both Canada and the United States are considered to have “liberal” welfare regimes, there are important differences between them. Canada has been much more effective at doing what liberal welfare regimes profess to do — using public programs to assist those who are least able to rely on markets — than has the United States. In fact, Canada’s welfare state contains important social democratic elements, especially its health care system. Many were concerned that the new continental free trade agreements (Canada-US Free Trade Agreement (CUFTA) and the North American Free Trade Agreement (NAFTA)) would lead to a levelling downward to the United States. As we shall see, there have been changes that can be interpreted as evidence of convergence towards the less generous, more punitive American model. Yet it would be wrong to see the continental trade agreements as the sole, or even primary, cause. Rather, the trade agreements need to be understood as part of the larger, intertwined processes of welfare state redesign and rescaling.

While there are various ways in which NAFTA has had, and might have, an impact on the restructuring of Canada’s welfare state, the most significant finding is the apparent convergence in Unemployment Insurance (UI) and child benefits. As we argue, these are not just any policies. Rather, they are central to the new paradigm guiding the process of welfare state redesign. This paradigm has much in common with, but cannot be reduced to, neoconservatism. Rather, just as there were liberal, conservative, and social democratic variants of the Keynesian welfare state, so too are there variants of the workfare/duty/social investment state. Choice among these is determined
by neither “path dependency” nor the nature of the continental governance project (e.g., NAFTA as opposed to the European Union (EU)). Politics matters, though that politics is increasingly played out in a multiscalar context.

**Does NAFTA Matter to the Canadian Welfare State?** It is important to examine the impact that emergent modes of global governance have on social policy, for these operate as a form of “supra-national constitution-alism,” establishing norms that “control government behaviour even though they are not part of the domestic constitution.” Yet these new global governance projects come in different forms. The EU, with its increasingly thick institutional networks, its ability to issue directives, and, more recently, the establishment of “open method coordination” as a means of moving the “Social Europe” agenda forward, constitutes one such example. NAFTA and CUFTA represent another, enshrining a governance project whose aims are limited to supporting the creation of a continental market for goods and capital. In the European project, the pooling of sovereignty has come to involve creating means for taking political decisions about economic (and social) issues and the institutionalization of citizen rights. In contrast, through CUFTA and NAFTA, “states have given up [some] sovereignty, without creating any effective new mechanisms to manage it jointly. They have tied their own hands, and reduced the space for political discussion about directions.”

CUFTA and NAFTA thus lack any ambition to develop the civil, political, or social rights that might be used to mitigate market forces. While NAFTA’s Chapter 11 gave corporations the right to challenge government regulations that might jeopardize their profits, the side agreements dealing with labour and the environment in no way provide unions and environmental activists with equivalent recourse. The agreements, moreover, enhance the freedom of movement for goods, capital, and highly skilled workers while maintaining, even tightening, controls on the movement of the rest. Neither agreement contained any social rights. There is, however, a legal obligation stemming from CUFTA and NAFTA that could affect social policy options: the inclusion of services under the “national treatment” obligation. That is, US- (or Mexican-) based providers of services — from
finance to health management — must be treated the same as their Canadian competitors. There is little evidence thus far of corporations using this to challenge public provision of social services, and the agreement did give federal and provincial governments the right to exempt certain social services. Nevertheless, Clarkson sees this as a ticking “time bomb” whose “transformative potential may take years to realize, as American service providers learn how to use NAFTA’s corporate rights to challenge the public sector’s dominance in the provinces’ provision of social services.” Nor is it just the public provision option that may be at stake. NAFTA (and the WTO) pose a potential threat to governments wishing to rely on nonprofit organizations for social service delivery.

The main effect on social programs could be through the economic impact of trade (and investment) liberalization. Certainly the CUFTA and NAFTA agreements have not delivered on the promise to address Canada’s fundamental economic weakness as manifested in the stubborn productivity gap between Canada and the United States. This affects social policy in that productivity gains might have increased government revenues as they did in the postwar years. Moreover, these agreements limit recourse to positive industrial policy measures that might be used to promote the shift to high-value-added goods and services.

Second, the restructuring of Canadian manufacturing has resulted in the closure of many unionized plants and the rise of numerous nonunion plants in their stead. It has thus contributed to the fall in unionization rates, especially in the private sector where the rate of organization has dropped to one in five workers. The weakening of Canada’s unions matters not only because unions make a difference when it comes to wage rates and benefits, but also because unions have been, and remain, an important force behind the development of social policies.

Third, the dynamics of continental integration have played a part in the significant moves to welfare state retrenchment in the 1990s. Of course retrenchment had an important “made in Canada” dimension: the changes to UI and cuts in transfers to the provinces were engineered by a federal government preoccupied with the deficit/debt problem, and intensified by provincial initiatives, especially in Alberta and Ontario. Yet the argument
for the cuts went beyond the deficit to suggest that increasing continental integration demanded a greater level of labour flexibility.

