

SOCIAL UNION SERIES

# Federalism, Democracy and Labour Market Policy in Canada



EDITED BY TOM MCINTOSH



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Labour market policy occupies a space at the intersection of social policy and economic policy and as such has important implications for each. With the signing of the Social Union Framework Agreement between Ottawa and nine provincial governments, Canada has embarked on an ambitious restructuring of virtually all aspects of social policy. Canada's emerging social union is predicated on finding new forms of governance to meet the challenges of a post-deficit era characterized by globalization and domestic decentralization.

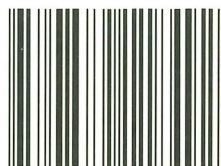
The chapters in this volume examine both the overall political landscape of labour market policy in Canada and specific analyses of some of the most important labour market policy areas. The authors provide comprehensive assessments of the current state of governance within the areas of income support for the unemployed, active labour market measures, and youth policy. The analysis focuses on how the current state of governance reflects a combined commitment to specific social policy goals, principles of federalism, and democratic oversight of the policy-making process.

This volume sheds new light on the complex nature of the intergovernmental regimes governing labour market policy. It makes recommendations concerning how different governance structures might better serve both Canadians and the federation.

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The Institute is the only organization in Canada whose mandate is solely to promote research and communication on the challenges facing the federal system.

Current research interests include fiscal federalism, the social union, the reform of federal political institutions and the machinery of federal-provincial relations, Canadian federalism and the global economy, and comparative federalism.

The Institute pursues these objectives through research conducted by its own staff and other scholars, through its publication program, and through seminars and conferences.

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## INTRODUCTION TO SERIES

This is the first of six volumes being published by the Institute of Intergovernmental Relations related to the Canadian social union. Three of the volumes, including this one edited by Tom McIntosh, are based on case studies of how Canadian governments manage intergovernmental relations in three particular areas of social policy. The other three volumes examine the way in which different federations handle these same three areas.

The work for this series began in 1997, well before the 1999 signing of the Social Union Framework Agreement. Even at that time, it was clear that, as a result of the substantial cuts in federal cash transfers to the provinces, a new set of relationships was going to be required between federal and provincial governments in order to improve both the quality of social policy in Canada and the health of the federation.

In conceiving of the volumes for this series, two considerations were paramount. The first was that there was relatively little empirical literature on the way in which federal and provincial governments relate to one another, as well as citizens and interest groups, in designing and delivering social policies and programs. Yet it is at the level of programs and citizens, as much as at the level of political symbolism and high politics, that the social union is in practice defined. To help fill this knowledge gap, we thought it appropriate to design a series of case studies on the governance of Canadian social programs. And to ensure that the results of the case studies could be compared to one another, the Institute developed a research methodology that authors were asked to take into account as they conducted their research. This methodology built on earlier work by Margaret Biggs in analyzing these governance relationships from the perspective of their impact on policy, federalism, and democracy.



The second consideration was that Canadians were insufficiently aware of how other federations handle these same kinds of social program relationships. As a result, we thought it important to recruit authors from other federations who could explain the governance of social policy in their countries.

While the research for these volumes was under way, a series of round tables (nine in total) was held. Those invited included officials from provincial and federal governments, representatives from stakeholder groups, and individuals from the research community. The purpose of these discussions was to review and comment on the Canadian and comparative case studies. I thank the numerous participants in these events for helping the authors and editors with their work.

This series received financial assistance from the federal government and the governments of New Brunswick, Ontario, Saskatchewan, and Alberta. An advisory committee, which included officials from these same jurisdictions as well as from academe, assisted in the development of the project. In fact, it was this committee that helped in the selection of the three social sectors that are the subject of this series: labour market, health, and disability.

The 1999 Social Union Framework Agreement is open for review early in 2002. The agreement states that this review process will "ensure significant opportunities for input and feedback from Canadians." It is hoped that this series will constitute a significant input to that process.

*Harvey Lazar*  
General Editor  
Social Union Series

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## ACKNOWLEDGEMENTS

Projects such as this are inherently collaborative and, as such, editors accumulate large lists of people who contributed to the successful completion of the tasks at hand. First, I would like to thank Harvey Lazar, Director of the Institute of Intergovernmental Relations at Queen's University, for giving me the opportunity to work on the IIGR social union project (in a variety of capacities) and for his immeasurable assistance in bringing all the pieces of this part of the project together.

The authors who contributed to this volume deserve much thanks for their perseverance and dedication to producing work of such high quality. I hope they share my belief that the final product was more than worth it in the end.

Numerous government officials (federal and provincial, past and present) agreed to be interviewed in the course of this research. Their cooperation, comments, and criticisms were crucial to the completion of these studies. The academics, government officials, and stakeholder groups that participated in the two labour market round-table sessions that reviewed these papers contributed much in the way of advice, suggestions, and perspective both to myself and to the other authors.

At the Institute of Intergovernmental Relations, Patti Candido and Mary Kennedy provided administrative support and assistance in the preparation of the manuscript. At the School of Policy Studies Publication Unit, Marilyn Banting, Valerie Jarus, and Mark Howes provided copyediting, desk-top publishing, and design assistance.

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*Tom McIntosh*  
September 2000

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# 1

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## GOVERNING LABOUR MARKET POLICY: CANADIAN FEDERALISM, THE SOCIAL UNION AND A CHANGING ECONOMY

*Tom McIntosh*

### INTRODUCTION

The last two decades have seen significant changes in the realm of labour market policy in Canada, both nationally and within individual provinces. The 1980s and 1990s were an era of profound economic restructuring within both the public and private sectors. Those economic transformations have simultaneously driven and resulted in political realignments that have marked the retreat from a political economy based on Fordist strategies of capital accumulation<sup>1</sup> and Keynesian social welfare policy.

Part and parcel of these transformations has been a rethinking of the role of the state in capitalist societies characterized by a renewed commitment to economic liberalism, deregulation, and debt reduction. In the Canadian experience with this emerging political economy there has also been a discernible reordering of the federal system. Canada, already "one of the more decentralized federations,"<sup>2</sup> has clearly moved toward ever greater levels of decentralization.<sup>3</sup> Some will see this further decentralization as but another element of the neo-liberal (or neo-conservative, if you will) dismantling of the social safety net. But, decentralization is no more inherently "conservative" than centralization is by its nature "progressive."<sup>4</sup> What matters more is the

specific nature and content of any particular move to centralize or decentralize decision-making with regard to social policy.

In the realm of labour market policy, analysis of the changes over the last number of years is further complicated by the fact that, as a public policy field, labour market policy sits (sometimes uncomfortably) at the nexus of social and economic policy. It is as much one as it is the other and as such finds itself doing double-duty (and sometimes serving more than one master).

As the economic and political context of labour market policy has been transformed, so too has the very nature of work in western nations. The stable, life-long job of the past is now increasingly less common as work has become increasingly contingent, income levels more polarized, and the labour market increasingly fractured.<sup>5</sup> At the level of the individual citizen, entry, attachment, and re-attachment to the labour market is a markedly more perilous aspect of their day-to-day lives. Admittedly, the so-called "golden era" of low unemployment, sustained economic growth, and citizen optimism was surely less rosy than appears at first glance and, if truth be told, really only lasted from the 1950s until the early 1970s. But at the same time, that does not mitigate the depth of the transformation that has taken place in the last couple of decades, at least in the minds of the Canadian public.<sup>6</sup>

The four papers that compose the heart of this volume consist of a general overview of what can be termed the "political landscape" of labour market policy and three case studies of specific elements of labour market policy; how it has changed and how it "measures up" in terms of the practice of federalism, the meeting of policy goals, and democratic participation and oversight. These case studies discuss critical issues for policymakers, citizens, and political actors, including alternatives with the potential to increase social cohesion and create more effective governance regimes within the particular policy areas. They do not, of course, cover the entire realm of what can be said to constitute "labour market policy," but they do cover some of the most important areas both in terms of impact on citizens and dollars spent by governments. Thus, taken together, the studies provide a compelling portrait of labour market policy governed in an often contradictory and sometimes highly problematic manner.

The purpose of this chapter is to draw out, and hopefully crystallize, some of the lessons that can be learned about the changing nature of labour market policy in Canada as illustrated in the chapters that follow. The focus throughout the three case studies is on how labour market policy is governed in Canada, which means that the authors are essentially concerned with the

intergovernmental aspects of that governance. Yet federalism, despite its pervasive nature in Canadian political and economic life, is not the authors' only concern. Equally important is an understanding of how specific policy measures meet or do not meet specific policy goals and also how that policy meets the requirements of transparency and accountability within a democratic social order that is supposed to give serious voice to both the citizens and their representatives in creation and oversight of public policy.

### A SHARED METHODOLOGICAL FRAMEWORK

The case studies involve detailed analyses of: passive labour market measures in the form of income support to the unemployed (as characterized by the interaction between the federal government's Employment Insurance program and the provincial social assistance systems); the restructuring of active labour market measures (as characterized by the recent implementation of the Labour Market Development Agreements between Ottawa and nine provincial and three territorial governments effectively devolving active measures to the provinces); and the ongoing evolution of policy aimed at youth and facilitation of the transition from school to the labour market.

