

THE POLITICAL FOUNDATIONS OF STATE REGULATION IN CANADA

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How entrenched is state regulation in Canada? Recent debates on the Free Trade Agreement, the constitution, neo-liberalism, and global competition have all raised the possibility of a dramatic erosion of the institutions, practices, and norms that constitute the Canadian pattern of state regulation. Comparative studies on the state suggest abrupt changes are rare. The institutional consequences of the conservative policies of the 1980s, for example, have often been exaggerated.² What then can be said about the evolution of Canadian state regulation? Will everything change radically? Or are certain aspects of what the state does well entrenched in Canadian political culture, social forces, and institutions?

This chapter uses historical and comparative material to assess the evolution of state regulation in Canada. We argue that state regulation is the institutional outcome of social and political conflicts and therefore its evolution cannot be predicted.³ Much can, nevertheless, be said about the resilience of existing social arrangements, the challenges posed by new problems, the potential of old and new social forces, and the political context in which decisions will be made and implemented. Precisely because the future is made and cannot be predicted, we must be sensitive to the ways in which structure and agency interact to make history. The fact that debates, collective actions, and social and political conflicts will determine the outcome, however, does not mean everything is possible. Historical and comparative studies indicate state regulation evolves in specific ways, and we already have some ideas about the social forces, collective actors,

institutions, and issues likely to be important. Much can therefore be said about potential changes.

Following a short theoretical presentation in the first part, the chapter discusses the evolution of state regulation from two standpoints. First, its historical development is reviewed to identify the social forces involved, the roots of change, and the nature of the institutions created. The aim is not to establish definitive causal relationships, but to clarify what is at stake in current conflicts. The next part adds a comparative dimension to specify the character of social conflicts and partisan politics in Canada. Whereas the historical section outlines the roots and relative stability of Canadian state regulation, the comparative one qualifies this picture of continuity by showing how the Canadian experience is specific but very close to that of countries like Britain and the United States. Together, the two sections suggest an evolution less dramatic than that proposed by some but nevertheless close to the American pattern. A centrist version of the liberal policy pattern typical of such countries continues to be the default option for Canada, the option that social and political inertia would perpetuate.

CLASS, CONFLICTS AND STATE REGULATION

After the 1988 free trade debate, many noted how Canadian political economy had failed to provide an adequate perspective on the state. As Rianne Mahon put it, “the very vitality of the new Canadian political economy In the 1970s would have led one to expect something more than the defense of the very status quo of which the 1970s political economy had been so critical.”⁴ A common diagnostic was that political economists often ended up praising the status quo because they had little else to offer.⁵ This could be true but more seemed at stake. John Myles noted how the prevailing nationalist problematic had restricted Canadian political economy to a “truncated range of questions.”⁶ Largely defined by its contribution to the “creation and re-creation of Canada as a rich dependency,” the state has mostly been characterized by its limitations.⁷ Linked either to class, elites, or institutions, these limitations appear to be the primary source of Canada’s specificity and constituted the main object of inquiry. Canadian political economy

has thus produced the image of a constrained state, which manages its dependency with difficulty and always remains on the verge of losing its integrity. Not surprisingly, discussions of the free trade agreements, the constitutional accords, and the rise of global competition have easily turned into lament for the nation.

There is no point denying the constraints that have shaped state regulation in Canada. Giving analytical priority to limits and “things that did not happen,” however, tends to negate the transformations that have given rise to the modern Canadian state and to deny any efficacy to social and political conflicts.⁸ This chapter shifts the perspective to examine what has been achieved over the years. The aim is not to replace the traditional pessimism of Canadian political economists by a simple-minded optimism, but to give more importance to the content and social roots of state regulation.

The concept of state regulation is used to describe the role played by the state in the creation and reproduction of the institutions, practices and norms that make stable capital accumulation possible over long periods. Conflicts in and around capital accumulation and the working of capitalist democracy constantly generate social innovations and, in turn, these innovations impose changes in the institutions that regulate capitalist society. Major institutions, however, are not changed easily, particularly those involving the state. Stable patterns of regulation predominate over long periods, until social and political conflicts redefine them. Consequently, new social arrangements require time to build. They also perpetuate many aspects of the institutions they are replacing.⁹ State regulation can thus be understood as a succession of institutionalized social arrangements produced and reproduced by social conflicts.

