

Book Reviews/Comptes rendus

HERBERT OBINGER, STEPHAN LEIBFRIED and FRANCIS G. CASTLES (Eds.) *Federalism and the Welfare State: New World and European Experiences*. Cambridge University Press, 2005. xvi +363 p. Index.

The foreword to this book neatly summarises its overriding purpose. The prevailing view in the relevant scholarly literature is that federalism *always* inhibits the growth of social solidarity. In this comparative study of the evolution of political institutions and welfare states in the six oldest federal states – Australia, Austria, Canada, Germany, Switzerland and the USA – ten leading experts question this view, using social policy development as a key element in social solidarity. Three of them, Obinger and Leibfried who are political scientists at the University of Bremen, and Castles in social and public policy at the University of Edinburgh, edited the book. They also provide an initial introduction to the main themes on federalism and the welfare state and a vital conclusion reviewing the findings of the national case studies, as well as cooperating in writing some of these studies. Keith Banting, a public policy expert at Queen’s University, is sole author of the chapter on Canada.

Philip Manow, author of the German study, offers a succinct summary of the perceived dominant linkages between federalism and the welfare state. Not only is federalism likely to lead to jurisdictional diversity in welfare initiatives, but “...conventional wisdom strongly suggests that federalism is inimical to high levels of social spending.” Two arguments are, he notes, prominent in this context: a veto point thesis and a “competition of jurisdictions” thesis. The former argues that federal states have more points in the legislative process where groups opposed to welfare state expansion can water down redistributive legislation. The latter argues that such legislation is likely to be more inhibited in welfare states because capital and high income earners would tend to move to jurisdictions with less welfare and, therefore, lower costs to them, whilst low-income earners would be attracted to high welfare jurisdictions which would develop into “welfare magnets” and thereby defeat the whole purpose of welfare policy. In addition, during periods of retrenchment, there is the danger of a “race to the bottom” as cuts in welfare spending in one jurisdiction are emulated by others in a downward financial spiral.

The response to conventional wisdom in this book is that its grains of truth are often diluted by a series of intervening variables: for example, the type of federalism; the extent of democracy in the nation; the historical point at

which initial welfare legislation was introduced and by which jurisdiction; and the early division of social policy responsibility. Also a major point, explored by all authors, is not only the impact of federalism on welfare policy but, rarely examined, the impact of welfare policy on federalism. This constitutes a complicated *mélange* though the decision to follow an historical perspective for each country, and the conclusion, both help the reader to cope with the daunting details.

All one can offer in a short review are brief references to the more important findings and some specific comments on the Canadian case. Looking at the early development of social welfare, the editors do conclude that “new world” federal states were indeed laggards in the introduction of welfare reforms (hence the conclusions of the literature), but this was, in part, because they were democracies whereas two of the three European federal states – Germany and Austria – had authoritarian regimes prior to 1918. Here, the central governments used extensive welfare legislation as a means of promoting national unification and preserving the prevailing socio-economic order. In federal democracies the early jurisdictional wrangling over control of welfare, aided by powerful lobby groups opposing change, inhibited the development of national programs and helps to explain why, for example, the United States has developed no national health system, and why such a system came relatively late in Australia, Canada and Switzerland. These same inhibiting factors also help to explain why the courts struck down a Canadian federal attempt to institute a desperately-needed national Employment and Social Insurance scheme in 1937; and why the US Supreme Court long invalidated legislation prohibiting child labour.

Banting notes that the 1937 decision in Canada convinced an entire generation of social progressivists that “decentralization was a roadblock to social justice.” But World War II gave the federal government unprecedented spending power which, in a changing demographic and ideological landscape, allowed the creation of a semi-centralized welfare state by the 1960s, at which time the provincial governments began to reassert their authority. In this historical context, he outlines three distinct models of federal-provincial relations as embedded in the contemporary welfare state, each with its own decision rules. Under “classical federalism” some programs are delivered by the federal and provincial governments acting independently: e.g., unemployment insurance at the federal level, and workers’ compensation at the provincial level. Under “joint decision federalism,” with the Canada Pension Plan as the main example, the formal agreement between federal and provincial jurisdictions cannot be changed without consent by both levels. Finally, under “shared cost federalism,” the federal government offers financial support to provincial administered programs on specific terms which, if accepted, as with health care and social assistance, still gives considerable initial scope for provincial programs to develop along distinctive paths. This model also gives scope for unilateral action as evidenced in the decision of successive federal governments from the mid-1970s on to reduce their financial commitments to many of these programs.

Banting points out – and the editors confirm – that authority over social policy in Canada is so divided between jurisdictional levels as to make the country “one of the most decentralised federations in the world.” Yet even with Quebec’s “opt-out provisions,” important elements of the welfare state – classically, health care – have created some national sense of social cohesion. And, conversely, had Canada been a centralized state, it is likely that powerful national medical lobbies would have squelched the health care reforms instituted by the CCF/NDP in Saskatchewan which became the basis for this broadly universal health care system. Indeed, the fact that many Canadian welfare programs have shared federal-provincial jurisdiction may have helped save them from the worst aspects of unilateralism as shown in the egregious example of federal cuts in unemployment benefits over a 20 year period despite the immense surplus in the UI account. But unfortunately, unilateralism seems to be winning out. Thus based on Banting’s analysis, the editors note that the Canadian health system is now suffering from Ottawa’s attempt to maintain the system’s regulatory outlines whilst sheltering from its growing costs, so that these costs have been increasingly shifted to the provinces. The result is increased program decentralization and what one analyst has described as “a slouch to the bottom” in levels of provision. No wonder that fighting to maintain the system has become a Canadian political preoccupation.

Political scientists and social policy analysts will find much of value in *Federalism and the Welfare State*. Notably the recognition that the relationships between federalism and social welfare are not all one way raises some concerns for the future of social cohesion in both Canada and the United States (where incidentally social expenditure as a percentage of GDP is still much lower than in the three European case-studies). As this reviewer noted in *The Kingston Whig-Standard* (January 21, 2006), the prospect that the new Conservative government will further decentralize responsibility for many public services in this country points to a danger that the fragile confederation will be essentially “deconstructed.” In the United States, one can predict dire social and economic consequences from the recent proposal of the Bush regime to allocate a mind-boggling \$2.7 trillion budget for defence and security paid for, in part, by financial cuts in such basic welfare programs as Medicaid. Such food for thought makes it a pity that this book would prove heavy going for most undergraduate students. Even graduate students might well be directed to focus first on its insightful introduction and conclusions. The editors are evidently aiming at a small and specialized audience in their measured challenge to conventional wisdom. But it is, nonetheless, an effective challenge which is worth the effort of examining in detail.

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