Further, these studies of the transformation of the governance of labour market policy are themselves part of a larger research initiative undertaken by the Institute of Intergovernmental Relations at Queen's University in Kingston, Ontario. Complementary volumes explore health policy and policy for persons with disabilities. All of the studies are meant to explore the changing nature of governance within the Canadian social union with reference to the intersection of federalism principles, policy goals, and democratic engagement. These three sets of criteria were outlined in a working document co-authored by Harvey Lazar and Tom McIntosh which was meant to provide both background and methodological guidance to the authors.<sup>7</sup> In short, the authors were asked to assess the nature of the current intergovernmental regime within the specific policy area under consideration and to speculate on possible alternative regimes that might better maximize federalism principles, policy goals, and democratic practice.

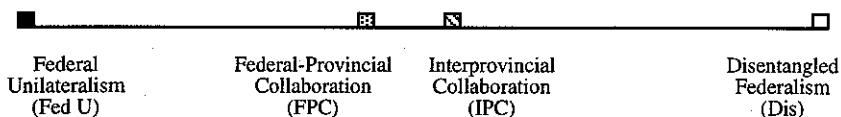
Lazar and McIntosh's methodological framework begins by constructing a typology of intergovernmental regimes on the basis of two characteristics fundamental to any federal system: the degree of independence or interdependence between the two orders of government and the extent to which the



intergovernmental relationship is hierarchical or non-hierarchical. Using these characteristics, they identify four types of intergovernmental regimes which can then be placed on the continuum illustrated in Figure 1. The four “regime types” are as follows:

- *Federal Unilateralism*: characterized by the use of federal powers in areas of provincial jurisdiction — an interdependent, hierarchical relationship.
- *Disentangled Federalism*: characterized by each government acting solely in its own areas of jurisdiction — an independent, non-hierarchical relationship.
- *Federal-Provincial Collaboration*: characterized by federal-provincial cooperation — an interdependent, non-hierarchical relationship.
- *Interprovincial Collaboration*: characterized by provinces acting jointly in the absence of the federal government — a mutually interdependent, non-hierarchical relationship.

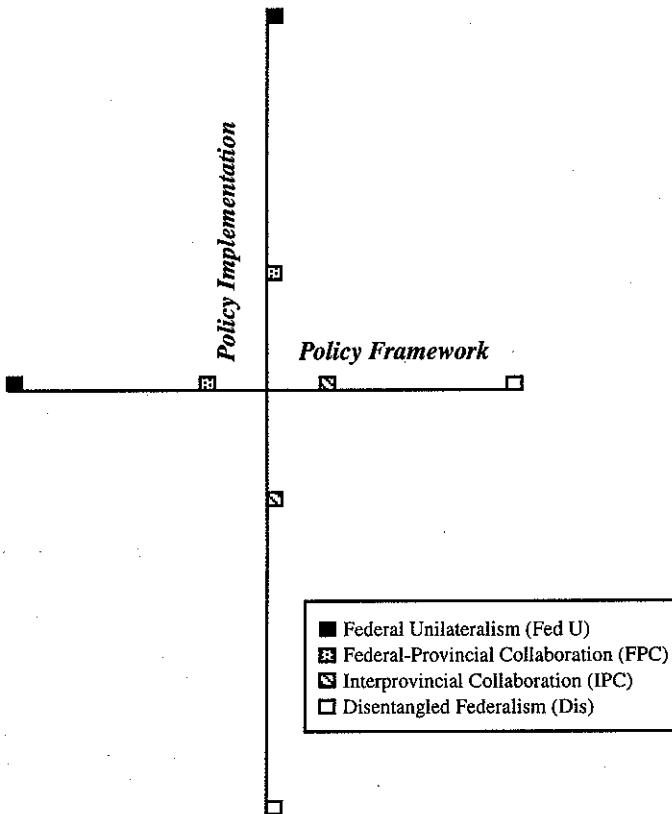
FIGURE 1  
The Continuum of Intergovernmental Regimes



This continuum is used by Lazar and McIntosh for two different purposes. The first is to identify the essential characteristics of the way in which “policy frameworks” are developed among governments. The second is to identify the way in which governments relate, or do not relate, to one another in terms of “policy implementation” (everything from the details about policy design to administration, evaluation and audit). The “map” in Figure 2 captures the intersection of both aspects of policy-making and the different intergovernmental regimes. It should become possible, then, to place specific policy areas on this map and to ascertain the implications of moving around the map.

Lazar and McIntosh then make explicit the specific criteria for assessing the different intergovernmental regimes in each of the policy areas covered

FIGURE 2  
Mapping Regimes and Policy Areas



in the case studies. As argued above, this is an attempt to evaluate the inter-governmental regime in a policy area with reference to how it reflects on:

*Policy Goals and Outcomes*

- redistributive equity
- efficiency
- human development
- mobility
- social equity (equality of access and of opportunity)

### *Democratic Values and Goals*

- promoting the rights of majorities and minorities
- effective role for legislatures in decision-making
- citizen consultation and involvement
- transparency and accountability

### *Federalism Principles*

- respect for the formal (legal) division of powers contained in the constitution
- respect for the (political) sovereignty of both orders of government
- commitment to legal and political processes to resolve conflicts and disputes and to improve outcomes<sup>8</sup>

In bringing these three sets of principles together, there are a number of important considerations which must be kept in mind. First, there are tensions within each set of principles (e.g., majorities versus minorities). Second, there are tensions between the sets of principles (e.g., transparency versus intergovernmentalism to resolve disputes). Third, these principles interact with each other in a complex manner. Fourth, promoting one set of principles can affect the promotion of other principles both positively and negatively. And, finally, how these sets of principles interact with each other may well be specific to the nature of each policy sector and may vary within each sector.

The authors of the three case studies that follow, therefore, were given the unenviable task of assessing the trade-offs involved in moving toward any different kind of governance regime. In other words, is what would be gained in a new regime worth the risk in light of what might be lost? For example, what might be good policy might not be good federalism (dependent on the definition of each). Or, similarly, what might be good federalism might have the effect of cutting the public out of the social policy-making loop, and thus contributing to what is now commonly called a “democratic deficit.”

This necessarily leads the authors into making difficult choices between elements that are each crucial to the reconstruction of the Canadian social union, namely a respect for Canada’s federal nature, the desire for effective and attainable policy goals, and democratic oversight of the policy-making process. It is all too easy to say that “good policy” is all that matters and all the public wants. Whatever truth there may be to this, the reality of Canada’s politics is such that this cannot (and never has been) the only consideration in

social policy development. If what “works” in policy terms creates untenable intergovernmental tensions that spill over into other relationships or clearly violate the constitutional division of power or marginalizes the oversight role of legislators and citizens, then the very ability of social policy to weave and strengthen the ties that bind Canadians to each other is compromised. The social union is and will be about balancing all these elements and about keeping all these balls in the air at the same time.

In the final analysis, what becomes apparent is that not only are different sectors of the Canadian social union governed differently, but that there are different intergovernmental regimes at work within each sector. Thus, the authors see different solutions to the governance problems within the various elements of the labour market sector under investigation. There is no “one size fits all” governance regime, but there are some important lessons that can still be derived, not only for each of the policy areas but for the sector as a whole.

## THE POLITICAL LANDSCAPE OF LABOUR MARKET POLICY

Rod Haddow’s overview of the political and institutional landscape of policy-making in the labour market sector provides an important starting point for the drawing out of lessons from the case studies. If it is true that the Canadian political system is dominated by the executive branches of government, then it appears that the realm of labour market policy is even more executive dominated than other areas of social policy. And this is further complicated by a division of responsibilities in the sector that leads to a large degree of intergovernmental negotiation — negotiations that tend to take place between federal and provincial executives. Thus, the lead role in policy-making is played by ministers and senior bureaucrats while legislatures, legislative committees, and the public have only limited influence over the direction of labour market policy. At the same time, individual Members of Parliament (MPs) and governing party caucuses are, at times, also important in shaping particular elements of labour market policy, especially around passive measures such as income support.

As such, labour market policy is perhaps much more directly “political” (in the broad sense) than other policy realms. The reason for this is relatively straightforward. Though policy analysts, economists, and political scientists talk about “attachment to the labour market,” citizens talk about “what one does for a living” — with living being the operative word. Insofar as what

one's job is, for most people, an integral part of both their self-identity and the manner in which they interact with the world around them, then government policy that affects "the supply and demand for labour as well as the labour process itself"<sup>9</sup> is integral to one's life as a citizen. This is a relationship that persists even in the negative, for those who are not attached to the labour market (who do "nothing" for a living) are every bit a concern of labour market policy (or should be) as those with strong, long-lasting attachments. Indeed, those with strong, stable ties to the labour market may be the people about which labour market policy is least concerned.