This conflict can be understood either in pluralist or in class terms. Pluralist concepts have the advantage of corresponding closely to what constitutes common sense in a liberal democracy. They also seem particularly adequate in societies like Canada, where class politics often appears irrelevant. Pluralist accounts, however, portray groups and their actions rather than social relations, and little can be said about accumulation and regulation without reference to the wage relation.

More than a growth process, capital accumulation is a social relation between capitalists and wage-earners. As such, it creates specific “structures within which actors, individual and collective, deliberate upon goals, perceive and evaluate alternatives, and select courses of actions.”¹⁰ Capitalists and wage-earners, for instance, do not face identical problems and they do not have the same choices. Whether or not the wage relation leads to the formation of class-based collective actors, whether these actors emerge as political parties, business organizations, trade unions or social movements, and whether they succeed in influencing policies, depends on numerous factors. Class structures nevertheless determine realms of possibility that are neither endless nor unassailable.

To pose the problem of agency in class terms is not to deny the relevance of collective identities unrelated to class. The concept of class is used to acknowledge a social relation central to capitalist societies, the wage relation. Identifying this relation does not make it the only or even primary social fact. In some instances, gender or other social relations may take on more importance, and state regulation evolves with social and political conflicts formed on the basis of all types of social relations.¹¹ Class conflicts nevertheless have a special importance because they distinguish many contemporary historical periods and political arrangements. Class formation, the process by which class cleavages give rise or fail to give rise to concrete collective actors, counts very much, for instance, in explaining transitions from prewar to postwar forms of regulation in the 1930s and 1940s. It is also essential to account for contrasts between the social-democratic, corporatist, and liberal social arrangements that characterize different societies.

In advanced capitalist countries, partisan and industrial relations organizations are major sites of class formation. The relevance of class in electoral politics and the type of organization developed for collective bargaining are thus determinant for state regulation.¹² Again, other factors matter and non-class definitions of politics may well prevail over class conflicts. A weak political expression of class cleavages, however, can also be understood as an outcome of class formation.¹³

State regulation has political foundations precisely because it is linked to the process of class formation. Canadian policies and institutions have not been purely contingent creations of brokerage politicians and autonomous bureaucrats. Major innovations reflected specific class conflicts and were embodied in a balance of power typical of similar liberal democracies. The rest of this chapter outlines this evolution and explains the legacy it created for this country.

THE POLITICAL FOUNDATION OF STATE REGULATION IN CANADA

In Canada, the involvement of the state in regulation can be divided into five periods. In the first, from Confederation to the First World War, the state did not tax or spend very much, but it intervened very significantly. In his work on the rise of the capitalist economy, Karl Polanyi argues that *laissez-faire* had to be planned, imposed by a strong state: “the road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism.”¹⁴ Few countries confirm his analysis better than Canada. A new state was created in 1867 with the purpose of securing a national market and promoting the development of a modern capitalist economy. It financed the construction of a massive transportation infrastructure, encouraged immigration and the opening of new territories, and adopted a protectionist industrialization strategy. Convinced economic cycles were unavoidable and committed to non-intervention in social matters, governments relied mostly on market mechanisms to regulate the economy and on charitable organizations to provide for the dispossessed. They nevertheless had to take into consideration the rise of an organized and enfranchised working class. In the 1880s, Ontario trade unions organized a percentage of workers they would not reach again until the 1940s, and “both Liberals and Conservatives courted a growing working-class constituency increasingly aware of its own potential as a ‘spoiler’ in electoral battles.”¹⁵ “Factory acts, bureaus of labour statistics, arbitration measures, suffrage extension, employers’ liability acts” and legislation affecting work, the family, and charitable

and public institutions responded to this new situation.¹⁶ In these years, state intervention involved regulation more than expenditures.