NAFTA's main effect on Canada’s social programs, however, is reflected in the federal government’s decisions after the deficit was solved, and reflects a concern with the upper end of the labour market. Rather than a substantial reinvestment in social programs, the Chrétien government opted for an emphasis on tax cuts, biased towards the top income decile. Like the arguments for retrenchment, this pattern of tax cuts was justified by constant business reference to the “brain drain” south, as (some of) the highly skilled few who benefit from the (limited) liberalization of cross-border labour flows took advantage of the new situation.

The combination of tax cuts and expenditure cuts helped to shrink the gap between Canada and the United States in the share of government expenditure in GDP, from 10.9% in 1992 to 2.9% in 2001. Certainly in Canada a larger share of government expenditure is allocated to social programs, whereas the imperial US government’s expenditures are more heavily weighted to military expenditures. Yet there is evidence of significant convergence in two social policy areas: UI and child benefits.

Until the mid-1990s, Canada’s Unemployment Insurance program had been substantially more generous and formally equitable across space. Modest increases in the US program, instituted by Clinton, and sharp decreases in Canada’s have, however, led to substantial convergence in this area. A similar pattern is observable in child benefits, where Canada eliminated universal family allowances while the targetted Canada Child Tax benefit grew, just as the US, which had never had a universal program, increased the allocation to low-income (working) families with children under the Earned Income Tax credit.

Economic pressures do not speak for themselves, however. To be sure, “night watchman” forms of global governance like NAFTA contribute to the structural power of transnational capital, yet it is not the economic pressures per se, but the political interpretations given to them by those in a position to make or influence policy that matter. In other words, governments at all scales — national, provincial, and local — retain “the capacity for choice.” The key, then, is how the pressures of continental integration
— and other changes in social relations — are interpreted. Here we enter into the realm of ideas and the power to determine whose interpretation prevails.

Welfare State Redesign: The New Paradigm It is not by accident that convergence has appeared in UI and child benefits, for these are key elements in a wider “paradigm” shift. The changes to UI and child policy reflect a move to welfare state redesign: they signify a major break with the Keynesian-welfare paradigm and an effort to establish a different social architecture. The postwar form of social citizenship focused on securing (male) breadwinners against the loss of income due to unemployment, sickness, or old age. Through instruments like universal family allowances, it also recognized that the breadwinner wage might not be sufficient to cover the costs of raising a family. The maternal “right to care” was reflected in child support programs for lone mothers, decommodified to the extent that they were protected from the need to look for work when children were very young. Such income supports were seen to make good economic sense as they sustained families’ capacity to consume the products of the expanding mass-production industries. The new paradigm has been variously labelled the workfare, duty, or social investment state. What is common to all of these is the emphasis on the “recommodification” of labour, including lone parents’, designed to support the new economic logic of the “competition” state.

The pressures generated by continental integration are not the only, nor even the primary, forces driving welfare redesign. For some, the shift to postindustrialism generates its own pressures for change — a trade-off between employment, fiscal balance, and equality — because of the perennial and ever-deepening productivity gap between services (where more and more workers are employed) and goods production. This argument is ultimately flawed, however, in that the conception of productivity underpinning it can be effectively challenged. It is thus possible to design strategies for enhancing productivity in the services, thereby substantially improving the terms of the trade-off. The nature of postindustrial labour markets is also said to put a premium on “life-long learning,” and a shift in the age bias of welfare expenditure away from the elderly, towards children and youth. It is argued that
the latter require a secure and stimulating environment if tomorrow’s labour force is to establish the basis for subsequent learning.

A less rosy postindustrial thesis focuses on the rise of nonstandard employment. The spread of contingent work can be linked with the tendency to replace welfare with workfare. The kind of restructuring that has accompanied the trade agreements does seem to have contributed to the growth of the “good job/bad job” economy. Since the 1980s, nonstandard employment has grown throughout North America. As a result, like the United States, Canada stands out as a low-wage country among advanced capitalist economies: low-paid employment accounts for around one-quarter of the full-time workforce. The growth of a polarized labour market is not simply due to economic forces, but is actively assisted by changes in social and labour market policy.

Bashevkin is also critical of the new “duty state,” which stresses the individual’s obligation to work. The latter, moreover, works increasingly through the tax system, reflecting the “fiscalization” of social policy. This turn is facilitated by the rise of financial and managerial knowledge associated with the “new public management,” often at the expense of the human knowledge that played so central a role in the development of the welfare state. It also entails a disruption of the relations that had developed between bureaucrats in the old social policy departments and the broader social policy community. In Canada, this has gone hand in hand with an attack on the relation between social policy advocates and the state, designed to free the latter of the influence of special interests.

Of particular import is the way that the policy shift is articulated with changing gender relations. Across the Organization for Economic Cooperation and Development (OECD), women’s labour force participation has risen substantially, and this is particularly true for women in their childbearing years. The shift from industrial to postindustrial work, the decline in the male wage, and second wave feminism all contributed to this trend. Canada and the United States, along with Denmark and Sweden, stand out as economies where women’s labour force participation is particularly high. One of the issues this has raised is “who cares?” — who will care for young children, the sick, and the frail elderly when it can no longer be assumed
that wives/daughters are able and willing to do so? Another is the “feminization of poverty,” as one in three Canadian and US working women are low paid. Bashevkin is rightly critical of those who associate this with the rise in the numbers of lone-parent families and look for the solution in pushing lone mothers into the labour market.

