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The interplay between social welfare and competitiveness: The case of Canadian Medicare

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ABSTRACT

Canadian Medicare, the government financed national health care system, is seen by many as enhancing both social welfare and competitiveness. If true, this will broaden and further existing conceptions of competitiveness in Canada and beyond. Moreover, it will have important implications for the ongoing debate in the social sciences about institutional convergence and path dependence. The central focus of this paper is to evaluate this claim: Medicare's impact on competitiveness, evaluated by using investment attraction as a proxy, is determined through reference to detailed case analysis and the insight into investment behavior gained from interviews. This paper concludes that Medicare makes a difference for certain reinvestment decisions but no difference for location and initial investment decisions. Several implications are drawn from this finding: Medicare's impact on reinvestment decisions may stop certain Canadian firms from investing elsewhere but likely would not attract new investment into Canada from abroad. Industries with high labor costs will extract a disproportionately large benefit from Medicare; so, this type of institution is a source of competitiveness to certain industries if not an overarching source of regional competitiveness for Canada. I conclude that, no matter the size and scope of the competitive benefit, social institutions such as Medicare must be considered when evaluating regional competitiveness, having thus far been ignored by mainstream academic competitiveness theories.

1. Introduction

Globalization is frequently cited as a reason why certain social welfare programs are unsustainable (Adnett, 2001); international competitive forces are seen to trump domestic policy and force a convergence towards less expensive and less generous welfare institutions (see Ohmae, 1990). Indeed, as Hemerijck and Schludi (2000) argue, economic internationalization requires all advanced welfare states to be competitive. According to Esping-Anderson et al. (2001), systems of social protection may hinder rather than promote employment growth and knowledge intensive economies. This raises the possibility of a 'race to the bottom' in social welfare provision, as programs are incrementally dismantled to make way for lower taxes, lower wages and more attractive investment climates (Greider, 1997). In short, welfare states may be facing a "Gordian Knot" in which normative commitments to social justice are increasingly difficult to reconcile with competitive forces in the evolving economy (Esping-Anderson et al., 2001).

However, others are more optimistic about the sustainability of social welfare institutions, viewing path dependent, idiosyncratic outcomes for institutions rooted in different varieties of capitalism (see Hall and Soskice, 2001; Peck and Theodore, 2007). Indeed, many view claims about a 'race to the bottom' as premature (Ferrera et al., 2001; Krugman and Baldwin, 2002). For example, European social welfare theorists, such as Ferrera et al. (2001), claim that welfare policies are not necessarily contrary to economic competitiveness. Jessop (1999, p. 351) also argues that under certain conditions "welfare regimes can help to secure some of the key conditions for capital accumulation." So, country-specific varieties of capitalism are seen to have market distorting effects due to long-established differences in domestic institutions, which results in multiple market equilibria over time and among places (see Monk, 2008a for a discussion).

In short, the above conceptual debate revolves around the interplay between geography, institutions, and competitiveness in the face of global market forces (see Rodriguez-Pose, 1999; Gertler, 2001; Hess, 2004; Peck and Theodore, 2007; Clark and Wojcik, 2007). In practice, governments are increasingly facing a difficult balancing act between economic efficiency and social justice (Esping-Anderson, 1996; Ferrera et al., 2001). Freeman's (1998, p. 1) question in which he asks which institutions will survive the "war of models" and flourish in the 21st century is thus of particular relevance. In order to contribute to this debate, this paper seeks to answer another question of considerable

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importance: are social welfare institutions antithetical to competitiveness?

Competitiveness literature and theories appear to be ambivalent, and at times pessimistic, about the impact of social welfare institutions. For example, Porter (2003, p. 1) argues that social institutions and conditions are secondary considerations for a healthy economy; they "do not themselves create wealth." Also, a 2004 special issue of *Regional Studies* with nine articles on "regional competitiveness" did not include a single reference to 'Welfare', 'Social Security' or 'Medicare' in the index. The closest reference throughout was to 'Social Cohesion', and it was actually raised to call attention to its limited role in competitiveness theories: "Indeed, social cohesion should rank equally with productivity and employment in any notion of regional competitive advantage" (Martin et al., 2004, 997). In sum, competitiveness theories hold that social welfare institutions do not enhance or create competitiveness; moreover, any tangible impact from these institutions is assumed to be negative. This view gives credence to the convergence hypothesis: if social welfare is antithetical to competitiveness, its sustainability in an era of global competition is in doubt.