The year 1914 opened a second period that lasted until the beginning of the Second World War and marked the transition from regulatory to expenditure-based interventions. Faced with increased social and political pressures after 1918, governments reluctantly adopted welfare measures falling into four categories: minimum wage laws continued a tradition of regulatory interventions yielding to the labour movement; workers' compensation programs introduced a form of compulsory social insurance restricted to specific categories of the population; mothers' allowances committed provincial governments to spend on public assistance; and public pensions became the first program to depart "from traditional poor law practice of restricting help to indigents."¹⁷

Only the last two measures involved spending. Although mothers' allowances restricted benefits to claimants who met strict conditions and accepted controls, they constituted the first departure from the traditional reliance on local charity and forced provincial government to spend much more than they had expected.¹⁸ Public pensions too constituted a breakthrough because they introduced the idea of benefits as entitlements, as rights for all citizens. At the same time, they perpetuated old practices like means tests and minimal allowances.¹⁹

Further changes came with the third period, which lasted roughly from 1940 to 1960. The story of a "Keynesian welfare state" emerging out of the depression and war experiences has often been told and can easily be exaggerated. Reluctant, ad hoc, and decentralized, state regulation did not suddenly become avowed, systematic, and centralized. For one thing, in economic policy, the adoption of Keynesian ideas in 1944 had more to do with political marketing than with policy innovation and in the following years it proved ineffective and superficial.²⁰ As for welfare measures, the most ambitious proposals for reconstruction were rejected and change remained gradual and piecemeal.²¹ Three fundamental innovations were nevertheless introduced. First, a governmental responsibility for the state of the economy was acknowledged; business cycles became a political matter.²² Second,

two major welfare state innovations, unemployment insurance and family allowances, confirmed the notion of social programs as universal or almost-universal rights and opened the door to demands for more programs of this type.²³ Third, the state explicitly recognized the conflictual and uneven nature of capitalist relations of production and created rules that, within certain limits, compelled employers to recognize trade unions and to engage in collective bargaining. Nevertheless, the state itself failed to grant collective bargaining rights to its employees, thus showing the limits of this third innovation.²⁴ The 1950s were years of gradual changes within the framework established by these postwar innovations.

From 1960 to the mid-1970s, union membership and strike activities increased significantly, in both the private and the public sector.²⁵ Partisan competition and federal-provincial conflicts also intensified and a series of policies completed and deepened the innovations of the previous period. Unemployment insurance, family allowances, assistance programs, and pension plans were all revised and expanded, health care and housing programs created, and the state's intervention in the economy increased. This multiplication of programs and interventions translated into a rise in the level of public expenditures sufficient to speak of a qualitative change.²⁶ A patchwork of relief, social insurance, and universal programs distributed uneasily between the federal government and the provinces, the modern Canadian welfare state nevertheless expressed an unprecedented commitment to income security.²⁷ The economic role of the state was also confirmed with the creation in 1963 of the Economic Council of Canada and with the adoption of new supply-oriented initiatives in Ottawa and in most provinces.²⁸ Finally, a high level of militancy allowed major collective bargaining gains in both the private and the public sector.²⁹

A new period opened in the mid-1970s, marked by monetarist policies, welfare-state retrenchments, and working-class losses. The break with previous periods must not be exaggerated, however. Compared to their counterparts in the United States and the United Kingdom, the Progressive Conservatives did not bring a radical break with the past. They appealed to continuity, pursuing the monetarism, spending restrictions, and coercive industrial relations practices

initiated by the Liberals in the mid-1970s. The trend toward higher unemployment levels continued, the welfare state eroded by “default rather than design,” and trade unions remained in a mostly defensive position.³⁰ John Myles notes that, “What withered away, was not the welfare state, but wage pressure and demands from labour and popular groups for a bigger and better welfare state; ‘change’ was a product of the seventies, not a neo-conservative revolution of the eighties.”³¹

If this last period confirmed anything, it was the resilience rather than the fragility of the institutions inherited from the earlier years. Retreats at the margins did not prevent progress on new fronts, in the realm of equality rights, for example. To explain this resilience and these recent changes, we must consider the social and political roots of a century of reforms.

A full explanation of the long development of state regulation in Canada would require detailed historical studies explaining each decision to act, reform, or change. Alone, a broad historical perspective nevertheless allows three observations. First, patterns appear in the patchwork of laws, programs, and institutions that gradually constituted the Canadian welfare state. Second, these patterns are related to the general evolution of capitalism in Canada. Third, the historical development of successive patterns of capitalism and state regulation was largely paced and shaped by the process of class formation.

To some extent incremental, the evolution of state regulation has not been solely a regular addition of minor, apparently inconsequential undertakings. Periodically, at times of rapid change, the social and economic role of the state was redefined. New principles were accepted and allowed qualitative changes. Devoted at the outset to the establishment of capitalist institutions and infrastructures, the Canadian state progressively added various regulatory controls, aimed at policing market and social relationships. The post-1918 social upheavals then led to the acceptance of spending as a means of intervention, and minor expenditures were undertaken to mitigate market failures. The Great Depression and the Second World War confirmed and accelerated this trend, and the 1960s brought further

interventions in a number of areas, leading to marked increases in the level of expenditures.