There are indeed coercive features to this workfare/duty state as it is taking shape in the United States and, to some extent, Canada. Yet, it is important to recognize that there are variants of the new paradigm in which equality — class and gender — remains an important value. One such variant currently being promoted within the EU is perhaps more aptly called the social investment state. In this version, mothers’ employment is also seen as part of the answer to child poverty. Yet rather than compelling lone parents into low-wage labour markets, the member states are enjoined to increase women’s labour force participation while providing supports in the form of adequate training and decent child care. This does not go far enough. It is important to consider the quality as well as the quantity of jobs. A more strongly egalitarian alternative would thus need to include measures to support wage compression, including not only raising minimum wages but also support for unionization and collective bargaining; strong and effective employment standards; quality education and training for all citizens, and accessible, high-quality social services.

This egalitarian alternative offers the possibility of combining efficiency and equality. Productivity and social justice can both be served when wages are raised at the bottom of the labour market, as this puts pressure on inefficient producers to modernize. These pressures from below are most likely to work when accompanied by appropriate education and training programs, as well as policies designed specifically to foster and disseminate productivity-enhancing work redesign in the service and goods-producing sectors. The investment in accessible, affordable, and high-quality social services is especially important because it simultaneously creates decent jobs and provides the care services required to support working parents.

If neither socioeconomic trends nor continental economic integration determines outcomes, where do the new ideas come from and how are choices made between the alternatives? Neoinstitutionalists would stress path-
dependent responses to new challenges. Thus liberal welfare states would rely on liberal techniques for meeting these new challenges while social democratic states would more likely embrace the strong version of the social investment state. More recently, attention is being drawn to the transnational context of policy learning. National responses can no longer be understood as a result solely of incremental responses to (internal or external) shocks: transnational “learning” has taken on increased importance. The OECD has constituted an important source for the dissemination of the stress on “activation.” National policies are to be evaluated “in terms of their fiscal costs to the state, or … the likely effects they will have on the incentive of employers to hire workers, and of workers to take up vacancies.” At the same time, the International Labour Organization has played a role in disseminating alternatives to the neoliberal nostrums of the OECD.

Such policy learning tends, of course, to be more intense within certain “families of nations.” It is not by accident that Peck and Bashevkin find a similar pattern of response: the policy learning channels connecting Britain, Canada, and the United States remain particularly strong. In particular, the US experience has inspired Canada’s turn to the workfare/duty state. Yet, contra the globalization discourse, suggesting that national states are becoming merely subordinate nodes in the emergent (neoliberal) global order, politics at various scales shapes the kind of transnational learning that occurs. The neoinstitutionalists recognize this, but their emphasis on nationally determined path dependencies does not give enough weight to the disruption introduced not only by the increasing density of transnational flows, but also to important changes in the relation between national and subnational scales. For this, we need to introduce the concept of rescaling, or the politics of scale.

**NAFTA, the National, and the Subnational: Rescaling Welfare Regimes**

CUFTA and NAFTA have certainly reinforced the policy relevance of the Anglo-American “family,” at least at the continental scale. Those behind neoliberal restructuring in Canada draw on scalar narratives to make their case for the shift from welfare to workfare. In this discourse:
The global is portrayed as the scale of (immutable) economic imperatives and (indisputable) managerial prerogatives, the national is the scale of deregulatory and reregulatory facilitation/accommodation to these same global pressures, and the local is the scale of adaptation, at which market-compatible coping systems are to be constructed not as a shield against globalization, but as a way of maximizing its local potential. Parallel treatments of localization tend to emphasize the role of local social, institutional and human capital as key competitive assets on the supply side of the economy (broadly defined).33

Keynesian modes of labour regulation and the consumption-oriented welfare state are made to appear as barriers to effective performance in the new continental/global economy. The answer is to “roll back” the state at the national scale, even while “rolling it out” at subnational scales. Thus the innovative potential of partnerships at subnational scales is celebrated in discourses highlighting local capacities for growth and employment generation, once released from the rigidities and disincentives created by higher-scale regulations and social benefits.

This kind of link between continentalization and decentralization is clearly enunciated not only in the discourse of Canadian politicians but also in the work of scholars like Courchene, for whom the imperatives of continental integration under NAFTA mean greater divergence within Canada but increased convergence among crossborder economies. Provinces like Ontario and Quebec should adjust their policy regimes to match those of their competitor states across the border. This means neoliberal prescriptions for Ontario (and Toronto):

Buffalo and other proximate US locations are, under an open borders agreement, within easy economic striking distance, and they are “armed” … with a legal, institutional and fiscal regime that is arguably more suited to aggressive competition. All told, this amounts to a clarion call to Toronto and Ontario, that their erstwhile privileged position operating in Canada’s heartland is now under siege and that Ontarians have no choice but to become aggressive players in the new geo-economic reality.34

Tax rates should be brought down to the levels found in the crossborder
counterpart states and US-style workfare embraced, and Ontario is advised to “integrate its school-to-work and welfare-to-work subsystems” with those of its proximate and trade-intensive states. More broadly, Courchene tells a multiscalar story in which changes to Canadian policy and governance depend on, first, the federal government’s actions in devolving responsibilities to the provinces in areas such as skills and training, and in its willingness to adjust its tax rates to US levels to support a more positive business location; second, provincial challenges to postwar intergovernmental arrangements, such as the provinces’ insistence on provincial flexibility in setting their own tax rates and levels; third, challenges from “across,” as provinces and cities compete for investment and highly skilled, mobile workers (and avoid attracting “unwelcome” social assistance recipients), and fourth, challenges from the cities, as these “engines of growth and innovation” insist on a new deal for cities.