As is evident from Haddow's analysis, one of the striking features of Canadian labour market policy and policy-making is the extent to which it seems to have been in an almost constant state of flux over the past decades. As political and bureaucratic pressures reshape elements of policy in response to specific political demands, the success of experiments to invest in broader, deliberative bodies with greater input into the labour market policy process have met with, at best, limited success. At the same time, the wider economic transformations spoken of above serve not only as an impetus for change in the direction of labour market policy, but also tend to reinforce the privileged positions given to both political and bureaucratic executives and to business as noted by Haddow. To some extent, then, this further distances other voices from meaningful input into such a debate (e.g., legislative committees, tripartite organizations, equity groups, organized labour, and the general public).

The irony that arises out of this is that despite the centrality of labour market policy to the day-to-day lives of the citizenry, the general public appears not to have well-articulated views about the direction that policy is or should be taking. The explanation for this may lie in the very breadth of what constitutes and influences labour market policy within Canadian society. The controversy over Aboriginal rights in the wake of the Marshall decision is not just about the enforcement or extent of a legitimate treaty right, but, in the eyes of many non-Aboriginals at least, is also about the ability to remain employed in what may or may not be a sustainable industry. Thus, what Aboriginal leaders see as a "rights claim with labour market implications," non-Aboriginal individuals may see as a "labour market issue with rights implications."<sup>10</sup>

The pervasiveness of labour market policy issues and their overlap with a wide variety of other policy areas, however, does not mean that the Canadian public does not have some clear opinions about at least some aspects of labour market policy. Unemployment remains a consistent concern of the public, but

that concern is not necessarily focused on or cognizant of the interrelationship between the goal of creating sustainable "good" jobs and other areas of labour market policy. As Haddow points out, there is a consistent level of dissatisfaction with government policy in the field of job creation (either direct or indirect), but that does not translate into support for improved training programs or a more coherent structuring of income support. Indeed, with respect to the latter, the opposite may be true. Support for workfare programs remains high in various parts of the country despite the limited evidence of their effectiveness. This support may in fact reflect a significant hardening of attitudes toward the disenfranchised by those whose own relationship with the labour market is precarious. Thus, it appears to be the case that the public's awareness of and concern about labour market policy is essentially policy/program specific and, as a result, can be contradictory. This "confusion," then, may tend to give those with significant influence over labour market policy a freer hand than might otherwise be the case.

In the final analysis, Haddow makes three important points about the political and institutional landscape of the sector that bear heavily on the analysis found within the case studies. The first is that the field, regardless of the changes of late, remains dominated by the political and bureaucratic executives within the federal and provincial governments. Second, that policymakers have begun to privilege active measures over passive measures (e.g., income support) and to make those active measures more responsive to the needs of the market. Third, that there has been, with regard to active measures, an important degree of decentralization within the federation with the provinces taking up increased responsibilities in this field. All of this points to an emerging terrain for labour market policy that is significantly different than was the case two decades ago. What becomes evident in the case studies that follow is that the themes articulated by Haddow resonate, to varying degrees, throughout the analyses.

### INCOME SUPPORT FOR THE UNEMPLOYED

The first of the studies examines the interaction between the federal government's employment insurance (EI) system and provincial social assistance regimes, both historically and in light of recent changes to each. Authors Gerard Boychuk and Tom McIntosh make a number of observations about these changes. First, the 1996 EI reforms, which drastically curtailed program

coverage, occurred at the same time as many provinces restricted social assistance access. Second, provincial social assistance rolls are increasingly composed of the long-term unemployed. Third, there is serious lack of concrete information about the interaction between these programs as a result of the simultaneous contraction of eligibility in each. As a result, there may be a group of people who have been "off-loaded" from both EI and social assistance who exist in a policy vacuum between these two programs and that the composition of this group "in the middle" is not immediately discernible.<sup>11</sup> Finally, the available data do not make clear the extent of the gap between the programs or how it affects individuals in terms of their ability to sustain themselves.

In assessing the current state of governance, the authors conclude that the governance of income support is essentially disentangled both at the policy framework and policy implementation level. However, the impact of this disentanglement is at best "unclear" and at worst constitutes a serious policy vacuum in the area of income support, which points to significant transparency and accountability problems. Thus, those caught "in the middle" have no institutional champion to protect their interests and risk being marginalized until they are destitute enough to qualify for other forms of social support.

In rethinking the governance regime, the authors posit possible ways to reorganize income support for the unemployed, but also point to the challenges this would involve. For instance, the centralization of income support for the unemployed with one order of government, either federal or provincial, might serve to alleviate, but likely not completely eliminate, the problem of the people in the middle.<sup>12</sup> Less radically, the authors argue that, in the first instance, there is a need to take seriously the commitments found in the Social Union Framework Agreement (SUFA) concerning the sharing of information and development of comparable measures in order to understand the real nature of the interaction between programs. It needs to be recognized that policy solutions can only be seriously developed in light of reliable knowledge about the composition of the group that currently exists in the middle — how many of them are in acute need, how many need other kinds of support to re-enter the labour market, how many have moved easily back into the labour market, etc. But the authors also make clear that the amount of intergovernmental collaboration needed to undertake the detailed analysis of who the people in the middle are along with their levels of need is quite high, but, at a minimum, the authors argue that this should be a priority.

The possible centralization of income support for the unemployed with one order of government could, the authors argue, lead to a more coherent integration of programs insofar as it would call into question the distinction between the short-term unemployed (i.e., EI recipients) and the longer term unemployed (i.e., an increasingly important component of the social assistance case-load). Moving EI to the provincial level would, though, necessitate a significant reordering of equalization payments in order to maintain comparable levels of benefits across the country which, at first blush, could be politically controversial. The authors note, however, that the current EI system already functions, in a covert way, as a means of equalization and that a provincial EI system funded in part by equalization would amount to making the covert more overt. Moving social assistance to the federal government makes sense insofar as the federal government is perhaps best-suited to the efficient and effective passive redistribution of income on a Canada-wide scale and with national standards. This would make the most sense in the context of a federal move to create a "negative income tax" or "guaranteed annual income" program which is not, however, on anyone's political agenda.

In either case, there are also political obstacles to such a move. The federal government's reliance on the EI surpluses to balance their budgets in recent years makes it unlikely that Ottawa would see much in the way of a political pay-off in giving up such a large source of government revenues. At the same time, social assistance has, in effect, become the "orphan" of the social union — the programs are not popular with the public and to the extent that they have been the focus of policymakers of late it has been in the context of restricting access and reducing benefits. Outside of fully integrating social assistance into a single income support program, there is simply little incentive for the federal government to add that clientele to its social policy agenda.

Whatever transparency, accountability, and democratic gains would be realized by making income support for the unemployed the responsibility of one order of government, then, appear to be outweighed by the political obstacles to such a move. Thus, the more immediate and realizable goal, in the short term, is to take the commitments contained in the SUFA around information-sharing and the development of comparable measures at face value and begin a serious evaluation of how these two programs interact. Such efforts might increase the transparency around each of the programs and could be a step toward greater public understanding of the nature and limits of passive income support. Thus, the essential division of responsibility would remain more or less



unchanged, but there would be a significant degree of collaboration and information-sharing at what Lazar and McIntosh call "the framework" level.<sup>13</sup>

The risk of intergovernmental collaboration is always that such collaboration tends to obscure transparency and accountability while leaving decisions to either political or bureaucratic executives. Yet, the labour market policy sector is already dominated by political and bureaucratic executive decision-making and the kind of information-sharing called for by the authors, when made public, could prove beneficial in initiating a serious debate over the future of income support for the unemployed.

### LABOUR MARKET DEVELOPMENT AGREEMENTS

Concurrent with the restructuring of passive income support for the unemployed, a process of devolving responsibility for active labour market measures from the federal government to the provincial governments has been underway for the past few years. This has resulted in 12 bilateral agreements between Ottawa and individual provinces and territories (all except Ontario have concluded agreements) in which Ottawa steps out of the delivery of active measures in many provinces, while maintaining a degree of oversight and monitoring responsibility.

Tom Klassen's study of the Labour Market Development Agreements (LMDAs) poses particular challenges insofar as the LMDAs are relatively new agreements which are only now being fully implemented. Thus, the contours of the new governance structure for active measures are not entirely clear. That said, the analysis points to some interesting issues concerning the future of active labour market measures. In the first instance, there are important differences in the kind and extent of devolution negotiated between Ottawa and individual provinces yielding a somewhat asymmetrical governance regime. Thus, the degree of collaboration is high on operational matters in provinces with co-management agreements, but less so in those with full transfer agreements. At the same time, the degree of collaboration on certain strategic issues — such as eligibility and funding — remains low because the federal government retains sole command of these levers. Even bearing in mind the above point concerning strategic issues, the LMDAs remain examples of significant levels of intergovernmental collaboration in the sense that they map out a new framework for the design and delivery of active measures. In the final analysis, the LMDAs are about clarifying roles and responsibilities with regard to active measures (in effect they are about collaboration in order to disentangle),

which puts them in line with the spirit of the SUFA, although these bilateral agreements were negotiated prior to that agreement.

The success of the LMDAs lies, according to Klassen, in their potential to deliver better policy outcomes to clients. The underlying premise of the agreements is that the most important labour market for most citizens is the local labour market and that the closer the government is to that local market, the better able it will be to tailor policy and programs to the needs of local clientele. To date this still remains a "potential outcome" insofar as it is still too early to make a complete judgement on this issue. It is this flexibility in program design and delivery that will be the ultimate indicator of the success of the LMDAs.