Roughly parallel to similar developments abroad, this evolution was not haphazard. Changes in state regulation were an integral component of a broader historical transformation that saw Canadian capitalism change from an extensive to a predominantly intensive pattern of accumulation, and from competitive to monopolistic forms of regulation.³² The economic recovery that started in 1896 with the wheat boom “marked a turning point in Canadian manufacturing growth and development.”³³ While traditional industries declined, new ones grew steadily. By the 1920s, the rise of industries producing electricity, pulp and paper, and non-ferrous minerals had confirmed Canada’s transition to a modern, mass-production economy, less dependent on agricultural production and territorial expansion.³⁴ Such a transition raised social and political challenges that could not be met with modest, incremental reforms. It would take years, and the experiences of an unprecedented long depression and a world war, to reach a new, relatively stable social arrangement centered on a new conception of markets and state regulation. After 1945 the state accepted some responsibility for overseeing economic conditions, collective bargaining, and minimal universal programs. However weak, these commitments represented a shift of vision imposed by years of social debates around questions of equity and efficiency in a mass-production economy. A second wave of conflicts and reforms came in the 1960s to expand and deepen these three commitments.

The rise of the mass-production economy undermined liberal patterns of regulation and left a void eventually filled by new practices and institutions, forged in social and political conflicts. Of course, many ideas and decisions came from intellectuals, experts, and bureaucrats. In the end, political decisions are always made by politicians and civil servants and there is no point denying their influence. Decisions involving principles and leading to major social changes, however, only become possible when social movements mobilize around new or renewed demands.³⁵ The social origins of institutions explain their resilience. Erosion may occur but major principles guiding state intervention are seldom discarded.

The relevance of class relations was affirmed throughout the postwar period by a conjunction of trends and events that gave a meaning and a content to the regulation principles adopted after the war. Consider the three areas of innovation opened in the immediate postwar years: macroeconomic stabilization, collective bargaining, and universal welfare provision.

Public references to Keynes did not translate into effective discretionary stabilization policies. Canada consistently fought potential inflation with deflationary bouts. The relative weakness of organized labour and of the Left meant the state was free not to pursue Keynesian discretionary policies, and led to a secular increase in the levels of unemployment and under-employment. At the same time, the rise of public-sector spending associated with the development of the welfare state had a significant stabilization effect. The state's Keynesianism was thus a by-product, the result of changes indirectly related to macroeconomic policies.³⁶

In collective bargaining, the balance sheet is difficult to read. Pessimists of all political stripes see working-class gains as limited, transitory and eroding; optimists speak of a resilient model that gradually widens the social gap between this country and the United States.³⁷ The coming years may alter the picture, but at this point the empirical evidence tends to support a moderately optimistic assessment. Union membership and density remained stable in Canada as they declined dramatically in the United States, the American trend toward concession bargaining did not cross the border, union militancy remained more vigorous in Canada than in the United States, Canadian wings of international unions became increasingly autonomous, and the Canadian labour movement as a whole kept a good deal of political clout.³⁸ Although it remains within the confines of the North American model of decentralized industrial relations, the collective bargaining regimes present in Canada an enduring legacy of the postwar period.

The adoption of a few universal programs in the postwar years only inaugurated the development of a modern welfare state. In Canada as in other countries, the welfare state was largely a product of the

1960s and 1970s.³⁹ Numerous commitments undertaken in the 1960s only began to have an impact on public finances in the 1970s.⁴⁰ The outcome was a liberal version of the social security welfare state; the principles of universality and wage replacement were accepted but not taken seriously enough to obtain full employment or to reduce poverty significantly. Much of this development can be related to the secular rise of unemployment, itself associated with the openness of the Canadian economy; the roots of government spending would be less political than economic.⁴¹ Apart from the fact that the secular rise of unemployment was itself a consequence of political decisions, this account appears inconsistent with the observed governmental priorities. Health and education, not housing and job creation, were the main sources of innovations during the period. The rise of the welfare state responded less to a general unemployment problem than to specific social and political demands for reforms.⁴² Health care programs, for instance, emerged in the 1960s out of a protracted conflict between progressive forces (mostly trade unions and the CCF/NDP) and supporters of the status quo (especially the medical and business establishments and the Progressive Conservatives). Provincial initiatives, a strong labour movement, and a succession of minority governments in Ottawa tipped the balance toward change.⁴³ However limited, changes in labour market policies also resulted from “the greater leverage enjoyed by an expanding labour movement in the 1960s, in the context of minority governments in which the NDP also had greater leverage.”⁴⁴ This long reform process created a specific institutional outcome. Ungenerous by international standards, the Canadian welfare state nevertheless entrenched important historical gains.