While interscalar arrangements have long tolerated interprovincial variation, crossborder differences were greater than those within Canada, due in no small part to the interscalar rule regimes codified in programs like the Canada Health Act and the Canada Assistance Plan (CAP). Are provinces using the new freedoms associated with the introduction of the Canada Health and Social Transfer (CHST) to follow Courchene’s advice? The research findings do not bear this out. Thus Van Nijnatten and Boychuk found that “the evidence generally seems to run contrary to the expected pattern generated by Courchene’s analysis by which differences between provinces should increase while cross-border jurisdictions should become increasingly similar.”

While it is important to be skeptical of the Thatcher-like use of scalar discourses — “there is no alternative (TINA) … to neoliberal workfare” — Courchene’s analysis does recognize the multiscalar nature of the policy environment and the need to examine changes in the pattern of interscalar relations. Yet Courchene’s scalar story falls short analytically as he disregards the qualitative changes that occur when relationships change. Devolution does not simply mean a transfer in power downward. It is not a zero-sum process in which one scale (the national) loses power to those above and below it. Rather, there is a complex reconstitution of power relationships
within and between different scales, a process in which the elaboration of new interscalar rule regimes is occurring. These come to constitute systems of metagovernance that “are deeply implicated in guiding and orchestrating the (local) policy development process.” Through these regimes, the regulatory relationship between the national and subnational scales is reconstituted and reorganized.

The politics of welfare redesign is thus intimately bound up with the politics of scale. Here it is important to distinguish between scalar discourses as ideologies and the emergent interscalar rule regimes that make certain outcomes more likely than others. In other words, there are interscalar rule regimes that favour the harsher workfare variant of the new paradigm. At the same time, “interscalar rule regimes, many of which continue to be mediated and orchestrated by national states … can in principle be remade in ways that ameliorate or even reverse competitive localism, spatial undercutting, and regulatory dumping at the local scale.” That is, interscalar rule regimes can be designed not only to inhibit but also to support more egalitarian interpretations of the new paradigm at the provincial and local scale depending on the broader relation of forces.

**Areas of Convergence: Welfare Redesign from a Multiscalar Perspective**

NAFTA has had only a limited impact on Canadian social policy, despite the TINA rhetoric embedded in these neoliberal, workfarist scalar discourses. To understand changes in social and labour market policy over the last decade, it is necessary to go beyond NAFTA to probe developments in the intranational scalar arrangements governing these policy areas. The cases of Unemployment/Employment Insurance (UI/EI) and the national child benefit do not simply mark the (potential) shift towards the workfare/duty/social investment state. These policy turns are entrenched in new arrangements between the federal government and the provinces/territories — the Labour Market Development Agreements (LMDAs) and the Social Union Framework Agreement (SUFA). In this way they also tell us something about the emergent interscalar rule regime. Do these arrangements permit (or even foster) an internal “race to the bottom” or do they encourage progressive experiments from below?
Employment Insurance In making their convergence argument, Banting et al. focus on changes to (un)employment insurance. While the cuts and restructuring of UI/EI are important, these initiatives need to be put in the larger context of labour market policy, especially given the tighter link between social and labour market policy that marks all versions of the new paradigm. The shift from passive unemployment to active (re)employment began earlier and accelerated during the 1980s when concern was fanned about UI’s disincentive effects. At the same time, the conclusion of the CUFTA sparked the debate over “adjusting to win” that helped to launch the Labour Force Development Strategy (LFDS). The changes to UI embedded in the Employment Insurance Act, and the associated interscalar LMDAs, help to consolidate the paradigm shift.

Initially, Canada and the United States followed somewhat different trajectories in UI and social assistance. Whereas in the United States social assistance became entrenched at the national scale and Unemployment Insurance varied substantially at the state level, the Canadian picture is the reverse: social assistance remained within the purview of the provinces while jurisdiction over Unemployment Insurance was entrenched at the federal level, after the 1940 amendment of the British North America Act. The rationale for Unemployment Insurance, provided in the 1937 Rowell-Sirois report, was that only the federal government could ensure the financing levels, by drawing on general revenues, and the pan-Canadian uniformity required. Although intended as a passive measure to provide income support in times of temporary unemployment, Unemployment Insurance almost immediately became a labour market measure to help returning soldiers make the transition to the peacetime economy. Unemployment Insurance also provided an entry point for social actors and regions to push for the broadening of the working population covered, and to increase benefit levels.