Yet, even if this potential for better policy is realized, Klassen makes the case that there are still a number of points of concern. First, although the accountability mechanisms in place (designed to ensure that the provinces spend the money transferred to them in a mutually agreed upon fashion) are better than those that existed prior to the enactment of the *Employment Insurance Act* and the subsequent devolution of active measures, they are still seen as relatively weak.<sup>14</sup> Second, the LMDAs provide few avenues or opportunities for increasing citizen engagement in the development or assessment of those policies. (Again, to be fair, neither did the previous governance regime, but then the previous regime did not pretend to do so.) Thus, Klassen argues, the potential exists for rising levels of intergovernmental conflict as provinces demand increased transfers to cover rising active measure expenditures during a future recession. The next recession when (and not if) it comes may well sorely test the ability of the LMDAs to provide a basis for managing intergovernmental conflict. Finally, the inability of the federal and Ontario governments to reach agreement on devolution within that province creates a bifurcation in the realm of active labour market policy and this could be problematic during an economic downturn.

Thus, the LMDA process can be seen as creating (potentially) better policy in terms of its outcomes, though the process is still too new to be terribly definitive in this regard. As with income support, the levels of transparency have not increased significantly and there are still problems with the accountability regime that need to be addressed.<sup>15</sup> As such, the new governance regime regarding active measures can be seen to be an improvement, but the regime appears somewhat fragile. Without significant bolstering to the accountability regime, a recession could well reverse the process and lead to high levels of intergovernmental conflict over the allocation of scarce fiscal resources. The

provinces are going to have to be able to demonstrate that there has been a measurable success in terms of the devolution leading to better policy outcomes in order to make the case that transfers should be increased to meet increased need. This is further complicated by the fact that Ontario (with 37 percent of the country's population) remains outside this devolved structure. While the potential gains currently outweigh the potential losses, it appears that without continued refinement and bolstering those positives could quickly become negatives. The result could be a situation worse than the *status quo ante* — worse policy, strained federalism, and less democratic oversight.

### YOUTH EMPLOYMENT AND SCHOOL-TO-WORK TRANSITIONS

By contrast, the third case study stands out from the other two in some very important ways. The restructuring of income support for the unemployed, at both the federal and provincial levels, was instigated to a large degree to meet government deficit-reduction targets. The LMDA process was initiated with an eye to reducing intergovernmental tension within the federation (much of it not necessarily related to policy failures, real as they were, with existing active measures). However, the area of youth employment and school-to-work transitions is one where both orders of government appear determined to maintain as high a profile as possible.

The question that immediately arises out of this competition for profile is where, under the terms of the division of powers, responsibility lies for labour market programs targeted specifically at youth. Of course, in strict terms, the *Constitution Act, 1867* is silent on this. But insofar as education is exclusively a provincial concern and this provides much of the provincial rationale for involvement (especially with regard to training programs), there appears to be relatively little legitimate room for federal program development in this area outside a limited number of specialized areas such as Aboriginal youth.

But, as Stephen McBride and Peter Stoyko acknowledge, not all youth policy is about "training" which can be linked to the education heading of the *Constitution Act, 1867*. Rather, youth policy is also about "internships" and "work experience" programs, often linked directly to government departments, which can be seen as "generic functions of government." In this sense, the federal government has a perfectly legitimate right to target youth, as would any government. Similarly, the authors note that if it is acceptable for large corporations or foreign governments to offer scholarships for university to

Canadians, then why is it inappropriate for the federal government to do so? The federal government argues that it is "out of the training business" but still "in the learning business." The problem, from the perspective of some provinces, is that the line between the two is not terribly clear.

At the same time, the federal government can justify its involvement in the sector under the "federal spending power" rather than through reference to a specific section of the *Constitution Act, 1867*. The courts have long considered the ability of the federal government to spend money in any area it deems to be for the general good of Canadians as a legitimate federal prerogative, however controversial and unpopular it may be with some of the provinces some of the time.<sup>16</sup>

What is unclear, though, is how the federal government squares its willingness to devolve active labour market measures in all other areas with its apparent unwillingness to do so in regards to youth policy. If the federal government feels that active labour market measures for Canadians past some arbitrary (and apparently quite moveable<sup>17</sup>) age limit are best designed and delivered by the provinces, what makes active measures for youth different?

As the study by McBride and Stoyko points out, the important difference may lie in the fact that youth are a politically popular target group. Concern about a clientele that constitute "the nation's future" is always good politics. As such, the federal government continues to insist on a significant and relatively high profile role in both the design and delivery of youth-targeted measures. This competition between orders of government to be seen as doing the most for Canada's youth has led, the authors argue, to a patchwork of programs that proliferate in direct proportion to the degree of politicking that goes on around the issue and, to significant degrees of intergovernmental squabbling in regard to which order of government is best positioned to provide services.

There is, therefore, a significant degree of what Lazar and McIntosh call "federal unilateralism" in the policy framework insofar as the provinces run up against federal spending in, what can generally be conceded to be, provincial legislative competence.<sup>18</sup> At the same time, both orders of government implement and administer programs with insufficient attention paid to what the other order of government is doing. According to McBride and Stoyko, some of this has appeared to change in recent years, but the overall governance of this policy remains exceedingly complex.

To a limited extent there has been an increase in collaboration — and even partnership — in some areas of youth employment policy, at least in the

area of developing frameworks for action. But there is no consensus within the sector about the nature of the governance regime and the implementation and delivery of actual services remains pretty much disentangled. Furthermore, the lines of accountability within the area are obscure at best and the public has little input into the shape and nature of youth policy (although there is significant use of "focus group" research in some jurisdictions that is designed to elicit reactions to and feedback on policy initiatives). The authors conclude, however, that the overall level of transparency is quite low.

Still, it seems unlikely that the federal government will back away from its involvement in the youth policy field (regardless of the shakiness of their case to be there) any time soon. Thus, the authors make the case that the recent experience with federal-provincial-territorial, multilateral and bilateral agreements around specific issues in this area should provide guidance around which to structure a future governance regime. Making such collaboration less ad hoc and more institutionalized would, they argue, go a long way in improving the transparency and accountability within the regime. Indeed, the kinds of commitments contained in the SUFA around information-sharing, notification of policy changes, etc., could well be a first significant step in bringing some order to the chaos around youth policy. Yet, at best, this is a relatively minor incremental change that is limited by the desire of both orders of government to have as high a profile as possible in this politically advantageous policy realm. As such, the gains (however modest) far outweigh the losses under such a move if only by bringing some level of coordination.

## OVERALL CONCLUSIONS ABOUT THE SECTOR

With reference to the intersection of federalism principles, policy goals, and democratic governance that animated the case study analysis, the following conclusions can be made with reference to the governance regime within the labour market sector as a whole. With respect to the principles of federalism it can be said that income support policy is clearly disentangled between the two orders of government, whereas active measures and youth policy have been marked by increased collaboration on framework policy (though with a persistent competition for profile between the two orders of government in the youth field), but relatively disentangled in policy/program implementation. Federalism principles are generally well respected, with the possible exception of federal involvement in the youth policy field — which depends, in part, on how one views the use of the spending power.

With respect to meeting general social policy goals the studies point to a number of key issues: a significant "policy vacuum" in income support; some "policy failures" in the area of youth policy with regard to overlap; poor coordination between governments targeting the same/similar populations (though the full extent of such remains unclear); and potential improvements in the development of active measures policy — the actuality of which is still open to debate and interpretation (and to some extent dependent on external factors such as continued economic growth). Overall what the authors see is a general trend toward increased flexibility within the sector and a strong commitment to making policy more "market-sensitive" than in the past.

With respect to democratic governance, it is evident that all parts of the sector show significant room for improvement in terms of transparency and more complete accountability frameworks. Policy-making is still executive-dominated with a privileged (albeit informal) status given to business interests with insufficient room for citizen input on policy development and possibly continued marginalization of political actors (MPs, MLAs, legislative committees, etc.).

### LABOUR MARKET POLICY IN THE ERA OF SUFA

It needs to be emphasized that the case studies, individually and together, cover a fairly wide swath of labour market policy. Thus, any attempt to summarize the findings of the studies will necessarily miss the trees while focusing on the forest. And still, there are important policy areas and issues that are not dealt with in the studies and which make the drawing out of lessons or the articulation of governance agendas necessarily tentative. That being said, the SUFA provides an impetus to try to articulate a future agenda for labour market policy both in light of recent developments within the specific areas covered by these studies and with regard to commitments contained within the document itself.