This chequered evolution in economic policy, industrial relations and welfare provision can be attributed to a state which committed itself episodically to intervention in new areas. The content of the different interventions was then gradually defined through pressures and conflicts. Thus, even though the “centralizing momentum” of the federal government was lost to growing provincial governments at the end of the 1950s, “the decade of the 1960s marked the high point of welfare state development in Canada.”⁴⁵ The conventional viewpoint

linking centralism and welfare provision cannot account for this crucial period because it lacks “a sense of the societal dynamics that underpin both the evolution of state policy and the character of federalism.”⁴⁶ Designed and implemented by politicians and bureaucrats, Canadian state regulation was not born out of a bureaucratic vision. It emerged gradually, following the adoption, institutionalization, and definition of new principles guiding intervention. Class and political conflicts, often expressed in regional terms, were at the roots of these new commitments and progressively defined their meaning.

Of course, the outcome had limitations. By international standards, Canada obtained a limited welfare state, more comparable to the American model than to European equivalents.⁴⁷ The argument presented here is that the adoption of a “liberal” welfare state can best be explained by the character of social and political conflicts in Canada. For this discussion it is necessary to turn to the second, comparative, half of the argument.

A LIBERAL STATE

An outcome of concrete historical conflicts, Canadian state regulation developed at its own pace and institutionalized specific practices. Detailed historical accounts are thus necessary to explain fully the timing and the content of each aspect of state intervention. At the same time, this long process paralleled similar evolutions elsewhere. In every advanced capitalist country, the postwar period saw the creation of political arrangements that involved state responsibility for the economy, new industrial relations rules, and improved welfare programs.

The widespread and relatively simultaneous adoption of reforms in these areas was not haphazard. Politically, these changes addressed fundamental questions left unsolved at the outset of the Second World War, particularly questions related to the place of the organized working class in society and the role of the state in the economy.⁴⁸ Economically, they responded to the problems posed by the rise of an economy increasingly dominated by mass production and driven by mass consumption. Liberal institutions and practices were replaced or complemented by new forms of regulation such as countercyclical

policies, collective bargaining, and universal welfare programs. Most of these new forms of regulation involved the state either creating the institutional framework or implementing specific policies.

In Canada, the postwar state has generally been understood as narrowly constrained by external and internal forces. Such an evaluation is correct but not sufficient. Over the period all countries experienced external influences and all reforms respected the logic of capitalism. There may be qualitative differences between Canada and other countries, but the criteria for establishing and evaluating these differences must be specified.

Comparisons of advanced capitalist countries help clarify these criteria. Within the framework set by liberal democratic institutions, an advanced capitalist economy, and the postwar context, countries differed along specific political and institutional dimensions. Comparative studies usually consider the strength of trade unions and leftist parties, the presence of corporatist arrangements, the participation of social-democratic parties in government, and the type of institutions. From this point of view, advanced capitalist countries are usually clustered in three, or four, models: a social-democratic group including the Nordic countries and sometimes Austria, a corporatist group centered on Germany, and a liberal group including France, Italy and the U.K., U.S. and Canada, with the latter three countries sometimes grouped into a fourth category.