Thus, while both countries depended on the stability of the male breadwinner’s income during the postwar period, Canada’s welfare state came to be associated with the right to security, combined with the pursuit of high, if not “full,” employment. The Canadian system provided much higher levels of income support during periods of unemployment, a difference that
persisted to the mid-1990s. The UI reforms of the 1970s turned the Canadian UI program into an active instrument of spatially oriented income redistribution and economic stabilization, providing higher benefits in seasonally oriented and/or depressed regions. The reforms included an early shift away from providing temporary (passive) income support to include training and labour force reattachment measures. This, in turn, entailed cost increases and a rise in the federal government’s contributions. The main criticism came in the 1980s, via Royal Commission reports that singled out the benefit dependencies and work disincentives arising from high benefit levels.

Thus, while Canada and the United States were like many OECD countries (except Sweden and Norway) during the postwar period in their emphasis on “passive” measures, Canada had begun to make important changes to UI, with increasing emphasis on training and labour force (re)attachment. As the Keynesian demand-side paradigm gave way to supply-side measures touted by the OECD, the major workfare reforms to the interscalar regimes in the two countries crystallized around different income support programs: Unemployment Insurance in Canada and social assistance in the US. In Canada, a broader national-scale focus on training and skills development, inspired in part by policy learning from Europe, led to the adoption of the Labour Force Development Strategy (LFDS).

The LFDS marked the first attempt to establish a new interscalar labour market, in part by addressing the longstanding jurisdictional conflict over training. It involved the adoption of corporatist-type boards at the federal and provincial scale to develop and implement coherent and appropriate labour market policies. The corporatist boards included both employer and union representatives, as they did in countries like Sweden, and “equity” groups representing women, visible minorities, and the disabled. While most of these “failed” when the national LFDS was abandoned, they proved more durable in provinces like Quebec and Saskatchewan, where strong labour movements exist and provincial governments were supportive. In Quebec, the forum played a key part in introducing progressive experiments such as the employer training tax, whereby one percent of revenues had to be set aside for investment in employee training and skill development.

Those who focus exclusively on retrenchment miss these important aspects
of labour market governance. At the same time, they make us aware of the limited degree to which the new arrangements support the institutionalization of the egalitarian variant of the new paradigm. Banting, for example, rightly focuses on unemployment benefits as the major area of dramatic reform/convergence. The 1995 change from Unemployment Insurance to Employment Insurance lowered benefit levels, tightened eligibility requirements, shortened benefit periods, and clawed back benefits from those with incomes above a certain threshold. Not only did this produce a substantial convergence on the US norm, it actually made UI in many American states seem generous by comparison, especially in the provinces west of Ontario.47 Similar cost-cutting initiatives to tighten the system were undertaken in social assistance across the provinces, partly triggered by the “cap on CAP”48 and the subsequent transition from CAP to the CHST. Banting is right, therefore, to question whether the change “from security as protection from change, to security as the capacity to change” — or from passive to active measures — is producing what it claims.

Financed by the newly created “active” EI account, the LMDAs combined with the reforms to UI/EI49 and were concluded when it was clear that the LFDS had run its course.50 The LMDAs involved the devolution of responsibility over active labour market measures for the unemployed to the provinces, a move designed to facilitate the integration of labour market and “activation-oriented” social policy reforms. These bilateral agreements constituted a turn towards a “collaborative federalist regime,” as Klassen calls it. Although funding from the EI account to the provinces rose, actual federal expenditures on active labour market policy fell in real terms due to cuts to the Consolidated Revenue Fund (CRF), as well as the modest drop in unemployment rates.51 Reductions and eligibility restrictions led to narrower targeting typical of liberal welfare regimes, with a focus on youth and Aboriginals, as well as overall restrictions that rendered many working people ineligible. These changes allow a substantial portion of the unemployed to fall between the cracks.

This deficit-cutting climate had an impact on the type of LMDAs negotiated with the provinces and the emergent interscalar regime associated therewith. Klassen asks whether they constitute a “brave new model of collab-
oration,” since success is defined in terms of indicators imposed by the federal government: a quantitative target of the numbers of unemployed moved into employment, with resultant “savings” to the passive EI account, and financial penalties if targets are not met. Thus the incentive framework within which the provinces operate emphasizes quick reattachment rather than genuine employability — in other words, workfare rather than social investment. In addition, resources are likely to be shifted from those who need them most to those who need them least. This is apparent in recent federal initiatives like the Millennium Scholarship Foundation, the Canadian Foundation for Innovation, and the Canada Research Chairs.

Nevertheless, the establishment of a new interscalar regime is a dynamic process and one riven with contradictions. All of the authors surveyed stress the instability of the current arrangements, and note that an economic downturn may provoke a substantial rethinking of the workfare rules embedded in the LMDAs. To some extent, such rethinking of “success” is already occurring. This could move in the direction of the social investment variant if it results in the development of medium-term indicators that would include income and length of employment. There appears to be a growing recognition that increasing labour force participation does little to provide a means of escape from the low-wage “poverty bus,” given the growth in precarious, nonstandard employment.52 This has produced a consensus among the provinces on the need to insist on increased funding under the LMDAs as a means to upgrade training and skills, providing a genuine basis for employability in good jobs.53 In the interim, the LMDAs contribute to a workfarist orientation.