Significantly, the conclusion that social welfare institutions are unrelated or antithetical to competitiveness is being challenged in Canada: government officials are making the claim that Medicare, the government financed national health care system, provides the region and companies with a tangible competitive advantage over US firms.[1] Indeed, according to an internal document provided to the author by the Ontario Ministry of Economic Development and Trade, the government quantified Medicare's "share" of Ontario's total economic competitive advantage (taking into consideration all of the other factors seen to be important for regional competition, such as exchange rates) over the United States in the auto parts industry to be 41% in 2006. This internal document explicitly makes the claim that Medicare, a social welfare institution, is a source of competitiveness for Canadian firms.[2]

Ostensibly, Medicare provides firms engaging in production in Canada with a competitive advantage through the dissemination of health care costs to the entire tax base via public financing of health services; this minimizes the direct health care liability for firms when compared with the United States. According to Gunderson (1998, p. 8), this can act as a subsidy: "Producers in the United States often argued that they were at an unfair disadvantage with respect to Canadian producers, since the latter were "subsidized" by a state-run health care system." As such, it is possible that this represents a true gain for Canadian domiciled firms; especially while US companies like General Motors and Ford face large legacy health care costs.

Given this, it is not surprising to see Medicare discussed in business development marketing highlighting Canadian competitiveness vis-à-vis the United States. As one government official put it in private communication, as the Canadian dollar has risen, Medicare has become a key part of the 'toolkit' for attracting firms and investment into Canada and away from the US. Indeed, a recurring theme throughout meetings in Canada was as follows: 'With the appreciation of the Canadian dollar, we are increasingly reliant upon other factors in our business development activities, such as health care'. For example, an official pamphlet from Industry Canada, the federal department tasked with promoting investment in Canada, proclaims: "Our famed national health care system ensures a healthy workforce and healthy profits, drastically reducing employee benefit costs."[3] In addition, a full page color advertisement in *The Economist* recently encouraged companies to move to Ontario, Canada, stating: "...unlike the US, our universal healthcare system reduces labor costs."[4] Finally, Health Canada, the Federal department responsible for Canadians' health care, indicated in a recent report, "The competitive advantage that publicly financed health care provides to Canadian business is significant."[5] Countless more examples underscore the current policy effort to campaign on the purported competitiveness of this social welfare institution.

While this rhetoric is prevalent in policy circles, to my knowledge, no academic literature specifically references Canada's Medicare in the context of investment attraction, competitive advantages or competitiveness. For example, in an article by Martin and Porter in 2001 entitled 'Canadian Competitiveness: a Decade after the Crossroads', there is no mention of Medicare, let alone its potential impact on investment attraction or competitiveness. However, the very purpose of their article was to conceptualize the present and future factors influencing Canadian competitiveness. Did Martin and Porter overlook a crucial component of Canadian competitiveness? Is their analysis flawed? Perhaps, as Martin and Sunley (2003, p. 5) argue, Porter's conceptualization of competitiveness has "run ahead of many fundamental conceptual, theoretical and empirical questions." In any case, if Medicare does have an affect, it will broaden and further existing conceptions of competitiveness and have implications for the convergence/path dependence debate raging in the social sciences.

In order to evaluate the above, this paper will proceed as follows. Section 2 offers a brief review of the relevant literatures examining health care and competitiveness in the context of North America. Next, Section 3 develops the theoretical and methodological grounding for the paper. Section 4 then estimates the economic benefit from Medicare in isolation. This is done through a survey of literature and a case study in which specific cross-country details of labor costs are provided for a firm with similar operations in Canada and the US. Subsequently, the isolated and estimated benefit is re-evaluated to determine if, in the larger realm of 'regional competitiveness', it continues to provide firms with an edge.

As is argued below, social scientists have had considerable difficulty estimating and even defining 'competitiveness'. As a result, this paper uses investment attraction as a proxy: Medicare's impact on competitiveness is interpreted through its impact on investment attraction in four industry case studies. While this proxy is restrictive, since factors such as innovation and productivity are ignored, investment attraction was specifically cited by the Canadian government in marketing materials and viewed by nearly all of my interviewees as an important indicator for competitiveness, lending credence to its use in this paper. The data uncovered in the four cases is used to test the sensitivity of each industry to Medicare's economic benefit. The hypothesis is made that indus-

[1] All references to Medicare in this paper refer to the Canadian program, not the US health care scheme for the old, also called Medicare.

[2] Canadian reports also implied that Medicare had positive impacts on labor productivity, though this was not explicitly tested numerically in these reports. However, recent research by O'Neill and O'Neill (2007) suggest that there are no significant differences in health outcomes between the Canadian and US systems. So, if Medicare does have an impact on competitiveness via productivity, it is a small one. As a result, this issue is beyond the scope of this paper.

[3] http://strategis.ic.gc.ca/epic/site/lsi-isv.nsf/en/li00268e.html.

[4] See the Province of Ontario advertisement on the last page of the February 9th UK edition.

[5] See page 5 in: http://www.hc-sc.gc.ca/hcs-sss/alt_formats/hpb-dgps/pdf/pubs/2005-hcs-sss/2005-hcs-sss_e.pdf.