Each of these clusters, constructed more or less inductively, is a variant of ideal-typical state regulation. A study of these four models cannot provide a full political account, but it indicates how the rules of the game may vary from one country to another. New problems and conflicts do not raise the same strategic dilemmas in every model. In the first cluster of countries, the social-democratic model is best exemplified by Sweden and Norway. It also characterizes fairly well the other Nordic countries and Austria. This model reflects the power exercised by strong trade unions and social-democratic parties. With a membership including a majority of the labour force and with fairly centralized structures, trade unions tend to negotiate at the national level and to enter into corporatist arrangements. Collective bargai-

ning includes macroeconomic considerations and generally allows for widespread improvements in real incomes that are non-inflationary. The absence of strong inflationary pressures makes a social-democratic commitment to full employment viable and, in turn, full employment becomes a counterpart to union wage moderation. The stability generated by this outcome contributes to a low level of strike activity. Unable to use low wages to gain competitive advantage, employers are compelled to increase productivity, improve the quality of their products, and invest in training. Generous welfare programs complete the picture. Because social-democratic parties combine their commitment to universal social programs with high levels of taxation, a generous welfare state does not lead, in this case, to important fiscal deficits.

A social-democratic hegemony thus produced, in this first cluster of countries, forms of state regulation conducive to full employment with stable prices and to economic growth and international competitiveness. Outlined very briefly here, this model involves more than social corporatism or high levels of government spending. Economic policies are rooted in institutionalized commitments to full employment, collective bargaining reflects various understandings of wage solidarity, and welfare programs embody principles such as universality and citizenship rights.⁴⁹ State regulation is not simply more important than elsewhere; it is different. Obviously, this model has limitations, some related to its own always fragile arrangement of policies, others common to all advanced capitalist countries in recent years.⁵⁰ For most of the postwar period, the model nevertheless constituted a remarkable political outcome, a combination of institutions, policies, practices that was largely successful and placed the countries which adopted it in a relatively advantageous position to develop new arrangements for the coming years.⁵¹

The second model combines corporatism with different patterns of partisan arrangements. Germany is the typical case, but Belgium and the Netherlands also fit in this cluster. These countries share some of the characteristics described above, each one being qualified by liberal influences. Trade unions are important but not as strong as in the first model, corporatism is present but not as developed, and social-democrats are influential but not hegemonic. Left-wing parties

alternate in power with conservative parties and tend to govern in coalition anchored at the centre by small liberal parties. Patterns of state regulation reflect this political balance. The state does not intervene nor tax as much as in the first cluster of countries, its commitment to full employment is not very strong, welfare programs are less generous, and corporatism does not prevent a moderate level of strike activity. The welfare state, in particular, differs from the social-democratic model and, as Esping-Andersen explains, it shows its conservative origins.⁵² Social programs recognize status and occupational categories rather than universal rights, and they correct the effects of labour market forces without eliminating them. The welfare state thus maintains existing social divisions by attenuating their worst effects. The emphasis is on income security for various categories of the population rather than on full employment and solidarity.

Less inclusive than the first model, the corporatist pattern nevertheless favours broad social agreements to regulate both production and distribution. Unable to prevent the secular rise of unemployment, it provides stable foundations for steady economic growth with limited inflation. The model is also been conducive to industrial relations changes in the direction of increased worker involvement. More likely to engender practices and institutions compatible with high wages, and skilled production, this model places countries in a good position to evolve towards relatively progressive forms of flexible industrial relations. The limits of the model appear in the uncertainty that persists in the content of these new practices, the coherence of the emerging model, and the fate of the categories of the population excluded from the core industrial occupations.⁵³

The last two clusters correspond more closely to a liberal conception of society. The first one, which best describes France and Italy, can be characterized as politically voluntarist and socially conflictual, the second is liberal and centrist. In France and Italy, the presence of a strong Communist party long prevented the Left from governing or even from participating in governmental coalitions. Right-of-centre parties thus dominated postwar political life and they created conservative versions of the institutional arrangements discussed above. In the 1980s, these arrangements proved well entrenched: in France,

ten years of Socialist presidency were not sufficient to transform the main institutions and practices.⁵⁴

As with the second model, the Italian and French welfare states are organized around the conservative notion of income security. Economic policies also stress price stability over full employment, and international competitiveness is sought more through the maintenance of low wages than through innovation, quality, and productivity. The historical weakness of the Left makes corporatism impossible; industrial relations occur in a political arena where conflicts are short but frequent, intense and often unresolved. The state intervenes case-by-case to settle labour disputes and to impose minimal conditions on employers. This model corresponds late and rather poorly to the ideal type of the postwar arrangement: a clear link between wage and productivity increases is not established broadly until late in the 1960s. A limited welfare state and superficial corporatist arrangements contribute to such an outcome but the model always remains vulnerable to renewed assertions of liberal pressures and market forces.