To borrow Noel Lyon's description of the Charter of Rights soon after its adoption, the Social Union Framework Agreement can be described as consisting, in the main, of "*vague but meaningful generalities*."<sup>19</sup> We know it means "something" but what it means precisely is somewhat less clear. The SUFA contains a number of commitments about transparency, accountability, and public involvement, but they are, at this point, devoid of much substance. There are also somewhat more concrete commitments about working toward developing comparable measures and analysis of social trends and priorities. What is missing, though, is any mention of "how" these laudable, and much needed,

goals gets accomplished. This is not to say that these commitments cannot be imbued with both meaning and substance, but the agreement provides no concrete mechanism(s) through which to do so.<sup>20</sup>

It needs to be kept in mind that the SUFA is an administrative agreement between the federal and nine provincial governments that are its signatories. It has no force in law and, thus, provides no justiciable sanction should its commitments not be met. Whatever force it has can be said to exist only in the political will of the signatories to live up to the agreement and in the will of the electorate to see that they do. What the SUFA provides for, in part, is a clarification of roles and responsibilities within the realm of social policy for both orders of government. It also contains commitments around information-sharing and development of comparable measures that may also lead to a clearer understanding and articulation of policy priorities within specific policy fields. Operationalizing those commitments would give governments a clearer understanding of the areas in which there is a need for increased collaboration, the areas where individual governments are best situated for policy innovation on their own, and a clearer understanding of "best practices" in other jurisdictions.

Given the analysis presented in the case studies, the SUFA may provide important guidance in terms of the kinds of intergovernmental relationships that are envisaged in the case studies, especially with regard to youth policy and income support issues. To some extent, the LMDAs, though they are pre-SUFA, already embody the kind of collaborative efforts envisioned by the document. Indeed the SUFA bolsters the likelihood that the LMDAs will prove to be a lasting innovation by preventing the federal government from seeking to expand its role in active measures. What remains to be seen is whether they will deliver on the promises their proponents made for them.

Though the alternative governance regimes posited by the authors go beyond "tinkering at the margins," they remain clearly cognizant of the degree of intergovernmental effort that will be required to either improve the existing regime or continue along the lines already underway. In all cases, what may appear at first blush to be relatively minor shifts in direction will require a significant degree of commitment (both in terms of resources and of political will) in order to accomplish the preferred shift in governance. Again, this speaks to the political obstacles that present themselves in the formation and development of labour market policy. What remains to be seen is whether the SUFA will take hold as a set of guiding principles around which to carry out the work needed in restructuring the governance of labour market policy.<sup>21</sup>

What is clear from the individual case study analysis (and confirmed by a look at the policy landscape) is that throughout the sector the most pressing problems seem to be in the areas of accountability mechanisms and the transparency of the policy process. Citizen, client, and stakeholder engagement is, likewise, a common weakness within the parts of labour market policy under consideration.

But when taken together, the case studies implicitly point to what may be an even more pressing or immediate concern. There is a tendency for governments to spend little time examining the manner in which one order of government's policies affect those of the other order. The fact that labour market policy cuts across the division of powers complicates the analysis of how policies interact and are interdependent within the sector. This is not to say that the problems within the sector are all "federalism problems" or that some of these problems would not exist in a unitary state (because they do). Rather, it is to argue that Canada's federal condition further complicates and may obscure problems that might be more readily apparent if the sector fell more clearly in the realm of just one order of government.

This is most clear in the case of income support and the "group in the middle." But it goes beyond the EI-social assistance interaction. The "group in the middle" might still exist in a unitary state, or if only one order of government dealt in income support for the unemployed, but their existence and the extent of the problem is made more difficult to discern given the division of responsibility in this area. Furthermore, the devolution of active measures to the provincial governments provides an as yet unrealized opportunity for those governments to coordinate active and passive measures beyond simply offering "one-window access" to a range of services.

At the same time, it is admittedly unrealistic to make the complete reorganization of the sector the prime goal of the analysis. What appears to be needed, though, is for more thought to be given to analyzing and confronting the interdependencies between federal and provincial policies within the sector. In a sense, managing those interdependencies appears to be the key to maintaining the relative independence of each order of government. And it is this management of interdependencies that can be seen to be part of the process that drove the adoption of the SUFA by the federal and nine provincial governments.

Operationalizing the commitments in SUFA seem to require that there be some prior consideration given to more macro-level analysis. The sharing of information or the development of mutually agreed-upon comparable



measures between governments only makes sense if it is done in reference to "why" comparable measures or more information is necessary. Part of the answer to that is that in developing similar measures, making cross-provincial data comparable with federal data, and sharing data intergovernmentally, governments become better able to both collectively and individually set policy priorities and articulate a coherent vision for labour market policy in which governments at least have a clearer sense of how policy changes in one area reverberate through other areas.

For example, it is evident that labour market policy has moved increasingly toward making the labour market more flexible and market-friendly in recent years. But it has done so on a relatively ad hoc basis and with little public debate or input about the way those changes interact with each other. The Social Security Review that first proposed significant changes to Unemployment Insurance and the introduction of "workfare" schemes in some provinces were each debated within the context of their specific jurisdictions. Similarly, both the EI reforms and the social assistance reforms have been publicly justified in terms of the need to make unemployed workers more willing to accept different kinds of work in the absence of receiving benefits. (Yet it is equally true that the most important "drivers" of those changes were the deficit reduction agendas of both orders of government.) But neither order of government was able (or is currently able) to demonstrate how the changes it introduced affected the policy or programs of the other order of government. Without that information no amount of "committee hearings" or "public consultation" on a single program will produce a substantive debate on the issue of income support for the unemployed.<sup>22</sup>

Similarly, the ability of business interests to maintain their privileged access to policymakers,<sup>23</sup> coupled with the historical suspicion with which organized labour has approached tripartism in the past, contributed to the ultimate lack of success with Labour Force Development Boards (LFDBs) in the 1990s. These were intended to provide, to some extent, the kind of priority-setting analysis that labour market policy has traditionally lacked. What made the LFDBs unique was that, in some instances at least, they attempted to go beyond traditional business-labour-government tripartism by including representatives of other "equity groups" such as women, Aboriginals, and those who are disabled, in what were conceived as much more truly "corporatist" and representative bodies. The eventual closure, scaling back, and marginalization of the LFDBs appear to leave that role currently unoccupied and the question is whether the SUFA provides a means through which it can

be resurrected in some more viable form. It may be the case, though, that such bodies, if they are to have a hope of persevering, need to rise organically from below and not be imposed from above by governments or other more powerful actors. What is necessary is a willingness on the part of governments and other powerful actors to allow such organizations to rise.

In the first instance, it appears that the appropriate venue for the development of policy priorities, and for information-sharing and developing mutually agreed-upon comparable measures, should be through the Forum of Labour Market Ministers (FLMM). At the very least it would give some kind of institutional support and impetus for the kind of overarching analysis that the sector appears to need. Of course, even the FLMM will not cover all aspects of labour market policy given the manner in which such policy is spread across government ministries. Nor, it should be admitted, does the FLMM necessarily provide linkages between labour market policy and other social policy realms which may be increasingly important in coming years. It may be, however, an important place to start managing the interdependencies between governments in the realm of labour market policy.

But a more prominent or reinvigorated role for the FLMM entails risks for governments. Provinces could well see the FLMM actions in this regard as an attempt by the federal government to insert itself, through the back door, into a policy area where Ottawa has only limited jurisdiction. Yet, this need not be the case and is made less likely given the commitments that provinces have made to taking on an increased role within the sector. Given that labour market policy cuts through the constitutional division of powers, it seems apparent that any exercise around sharing labour market information, developing comparable measures, and possibly even rethinking the specific roles of each order of government needs to be undertaken, in the first instance at least, intergovernmentally.

But if the FLMM is to be a vehicle through which labour market policy becomes integrated into the social union, then some parameters would have to be set around what is and is not its role. The point of information-sharing and developing consistent and comparable measures is to bring clarity to the interrelationship and interdependence of different aspects of labour market policy. This should allow governments to identify policy priorities within the field. It need not lead to policy convergence around "national standards" nor should it impinge on the legitimate jurisdiction of either order of government. However, by clarifying the relationships and interactions between different policies, governments can also identify those areas of mutual concern where it may be

appropriate to engage in some kind of collaborative action — even in those areas where the collaboration is designed to clarify more precisely each government's role with regard to a specific policy field.

The goal of such collaboration is not to create mythical watertight compartments for each order of government, but to recognize:

the sovereignty of both orders of government as well as the growing interdependence between them ... to give rise to a more democratic process ... [that] enables citizens to be informed about the relative value of different programs. And with the expanding need for international governance, the requirement for national mechanisms to establish and re-establish a sense of national purpose.<sup>24</sup>

It is arguable that increased intergovernmentalism does nothing to solve the democratic shortcomings of the policy-making process — shortcomings that are all too evident in the realm of labour market policy. Indeed, increasing intergovernmental mechanisms can tend to further distance citizens and legislators from the policy process: the pitfalls of executive federalism do not only apply to constitutional negotiations.

Yet, as counter-intuitive as it may seem, a heightened commitment to intergovernmentalism (using the FLMM as its vehicle), combined with the commitments contained within the SUFA, may in fact be the vehicle for fashioning a more transparent policy-making process with regard to labour markets. The point is not to involve the FLMM in decision-making around specific policy programs or instruments (e.g., giving the provinces a say in the EI program or the federal government a role in designing social assistance). Rather, it is to begin mapping labour market policy with reference to the kinds of assessment criteria that underpinned the case studies presented here and to begin to fill in the gaps in knowledge about the ways in which the parts interrelate in the creation of the whole.