**Child Benefits** The tendency towards convergence has been identified in child benefits as well as UI. Hoberg et al. focused on the shift in Canada from universal family allowance to the targetted National Child Benefit (NCB); in the United States, they looked at the expansion of the Earned Income Tax Credit (EITC). In Banting and Boychuk’s Canada-US comparison,54 the focus is expanded to include family benefits, but even here a distinction is made between family benefits (federal) and social assistance (provincial). In this section, as above, we think it is important to put the
two together because the change in child benefits is part of a broader move towards the workfare/duty/social investment state. Child benefits, defined to include the child services or “reinvestment” component, constitutes the main focus here.

Both Canada and the United States developed liberal welfare regimes, but there were important differences between them. This was evident in child programs. While both countries assumed the male breadwinner/female domestic caregiver family norm, in the United States families were left largely to rely on the market income secured by the breadwinner. Canada’s postwar child/family benefits policies included the universal family allowance program, supplementing the breadwinner wage. Both countries, however, had developed intergovernmental arrangements to provide funding for families, especially lone parents, on social assistance. In Canada’s case, this included low-income working families, at times reaching into middle income brackets. The US Aid to Families with Dependent Children (AFDC) started several decades earlier than the Canada Assistance Plan (1966), but both involved federal cost-sharing arrangements with subnational governments, allowing the latter to determine eligibility rules and benefit levels within broad federal guidelines.55 Both included the right of due process appeal.56

Both Canada and the United States responded to the decline of the male breadwinner family form by introducing typically liberal measures to govern child care. Successive revisions to the US Social Security Act provided some support for low-income families and the CAP (1966) included provision for federal cost-sharing of child care subsidies for those in need. Both reforms were introduced when the idea of workfare had entered the policy arena. In the United States, support for childcare through the Social Security Act was understood as a way to get families off social assistance.57 Although CAP explicitly prohibited provincial experiments with workfare, childcare subsidies were included in a number of “rehabilitative” services, designed to enable people (women) to make the transition from social assistance to work.58 In Canada, however, an alliance of newly emboldened femocrats and child care advocates managed to use the potential implied by the “or at risk of becoming in need” proviso to broaden the terms, allowing the provinces to extend subsidies to middle-class families.59 Moreover, the revised terms of CAP60 introduced a federal bias in favour of nonprofit provision, whereas the
Americans encouraged the expansion of commercial provision. These features marked modest, but not unimportant, differences between the two countries’ programs. The main vehicle for assisting middle- and upper-income families in both countries, however, was the tax system. Again there were modest but qualitative differences. The United States included tax deductions for individuals and corporations, whereas in Canada the Child Care Expense Deduction was extended only to individuals.

If both countries’ child care subsidies had a modest workfare orientation from the start, this became a marked feature of their broader child policies over the course of the 1990s, signalling a move towards Bashevkin’s duty state. Yet, as Bashevkin recognizes, there remain important differences in the national legislation governing these programs, not the least of which are recent Canadian efforts to secure a positive “investing in (all) children” component.

A key set of parallel initiatives involve the shift to negative income tax programs targeted at the working poor — in the United States, the Earned Income Tax Credit (EITC) and in Canada, the National Child Benefit (NCB). Between 1985 and 1995, EITC recipient rates doubled and average credit size tripled. In Canada, the tax credit replaced the universal family allowance program, eliminated in 1993, and the funds thus released were added to existing tax credit schemes to create the income-tested Child Tax Benefit, which itself was subsequently integrated into the National Child Benefit (NCB) in 1998. The Canadian and US programs both focus on the working poor, with the underlying philosophy of “making work pay” — or raising incentives for taking low-paid jobs rather than relying on social assistance. The NCB, however, officially aims at reducing child poverty whereas the EITC’s objective is increased labour force participation of the parents. The NCB therefore includes those on social assistance whereas the EITC does not: only the working poor shall benefit. The NCB, like some of CAP’s programs (especially child care), also reaches well up into middle-income brackets, with some 80 percent of families with children receiving at least a modest benefit, whereas the EITC is more narrowly targeted on the low paid.

Bashevkin rightly locates these policy developments as part of the larger
shift towards the duty state, one that included the US Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) of 1996 and the Canada Health and Social Transfer (CHST) into which CAP was dissolved in 1996. These initiatives were also bound up with the establishment of new interscalar arrangements. Thus both the PRWORA and the CHST entailed the shift from conditional to block grants, giving subnational governments more freedom to experiment. This marked yet another break with Keynesian countercyclical policies, as amounts would no longer rise when economic downturns swelled the pool of the unemployed. Most importantly, the interscalar rule regime associated with PRWORA explicitly encouraged subnational governments to experiment with workfare, whereas the CHST simply dropped CAP’s prohibition against it.