The fourth model is both more liberal and less confrontational than the third. Before the 1980s, politics in the U.S., U.K. and Canada was anchored at the centre. Left-wing parties were either weak or, when strong enough, committed to moderation; in return, conservatives avoided radical options. Expressed in Keynesian language, economic and social policies remained fundamentally traditional and produced political-business cycles of the type predicted in 1944 by Kalecki.⁵⁵ The welfare state reflects this stop-and-go logic and, on the basis of principles established at critical junctures, it has grown incrementally, as a complement to the market more than as an expression of social rights. More specifically, the liberal welfare state combines assistance programs based on means tests, insurance programs complementing private sector options, and a few universal entitlements measures. The state reinforces market outcomes by creating distinct categories of eligibility for assistance among the poor and by sustaining the private, individualized provision of social protection for the majority of the population. Collective bargaining as well remains in the hands of private, atomized actors. Relatively weak and decentralized, trade unions work at the firm level or express political demands, but have

little capacity to threaten governments and to enforce compromises. The overall co-ordination of industrial relations rests on informal but nevertheless effective patterns of diffusion and “coercive comparisons.” Combined with the limited interventions of the state, this type of industrial relations links the rise of aggregate demand to the evolution of productivity, but it does so with less success than in countries typical of the first two models. As in France and Italy, economic cycles persist, strikes are frequent, and inflation and unemployment have a secular tendency to rise. In the 1980s, these difficulties brought about the demise of the Keynesian discourse and opened the door to more conservative policies. Approaches of monetarist inspiration failed to change the economic and social situation very much in one direction or another, but they contributed to establishing a new political equilibrium to the right of the postwar consensus. Partly a result of the first-past-the-post electoral system, however, this new balance of power remained fragile.⁵⁶ Transition towards new forms of production and industrial relations practices makes a pessimistic scenario of low competitiveness and high income polarization likely, but a reaction to these trends is also possible. In this case, a political renewal could lead some societies to question the features of this fourth model.

These four models make it easier to assess the impact of factors like federalism and continentalism. Without denying the particular problems posed by continental pressures and by a federal structure, the starting point of a discussion of state regulation in Canada must be the country’s adoption of the liberal model. The qualitative specificity of Canadian policies and institutions has to do with external and constitutional constraints, but it is primarily rooted in the long hegemony of centrist parties committed to a liberal vision of state regulation and in the relative weakness of trade unions and of the Left in Canada.

In recent years, much has changed in Canadian politics. Undoubtedly, a turn to the right has been made. In 1975, nine years before the Conservatives’ election, the federal government started to implement economic policies inspired by monetarism. Welfare-state expansion gave way to reformulation, and a new industrial relations era marked by coercion began.⁵⁷ Changes were significant but even

after 1984, they were not drastic. Economic policies affirmed more openly a long-held bias against lowering unemployment levels, welfare state expenditures reached a plateau and the status quo was basically maintained. In industrial relations state coercion did not translate into a union decline similar to that observed in the United States and in many European countries.

The most interesting, and often overlooked, dimension of the current situation appears when one compares Canada to the United States, with which it evolved for most of the postwar period. Economic policies responded to cycles that were continental as much as domestic; trade unionism, labour laws and collective bargaining were inspired by American models; and welfare programs grew at a pace similar to that of the United States. By the mid-1960s, the two countries' convergence, or more precisely Canada's alignment with American norms, seemed almost complete. Significant differences in the pace and meaning of reforms remained, but the two countries followed similar macroeconomic policies, raised public expenditures around 28 or 29 percent of their GNP (compared to 33 to 38 percent in Europe), were laggards with respect to the number and scope of welfare programs, and had trade-union memberships slightly below 30 percent of the nonagricultural workforce.⁵⁸ Around this time, however, the two countries started to move apart, at least with respect to industrial relations and the welfare state. Canadian unions maintained membership while their American counterparts began a long decline, and the proportion of social expenditures in the Canadian GNP (22.3 percent in 1986) grew closer to the OECD (22.5 percent) than to the U.S. average (18.2 percent).⁵⁹ As the Canadian and American economies became more integrated, the two societies accentuated their political differences.