By having the FLMM undertake a more important role in mapping the policy connections within the sector, it becomes possible to initiate a much more fruitful debate about not only the direction of specific policy programs but also the interrelationships between those program areas. Perhaps most importantly in this regard, the SUFA provides important commitments to increase both the transparency and accountability of social policy-making processes. Such are noble sentiments, but in the realm of labour market policy they make necessary a more open and democratic policy formation process that would bring a wider range of actors onto the stage at a much earlier point in the process. As legislators, stakeholders, and the public move closer to the centre

of these policy debates, it will become harder for political actors and business interests to ignore these voices. This, of course, makes the discussion of labour market issues "messier" but arguably more democratic, transparent, and, ultimately, more productive. There are some important obstacles that will need to be overcome, both institutional and political, for making the FLMM a more robust vehicle for labour market policy debate.

First, the FLMM's past work has tended not to focus on "macro-level" issues around interdependency. The agendas of the FLMM over the past ten years have tended to focus not on high level issues about the overall direction of labour market policy, but rather on resolving irritants in federal-provincial relations in the field. Interestingly, the FLMM have asked for what appear to be "macro-level" briefings from expert policy analysts in the past, but there is no evidence of a sustained commitment to this kind of analysis or any sense of there being an "overall purpose" for such briefings. Without a permanent secretariat, there also appears to be little in the way of institutional memory or resources that would carry such analysis and debates forward even as governments, ministers, and officials change.

It is interesting to note, however, that recent agendas show at least some degree of attention to broader issues such as labour mobility, the evolution of the LMDAs, and, at the Deputy Minister level, "the evolving FLMM" agenda. Still, at a 1999 ministerial meeting, the agenda dealt with eight separate issues in four hours and fifteen minutes, with one item allotted 90 minutes, one allotted 45 minutes, two allotted 30 minutes and four given 15 minutes each.

Second, insofar as the FLMM includes the Government of Quebec, it will need to find a means by which to undertake macro-level analysis without forcing the Quebec government toward the implementation of an agreement it explicitly refuses to sign. Thus, perhaps, one of the biggest challenges that will need to be met is convincing the Government of Quebec that the need for such macro-level analysis exists independently of any desire to carry forward with the SUFA commitments. This is complicated by the fact that the linguistic divide in the country is mirrored by the existence of separate English- and French-speaking labour markets with relatively minor cross-overs between them. If Quebec resists a move to strengthen the role of the FLMM it could result in two intergovernmental tables being established: one consisting of the federal and nine SUFA-provinces and a second with the federal government and Quebec. Whatever policy sense this might make in terms of giving *de facto* recognition to a linguistically bifurcated labour market, the political optics could prove such arrangements unsustainable.

Third is the concern that, in public at least, the intergovernmental good will that spawned the SUFA (again with the exception of Quebec) has not been substantially built on over the past year. The perceived lack of federal support for the western Canadian farm crisis, the conflict over Alberta's plan to allow a greater role for the private sector in the delivery of health services, the federal government's musings about a new national cost-shared home-care program, the debate over the restoration of federal transfers to pre-Canada Health and Social Transfer levels, and the appropriateness of the federal "clarity bill," have altered the public face of intergovernmentalism. It may well be that there are an equal number of intergovernmental success stories, but political actors especially may find it difficult to trumpet those successes when public attention is focused on intergovernmental conflict.

Finally, it is clear that the public debate and therefore public concern over the last few years in the area of social policy is almost always articulated in terms of the health-care system and not in terms of labour market policy. Despite persistent anxiety about their status within the labour market and uncertainty about future economic security, Canadians' social policy focus remains on higher profile issues such as the problems with the health systems across the country. The fact that these personal anxieties do not get expressed in relation to government policy directions makes putting labour market policy on the social union agenda that much more difficult. This may be a temporary phenomenon, but it is also unlikely to disappear quickly.

In the final analysis, the challenges in moving governments toward a more strategic macro-level analysis of labour market policy are formidable. Involving the public in that process is an even greater challenge. Whether the FLMM is an appropriate vehicle, or can be transformed into such a vehicle, is also open to debate. What is clear, however, is that there are a number of choices or possible policy directions that flow from the case studies. These different choices need to be dealt with in an effort to begin to think more systematically about the future directions of not only specific elements of labour market policy but about the sector more generally. Yet despite these obstacles, it needs to be recognized that the economic growth that the country has experienced over the last decade will not continue indefinitely. The question is not "what if a recession occurs" but rather "what will the country do when it occurs"? Long-term planning is not the strong suit of governments in many instances, but there is a clear need to make labour market policy a priority before governments find that priority imposed on them in a time of economic contraction, falling revenues, and rising unemployment.

## NOTES

<sup>1</sup>Fordism, which can be said to be the predominant feature of the postwar economic landscape, is a strategy of capital accumulation rooted in a high productivity, high-wage and high-consumption economy centred in, but not exclusive to, the old-line manufacturing and resource sectors. It is predicated on what could be called "the great compromise" between (organized) labour, capital, and the state that saw the routinization of industrial relations involving capital's recognition of the right of workers to organize coupled with the acceptance of the general contours of a capitalist economy by labour. This relationship was, in turn, promoted, overseen, and regulated by the emerging postwar welfare state.

<sup>2</sup>Ronald L. Watts, *Comparing Federal Systems*, 2d ed. (Kingston: School of Policy Studies, Queen's University and McGill-Queen's University Press, 1999), p. 119.

<sup>3</sup>For an overview of such transformations, see Harvey Lazar and Tom McIntosh, "How Canadians Connect: State, Economy, Citizenship and Society," and Reg Whitaker, "The Changing Canadian State," in *Canada: The State of the Federation, 1998/99: How Canadians Connect*, ed. Harvey Lazar and Tom McIntosh (Kingston: Institute of Intergovernmental Relations, Queen's University and McGill-Queen's University Press, 1999), pp. 3-33 and 37-59.

<sup>4</sup>Alain Noël, "Is Decentralization Conservative?: Federalism and the Contemporary Debate on the Canadian Welfare State," *Stretching the Federation: The Art of the State in Canada*, ed. Robert Young (Kingston: School of Policy Studies and McGill-Queen's University Press, 1999), pp. 195-219.

<sup>5</sup>Mike Burke and John Shields, *The Job-Poor Recovery: Social Cohesion and the Canadian Labour Market* (Toronto: Ryerson Social Reporting Network, 1999).

<sup>6</sup>A somewhat different interpretation about the level of security and insecurity in the labour market, which argues that the perception of increased insecurity is not necessarily the reality, can be found in Michael R. Smith, "Insecurity in the Labour Market: The Case of Canada Since the Second World War," *Canadian Journal of Sociology* 24, 2 (1999):193-224.

<sup>7</sup>Harvey Lazar and Tom McIntosh, *Federalism, Democracy and Social Policy: Towards a Sectoral Analysis of the Social Union* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1998).

<sup>8</sup>These terms are, of course, subject to multiple definitions and different emphases. A clarification of some of the issues surrounding these terms can be found in Tom McIntosh, *Governance Aspects of the Social Union: Operationalizing Key Concepts* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1998).

<sup>9</sup>Leon Muszynski, "The Politics of Labour Market Policy," in *The Politics of Economic Policy*, ed. G.B. Doern (Toronto: University of Toronto Press, 1985), p. 251.

<sup>10</sup>The court recently refused to grant a "temporary suspension" of the Marshall decision sought by some non-Aboriginal fishers and in so doing issued what amounts to a clarification of the decision that warned all concerned to not read that decision

either too narrowly or too broadly. In effect, the court has returned the issue to the political arena which must now grapple with how existing treaty rights fit within the policy and regulatory framework of the resource sectors where those treaties apply.

<sup>11</sup>It is not the case that the "people in the middle" are the result of a gap in policy as it was the intended consequence of both EI reform and the constriction of social assistance eligibility to remove people from each of the programs.

<sup>12</sup>It needs to be recognized that the division of responsibility for the unemployed between the two orders of government does not, in and of itself, cause there to be a group of people in the middle. Unitary states also commonly distinguish, in policy and political terms, between the short- and long-term unemployed. Thus, Canada's federal condition is not necessarily at the root of the problem identified. However, the authors argue that the division of powers in this area provides each order of government the ability to determine on their own the extent of their responsibility for the unemployed and leaves those who are defined out of each government's jurisdiction with little in the way of recourse. In effect, federalism does not cause the problem, but it serves to mask its existence and to blunt the ability of those affected to hold any order of government accountable.

<sup>13</sup>Lazar and McIntosh, *Federalism, Democracy and Social Policy*.

<sup>14</sup>It should be noted that this study was conducted before the recent uproar over the manner in which the federal government managed the Transitional Jobs Fund and it is unclear how the outcome of the audit of that program will reverberate through a federal-provincial debate on accountability. It is also, of course, open to provinces to have more far-reaching accountability measures than those that were included in the bilateral LMDAs.