Although the new rules favoured the shift towards the duty state, subsequent federal initiatives tilted in the direction of the social investment state. The ability of the federal government to effect this shift, however, depends on the nature of the more encompassing interscalar rule regime, centred on the Social Union Framework Agreement (SUFA), and the broader relation of forces in Canada. In fact, SUFA can be seen as a new interscalar arrangement that has much in common with the emergent forms of global governance. Like the Agreement on Internal Trade (AIT), “the agreement had parallels to, and connections with, the logic of continental trade liberalization. It extended the reach of free trade federalism by encouraging the use of a dispute settlement mechanism — albeit nonbinding as with the AIT — to resolve conflict in areas of shared jurisdiction.” One might go further, noting the use of “soft” enforcement mechanisms akin to the techniques currently being used by the European Union, which has turned from the use of directive “hard law” to governance through agreed guidelines, annual reporting, and peer review. The question is whether this sort of technique is sufficient to ensure that all provinces favour social investment over the workfare/duty state. The experience with child programs, especially child care, suggests that more is needed.

The National Child Benefit, concluded before SUFA, represents more than the consolidation of the targetted tax credit as the means for supporting families with children. It also reveals the way in which welfare state redesign
is intimately bound up with the rescaling of the Canadian state. The NCB forms “part of a federal-provincial-territories agreement that includes provincial and territorial investment and reinvestment in services and benefits that are directed to low-income families and promote healthy child development.”70 Under this arrangement, provinces and territories are allowed to claw back their contributions to social assistance by an equivalent to the amount of the national child benefit supplement, targeted at the (working and nonworking) poor. That money was to be reinvested in services or benefits supporting child development.71 The rules governing this arrangement, however, left the provinces and territories considerable latitude. The main obligation was to report on their progress. Soon it became apparent that while some not only invested the amount saved but added extra funds to such programs, others only invested the minimum required while lowering social assistance rates.72 Some provinces, in line with the priorities of the workfare/duty state, focused on parents making the transition to work (e.g., Ontario), while others included social assistance recipients as well (e.g., Saskatchewan).

The National Children’s Agenda, which committed the provincial, territorial, and, since 1999, federal governments to work together to ensure that all Canada’s children got a strong start in life, has been the main focus of SUFA. The NCA took its inspiration from expert arguments about the societal benefits to be gained from investment in the “early years.” Its first concrete expression was the Early Childhood Development initiative.73 Through this, the federal government made $2.2 billion (over five years) available for investment in health during pregnancy, birth and infancy; parental and family supports; early childhood development, learning and care, and community supports. The annual reports showed that some provinces, notably Ontario, failed to invest in certain key objectives, particularly early childhood education and care. Thus a third five-year agreement — the multilateral framework on early learning and child care — was launched in March 2003 and makes $900 million of federal money available to the provinces. The agreement specifies that the federal funds must be used for quality child care. Yet it was only after a change in government that Ontario’s share was used to fund regulated child care. The child policy
example thus suggests that the emergent mode of interscalar governance is not sufficiently developed to ensure that provincial (and municipal) experiments focus on social investment rather than workfare.

**Conclusions** In this paper, we have argued that the process of restructuring Canada’s welfare state involves both redesign and rescaling, neither of which can be solely attributed to NAFTA. Instead, the apparent convergence of Employment Insurance and child benefits must be considered a key part of broader processes of redesign in both Canada and the United States, with concomitant changes in interscalar arrangements. This leads us to four interrelated conclusions.

First, changes to UI and child benefits do seem to reflect a shift towards a new social policy paradigm, but this paradigm cannot be reduced to neoconservatism or neoliberalization as the duty/workfare states suggest. This may turn out to be the outcome. Yet there are more egalitarian versions of the paradigm, and there is some evidence, albeit far from sufficient, of attempts to establish such an alternative in Canada. Second, as a discursive construction, scale helps us understand that the arguments put forward by proponents of CUFTA/NAFTA are part of a neoliberal scalar discourse. This discourse emphasizes an inevitable and necessary dismantling, or “hollowing out,” of the welfare state in order to release the innovative and competitive capacities of the local. Contra TINA, we emphasize that neither NAFTA nor CUFTA eliminates the possibility for choice either at the national or subnational scales.

Third, as rescaling refers to the various ways in which social relations are being reconstituted and restructured into new interscalar arrangements, it is intimately connected with the process of welfare state redesign and vice versa. This means that progressive alternatives can be developed at various scales that challenge the existing power relations in and across scales. The question, then, is whether these interscalar arrangements facilitate and help spread progressive alternatives, or whether they, explicitly or implicitly, encourage neoliberal workfare/duty state forms. In the case of Employment Insurance, the way the interscalar rule regime is structured favours a workfare/duty state logic, even though actors at subnational scales may favour more progressive
alternatives. In the case of child benefits, the picture is somewhat more positive, with the federal government attempting to make the shift to a social investment state through SUFA in the face of resistance from some provinces. At the same time, it is not surprising that Quebec has stayed out of the new arrangements, for they have little support to offer that province’s progressive child care policy.

Finally, these examples show that it is necessary to consider scales in a relational fashion and to avoid assuming that there must be one best scale on which progressive groups should concentrate their efforts to mobilize forces for change. In recent debates on the Left as to whether centralization or decentralization of Canadian federalism is to be considered progressive, Graefe interjects with a much-needed reminder that it is not “either/or” but rather that “social reform … does not follow from centralization or decentralization, so much as the nesting of a progressive project at different levels of the state so that state action at one level complements actions at other levels.”