The comparative perspective outlined here gives good indications about the limits and possibilities of state regulation in Canada. Close to the United States within the fourth model, Canada has in recent years distanced itself from American trends. The differences are still modest and they may not last. Forecasts are difficult because the observed divergences remain poorly understood and explained. A few conclusions nevertheless seem possible. First, the 1980s turn to

the right has not been as pronounced in Canada. It failed to shake the country's centrist consensus on most aspects of state regulation.⁶⁰ Ironically, the federal and relatively decentralized nature of Canada, often deplored by the Left, may well explain the moderation of Canadian conservatives. The impact of federalism on state regulation has been much debated. Many authors have concluded that decentralization has impeded the development of state regulation; others have identified provincial initiatives as a main source of policy innovation.⁶¹ Keith Banting is probably right to conclude that "the intersection of federalism, regionalism, and ideology" has generated "a pattern of policy change similar to what one would expect in a unitary state from a large coalition government."⁶² Federalism would thus have helped to anchor Canadian politics near the centre in the 1980s.

The role of international trade in this process of change appears more ambiguous. During the postwar period, in Canada as elsewhere, state intervention increased as trade relations opened; the two trends proved complementary rather than contradictory.⁶³ In recent years, however, economic integration has gone beyond liberalizing trade. Global financial markets and continental integration have started to change the rules of the game, and they could have adverse effects on specific regulation models. In Canada, the free trade agreements raise the most obvious questions in this respect. Many believe the agreements will drastically undermine the foundations of Canadian state regulation. Given the basic original similarities between the Canadian and American models, and given that recent years have demonstrated increasing institutional differences despite high levels of trade, the risks may have been exaggerated. The economic constraints associated with free trade are not totally unlike those most advanced capitalist countries will face in the years to come. In the end, it is the political response to these new constraints, and not the constraints themselves, that will determine the nature of state regulation in a given country.

CONCLUSIONS

What was achieved in Canada over the years? Canadian political economy's answer to that question has been ambivalent. Preoccupied with

what went wrong in the country's historical development, political economists have rarely posed the question. They have often reduced state regulation to a question of continental integration and evaluated policies in terms of their contribution to the country's autonomy. Helpful with respect to past failures in economic development, this point of view has at times encouraged a rather uncritical acceptance of nationalist policies. It has also failed to provide a good perspective on Canada's welfare state. Recent debates around free trade, for instance, exaggerate Canada's superiority vis-à-vis the United States in welfare provision and entitlement and fail to take into account the social and political foundations of this country's institutions.

This chapter contributes to an ongoing effort to recast Canadian political economy in a perspective incorporating the institutional effects of class formation and comparative analyses. It suggests the political foundations of state regulation best analyzed from a historical perspective. The major political innovations affecting the development of Canadian state regulation came at times of social and political upheavals and corresponded to new problems created by the transformation of capitalism. Rooted in the process of class formation, the reforms had the limitations typical of countries characterized by a liberal, centrist social and political balance of power. A comparison with countries with similar political arrangements confirms and complements historical findings and shows both the limitations and the relative resilience of Canada's model of state regulation.

In the 1980s, countries of what we have called the fourth model have seen marked shifts to the right in partisan politics and public policies. Francis G. Castles explains this realignment by slower economic growth and poor policy effectiveness in the 1970s and by first-past-the-post electoral systems, which make abrupt political and policy changes more likely.⁶⁴ Canada has not experienced changes comparable to what happened in Britain and the United States. A broad consensus on the most visible institutions and practices has prevented or limited open attacks on the welfare state or trade unions, while the weakness of nationalist ideology and the logic of federalism have made challenges to this consensus difficult. State regulation has

nevertheless evolved in the direction indicated by the United States and Britain.

The model of state regulation that will emerge out of the current evolution is difficult to foresee. Canada could gradually reproduce the neo-conservative transformation observed in Britain and the United States, or it could move closer to models typical of continental European states. The United States and Britain themselves could also alter their course and reassert their traditional centrism.

In the wake of the coming redefinition of the country, a new political dynamic may emerge that will redefine state regulation for the 1990s. Predictions on such matters are not possible. History and political science teach us, however, that class and political conflicts—including conflicts on constitutional and regional questions—will matter as much as economic and continental constraints and that continuity and moderate policies are likely to prevail.

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- 1 The authors wish to thank Jane Jenson for her much appreciated comments on earlier drafts, and to acknowledge the financial support of SSHRCC and the Fonds FCAR. The community of political economists also notes with great regret Lizette Jalbert's untimely death, in April 1992.
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