<sup>15</sup>As it stands, the accountability regime requires the federal minister to report annually to Parliament with a monitoring and assessment report that includes the use of funds on active measures and that the agreements are subject to joint evaluation with the provinces which includes consultation with clients on the quality and type of service they receive. For Klassen, this level of transparency might be characterized as "necessary, but not sufficient."

<sup>16</sup>For an overview of the role the spending power plays in Canada and other federal states, see Ronald L. Watts, *The Spending Power in Federal Systems: A Comparative Study* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1999).

<sup>17</sup>As McBride and Stoyko point out, there is no standard definition of what constitutes a "youth." For example, one Quebec program for "young farmers" accepts applicants up to the age of 40.

<sup>18</sup>The term "federal unilateralism" is defined as the federal government acting in areas of provincial jurisdiction (often without the support of the provinces) through the use of the spending power. It does not refer to federal spending in areas clearly within the federal purview. For example, the federal government may change the Employment Insurance system and this may have an impact on provincial policy, but

that is not "federal unilateralism" as the term is used here. Rather, such changes and impacts are reflective of the disentanglement of that particular policy area (see Lazar and McIntosh, *Federalism, Democracy and Social Policy*). It may be the case that the term federal unilateralism may be too stark a term to describe the federal relationship with several of the provinces, especially smaller ones. In some of those cases, where there are bilateral youth agreements, it may be more appropriate to describe the regimes as a blend of federal unilateralism and collaboration.

<sup>19</sup>Noel Lyon, "The Teleological Mandate of the Fundamental Freedoms Guarantee," *Supreme Court Law Review* 1984(4):57-73.

<sup>20</sup>It is interesting that the really concrete commitments about labour market policy are in regard to labour mobility and the implementation of the commitments made under the Agreement on Internal Trade (AIT). It may be the case that it will take subsequent agreements on other issues in order to begin moving the commitments in real policy changes and developments.

<sup>21</sup>One of the problems in this regard may well be that in both the minds of the public and, perhaps, in the minds of the political actors involved the debate about the nature of the Canadian social union has not been focused on labour market policy. The fact that the SUFA agreement coincided with the so-called Health Accord (which transferred extra dollars to the provinces on the understanding that they would be spent on health-care programs), only serves to reinforce the primacy of health care in the social union debate.

Whether the health system's privileged position within the social policy debate is justified or not (and it may well be), the risk is that other aspects of the social union could find themselves ignored within the reform process. Thus, it becomes important that there be a clearly articulated agenda for labour market policy that places it at or near the centre of debate about the social union that will be undertaken as governments begin the process of operationalizing the commitments made in the SUFA.

<sup>22</sup>Related to this is the fact that existing active measure programs have been "working well" because the economy has generated new jobs. In a recession unemployment rates will increase and the programs may stop working as well. At that same time, costs for income support and active measures will increase.

<sup>23</sup>The term "privileged access" is used somewhat advisedly. It should not be taken to mean either that governments listen exclusively to business interests or that business interests speak with a single voice. Indeed, the Chamber of Commerce and the Business Council on National Issues (BCNI) have different perspectives on a wide variety of policy matters. Similarly, it should not be taken to imply that governments effectively take their "marching orders" directly from corporate Canada. At the same time, though, the general thrust of labour market policy has been in a more market-friendly direction and "flexibility" and "competitiveness" have been the watchwords. Those are words you will hear more often from the BCNI than from the Canadian Labour Congress. Business interests may not have succeeded in getting all they want in terms of government policy, but it seems fair to assert that, on balance, organized



business interests clearly have the ear of both orders of government far more often than does organized labour. That some of business' success is really labour's own failings in this regard cannot be ignored either.

<sup>24</sup>Harvey Lazar and Tom McIntosh, "How Canadians Connect," p. 28.

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## THE POLITICAL AND INSTITUTIONAL LANDSCAPE OF CANADIAN LABOUR MARKET POLICY-MAKING

*Rodney Haddow*

### INTRODUCTION

This chapter examines the environment of contemporary labour market policy-making in Canada. It defines the setting for policy developments addressed in the three case studies that follow. A detailed discussion of these policy developments themselves forms the subject-matter of the case studies. Broadly conceived, labour market policy includes all "those actions that affect the supply and demand for labour as well as the labour process itself."<sup>1</sup> Many measures are encompassed by this definition beyond those treated in the case studies; but these concentrate on the most salient challenges now faced by Canadian policymakers.

This chapter will address the setting of only those measures whose primary purpose relates to the supply of and the demand for labour. These include passive labour market policy (PLMP), which provides employable persons with the income needed to survive temporary absences from the labour market and to avoid the deterioration of their skills and employability during such absences. They also include active labour market policy (ALMP), which is designed to "improve access to the labour market and jobs, develop job-related skills, and promote more efficient labour markets."<sup>2</sup> Finally, the chapter addresses collective bargaining law, workers' compensation and occupational

safety policies, and minimum wage law. The case study by Tom McIntosh and Gerard Boychuk on social assistance and Employment Insurance (EI) largely pertains to PLMP. Klassen's study of the federal-provincial agreements deals mostly with active measures. The youth initiatives addressed by Stephen McBride and Peter Stoyko include both passive and active measures, although their focus is largely on the latter.

Each aspect of labour market policy in Canada involves a complex mixture of federal and provincial jurisdiction; and interjurisdictional conflict has been chronic. The main federal contributions to PLMP include EI (formerly Unemployment Insurance), which Ottawa funds and administers, and federal transfer payments to the provinces to help defray the costs of their social assistance programs. Provincial PLMP consists largely of designing, administering and partly funding these assistance measures. Collective bargaining legislation for the vast majority of Canadians is under provincial jurisdiction; Ottawa's role is restricted to a number of federally-regulated industries, such as transportation, finance, and communication, and to federal employees. Ottawa's role with respect to minimum wages, workers' compensation, and occupational health and safety is also restricted to these categories of workers; the provinces therefore predominate in these areas.

As Klassen's case study indicates, the federal-provincial relationship is most complex, and has been most contentious, with respect to ALMP. Many aspects of postsecondary education policy — in particular, student loans and university financing — are closely related to ALMP. Although education is a provincial responsibility, Ottawa has used its spending power to involve itself in this area, and it paid considerable attention to student aid in the 1997 and 1998 budgets. But non-vocational postsecondary education is, arguably, not primarily designed to affect the labour market. Although student aid will be touched upon, postsecondary education issues are not treated systematically below.

The main parameters of labour market policy-making in Canada, each of which is discussed in this chapter, can be described briefly. The first three sections below outline "who has power and influence" in the labour market policy field. To begin with, executive and bureaucratic actors predominate in decision-making within government. This is typical of most policy-making fields in Canada, but it is even more true here than in such fields as health and social policy. Thus, the first section of this chapter argues that legislatures and non-governmental inquiries play a more limited, though not a negligible, role. The second section addresses the relationship between government and societal

interests, which is largely unorganized and based on informal lobbying. Attempts to create more formalized, sometimes "neo-corporatist," government-society relationships have been widespread in recent years, but they have failed more often than they have succeeded. This has, in part, been due to the resistance of government executives; but it also reflects the fact that such arrangements jeopardize business's relatively privileged access to and legitimacy with policymakers, which has thrived in a more informal setting. In light of changes that are occurring in Canada's broader political economy (described by McIntosh in the introduction to this volume, and by McBride and Stoyko in their case study), business's needs are now even more likely than in the past to be addressed favourably by decisionmakers in the executive-bureaucratic arena. In this context, public opinion has usually played a limited role in shaping policy-making. But there have been exceptions. As the third section indicates, the considerable interest that governments have recently taken in youth measures, examined by McBride and Stoyko, reflects broad-based public sentiment.

The chapter then addresses other features of the labour market policy-setting. The fourth section reviews recent trends in the Canadian labour market regarding income inequality and employment. It notes that recent policy changes, which reflect the changing political-economic setting alluded to above, may increase income inequality. The main policy recommendations proffered by contemporary students of labour market policy are then summarized. The most popular of these recommendations have reflected their emergence at a time of fiscal constraint within governments, and of greater receptivity to the needs of business.

The final section briefly reviews recent responses by federal and provincial governments to these prescriptions. It provides a preliminary review of developments in the policy sub-fields which are discussed in much greater detail in the case studies. These policy developments reflect the predominantly cost-conscious and conservative prescriptions reviewed in the previous section. They have also been affected by the conflict between Ottawa and the provinces, especially Quebec, which has led the federal government to curtail substantially its role in active labour market policy.