Indeed, to be effective, progressive forces acting in and around state institutions need to be able to operate in and across all scales.

Notes

1. The main classificatory schema for welfare regimes is Gösta Esping-Andersen’s: the residual, liberal variant, the class-segmented conservative regime, and the inclusive and “decommodifying” social democratic variant.
7. Ibid., p. 4.
15. Canada’s Unemployment Insurance became less generous through the withdrawal of the federal contribution, increased qualification periods, shortened duration of benefits, and reduced benefit levels.
35. Ibid., p. 161.
37. The 1984 Canada Health Act lays down the five principles of the Canadian health care system,
committing the federal government — and the provinces and territories wishing to obtain their full share of federal funds — to a universal, accessible, comprehensive, portable health care system, under public administration. The Canada Assistance Plan integrated federal cost-sharing programs in the area of social assistance under one act. It, too, laid down certain key principles including the exclusion of workfare programs from cost-sharing arrangements with the provinces and territories.

38. The CHST rolled together the federal government’s cost-sharing programs in health and social services into one and reduced the overall funding. It also marked a shift from conditional to block funding.


42. At least until the passage of the Canada Assistance Plan act in 1966. See below.


44. The difference in generosity levels holds well when comparing the United States and Canada but not when comparing Canada with countries that fall in the social democratic or conservative-corporatist regimes.


48. In 1990, the federal government placed a cap on CAP funds going to the richest three provinces, Ontario, BC, and Alberta. For Ontario, this couldn’t have happened at a worse time because the province was just heading into a major slump.

49. Employment Insurance split into two separate accounts, one for passive income transfers and the other for “active” transfers.

50. The immediate pressure point was Quebec, whose demands for control over labour market policy gained force not only from the close 1995 referendum (on Quebec sovereignty) results but also from the strength of the Bloc Quebecois in the House of Commons.

51. The CRF provided similar services to non-UI groups, including women, youth, Aboriginal peoples, and recently arrived immigrants.


53. The provinces and territories put out a joint communiqué emphasizing more funding for skills and training, including the Consolidated Revenue Fund (Provincial-Territorial Labour-Market Ministers, 2002).

54. K. Banting and G. Boychuk, “Paradox of Convergence.”

55. The American federal government contributed one-third of AFDC costs whereas the Canadian government paid one-half of CAP-covered programs.

56. This was part of CAP from the outset; it was added to AFDC after a court ruling in the 1960s, along with limits on the states’ right to impose tight moral restrictions (Bashevkin, *Welfare Hot Buttons*, p. 18).

57. In 1962, child care subsidies were used to encourage low-income mothers to work; the 1967 reforms established the Work Incentive (WIN) program, making employment mandatory if child care was available; in 1974, child care subsidies were again targeted to support a turn to workfare (S. Michel, “Child Care Public Policy: Historical and Policy Analysis,” Interim Report 2, Pew Charitable Trusts (1996), pp. 3-5).
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60. CAP did not exclude the possibility of cost-sharing subsidies to commercial child care but funds obtained through the less invasive (income not means-tested) and more generous of the two funding routes were only available for nonprofit or publicly run child care centres.


62. Both have their roots in previous decades but expanded to become the major program in the 1990s, as Bashevkin notes, under “third way” governments.

63. K. Banting and G. Boychuk, “Paradox of Convergence.”

64. In the 1970s, family allowances became taxable earnings and were only partially indexed to inflation. In 1989, they were clawed back from upper income families (J. Jenson and S. Stroick, What Is the Best Policy Mix for Canada’s Young Children? (CPRN, 1999), pp. 78-79).

65. The NCB includes two components: the first is the tax credit available to most families, though the amount of the credit declines with family income; the second NCB supplement is narrowly targeted at the very poor, working and nonworking.

66. The PRWORA also included a Child Care and Development Fund. Yet “in addition to a lack of sufficient funding, there is wide variation in the bureaucratic practices that determine access to child care at the local level; inadequate compensation and benefits for child care providers, coupled with minimal support for improving program quality; and difficulties in coordinating child care with other public programs for early childhood education.” D.U. Levy and S. Michel, “More Can Be Less: Child Care and Welfare Reform in the United States,” in Child Care Policy at the Crossroads, S. Michel and R. Mahon, (eds.), (Routledge 2002).

67. Quebec remains outside of SUFA and all related initiatives. It has its own, frequently superior arrangements.

68. The AIT was explicitly designed as the domestic complement to NAFTA, which aimed to remove internal barriers to trade. See Clarkson, Uncle Sam and Us, pp. 82-89.

69. Clarkson, Uncle Sam and Us, p. 296.

70. Jenson and Stroick, What Is the Best Policy Mix?, p. 79.

71. Examples include child care, child benefits and early childhood services, programs for children “at risk,” and earned income supplements and health benefits.

72. Thus, for instance, Saskatchewan and Ontario invested about the same amount in programs for children, even though Ontario’s population is roughly ten times that of Saskatchewan’s (Mahon (2000), p. 29).

73. This included all provinces and territories except Quebec, as did the NCB. However, Quebec has its own programs, which usually surpass those adopted by the others.