#### THE GOVERNMENTAL ARENA: EXECUTIVES, LEGISLATURES AND QUASI-GOVERNMENTAL ACTORS

Canada's executive-dominated parliamentary system of government is generally thought to grant only a marginal role to its legislatures. Federal

parliamentary committees play a modest role in the legislative process.<sup>3</sup> Provincial legislatures generally share this quality of being Cabinet-dominated and of possessing "debilitating restrictions on the powers of committees to determine public policy or to control governmental activities."<sup>4</sup> Moreover, legislative action is considered likely to be even more marginal when policy-making requires extensive intergovernmental consultation, as has often been the case in the labour market field.<sup>5</sup>

This standard view largely applies to the labour market field, but there are important qualifications. Legislative committees generally have not played a central role in guiding labour market policy. Where they have made broad-based policy proposals, these have generally not been implemented.<sup>6</sup> Informal groups of Members of Parliament (MPs), anxious to use labour market measures to reward their constituents, particularly in high unemployment regions, have had more influence than committees. Special purpose bodies have sometimes provided policy advice in the labour market field. But they usually have little direct policy impact. In recent years, they nevertheless had some longer term effect. This section elaborates on each of these themes.

Leslie Pal's study of federal Unemployment Insurance (UI) policy from the 1930s to the 1980s did not attribute a significant policy-making role to parliamentary committees during this half-century.<sup>7</sup> A parliamentary task force did produce a wide-ranging review of UI in 1981 (the Allmand Report); but its main proposal — that labour market initiatives should be used as part of a full employment policy — ran directly counter to an emerging policy consensus at the time. According to Muszynski, the Allmand proposals had little impact.<sup>8</sup> The March 1987 report on UI by the House Committee on Labour, Employment and Immigration (the Hawkes Committee), similarly evoked no legislative response from the government.<sup>9</sup> Rianne Mahon's examination of Ottawa's Labour Force Development Strategy (LFDS), launched in 1989, stressed its origins in commitments made by the Conservative government during the federal election campaign of a year earlier.<sup>10</sup> The House of Commons Standing Committee on Human Resource Development was granted a key role in launching Lloyd Axworthy's Social Security Review in 1994, but Herman Bakvis found that its deliberations were quickly overshadowed by what became the main imperatives driving the Liberal government's labour market initiatives over the next two years: its massive deficit and the increasingly aggressive stance of the provinces, especially Quebec. In its March 1994 report, he suggested, the committee "offered up a vague list of three broad priorities ... without reaching any conclusions on specific questions."<sup>11</sup> A recent report by this

committee provides further evidence of its inability to act as a significantly independent and non-partisan influence; its report on postsecondary education finance, released in December 1997, included 16 fairly general proposals, most of which accorded with positions recently taken by government ministers. Three of the four opposition parties consequently issued dissenting opinions.<sup>12</sup>

A similar pattern can be observed in the provinces. Rand Dyck's review of provincial social assistance policy during the 1950s and 1960s established that the provinces played an important role in encouraging the federal government to launch its Canada Assistance Plan; but this influence emanated almost entirely from welfare bureaucrats.<sup>13</sup> Leslie Bella's examination of social assistance policy in Alberta during the same period also stressed the directive role of bureaucrats, and even portrayed provincial politicians as unwitting instruments of bureaucratic pressure for change.<sup>14</sup> Dupré *et al.*'s study of training in Ontario during the 1960s and 1970s observed a similar pattern of bureaucratic hegemony.<sup>15</sup> None of five recent case studies of provincial labour force development boards attributed to legislatures a significant role in launching (or undermining) these boards during the 1990s.<sup>16</sup>

Informal pressures within Parliament — above all from within the government caucus — have been more influential than committees. The regional benefits that became an important part of the UI program during the 1950s underpinned the federal Liberal government's popularity in Atlantic Canada by the 1970s.<sup>17</sup> During the 1970s, Ottawa launched into what would be a long series of curtailments of the generous UI program created in 1971. These were strongly resisted by MPs from within the Liberal Party's Atlantic caucus, and by Cabinet ministers from that region.<sup>18</sup> The interest of MPs in labour market policy deepened for other reasons during the 1970s: Ottawa then launched into more elaborate direct job-creation initiatives than it had previously; reflecting the participatory ethos of the time, funded projects were expected to have "a significant local orientation."<sup>19</sup>

These programs quickly became "subject to considerable political manipulation."<sup>20</sup> Especially in high unemployment areas, both government and opposition MPs acquired a keen interest in influencing, and in being identified with, job-creation spending in their ridings. In Bakvis's words, "for several decades there has been a well-established tradition that local MPs become actively involved in employment generation projects launched in their ridings through HRDC [the federal employment department] and its predecessor, CEIC."<sup>21</sup> Legacies of both of these tendencies — to sustain regional UI benefits and to secure influence over the spending of community-level ALMP funds —

were very much in evidence in Parliament as the federal government proceeded with its reduction of local Human Resources Development Canada (HRDC) operations in 1995.

The addition of the Transitional Jobs Fund (now called the Canada Jobs Fund, a kind of passive measure in the clothing of an active one) to the 1996 Employment Insurance (EI) legislation reflected the government's need to mollify the concerns of MPs from high unemployment ridings regarding the negative impact on their ridings of significant cuts in passive benefits.<sup>22</sup> This regional dynamic is discussed at length in McIntosh and Boychuk's chapter. It would seem reasonable to surmise that these legislative pressures, exerted quietly but firmly in the confidential setting of caucus deliberations, and reinforced by the influence of provincial governments in eastern Canada, will continue to impede efforts to shift dollars from passive to active uses.

Committees of inquiry which included non-governmental experts and representatives periodically studied UI. When the UI fund began to incur a deficit in the early 1960s, Ottawa appointed a Committee of Inquiry into the Unemployment Insurance Act (the Gill Committee). Its 1961 recommendations did not evoke an immediate legislative response from the government, although it partly informed bureaucratic thinking about the UI Act throughout the 1960s. However, this thinking, in Pal's terms, occurred "behind a bureaucratic curtain."<sup>23</sup> The 1981 report of the Task Force on Labour Market Development (the Dodge Report) had a more direct effect. Its review of Ottawa's active measures proposed that they be focused more effectively on areas of real skills shortage, and that federal ALMP focus on this goal, rather than on full employment (championed by the Allmand Committee at this time). The report's release coincided with (if it did not "cause") the apparent abandonment of full employment as an objective in this policy field. Moreover, it is widely seen as having stimulated passage of the *National Training Act* in 1982.<sup>24</sup> But the report's impact owed much to the exceptional circumstances of its drafting. The chair of the task force, David Dodge, took on a senior position within the Employment Department soon after the report's release. Its influence therefore represented only a very qualified departure from the bureaucratic and ministerial dominance that has characterized most labour market policy-making in Ottawa.

During the 1980s, UI again attracted attention from non-governmental inquiries. The Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission), and the Commission of

Inquiry on Unemployment Insurance (the Forget Commission) both issued well-publicized proposals for curtailing non-actuarial aspects of the UI program, though these proposals differed in important details. Forget also proposed that some resulting program savings be used to fund an expansion of active measures. Given the important differences between these proposals, their substantial contradiction by the more expansively-minded Hawkes Committee proposals, and the political sensitivity of the passive benefits cuts that the Macdonald and Forget recommendations implied, the employment minister Benoit Bouchard announced in May 1987 that he planned to make no changes in the program.<sup>25</sup> Macdonald and Forget may nevertheless have had a longer term influence on the Conservative government's thinking. After the 1988 election, Ottawa launched its LFDS, which curtailed passive benefits significantly and followed Forget's recommendation that it extend the government's commitment to active measures.

At the provincial level, some recent non-governmental inquiries appear to have had a significant impact, but this influence has been inconsistent and, sometimes, short-lived. In general, recent provincial inquiries have recommended that governments do more to direct the recipients of passive benefits into the workforce, and they propose that this be done with as much money, or more, as was expended on existing arrangements. Responding to a universal need to eliminate budget deficits, by contrast, provinces have usually responded with more straightforwardly restrictive changes. For instance, a Royal Commission on Employment and Unemployment (the House Commission) in Newfoundland made proposals similar to Forget's in its 1986 report. Its key recommendation was that an income support/supplementation program replace UI and provincial social assistance, which would encourage employment among employable recipients. The province's Economic Recovery Commission reiterated this in 1993.<sup>26</sup> But the recommendation had little immediate impact, especially since it pertained largely to the federal jurisdiction where political pressures to maintain passive benefits have always been very strong.

In 1998, Ontario's Social Assistance Review Committee (the Thompson Committee) proposed extensive reforms of the province's assistance regime, to improve benefits, and to offer greater opportunities for recipients to obtain employment.<sup>27</sup> These proposals were reflected in two sets of program reforms introduced by Ontario in 1989 and 1991.<sup>28</sup> Further recommendations were made to increase employment opportunities and incentives in the May 1992 report of the Advisory Group on New Social Assistance Legislation.<sup>29</sup> These had,



though, less impact, as the government was about to undertake a major fiscal restraint exercise. Moreover, the substantial welfare cuts introduced by the Ontario Conservative government of Mike Harris in 1995 and 1996 reversed many reforms introduced in the wake of Thompson's report. As an approach to encouraging recipients to take up employment opportunities, the Harris reforms moved in a quite different direction. The government cut benefits, made them harder to qualify for, and required employable recipients to work in exchange for their benefits.<sup>30</sup>

With some justification, the Quebec government has claimed that recent reforms of its social assistance regime reflected advice from non-governmental inquiries. The Fortin Report, written by two Quebec economists, proposed in 1996 that the province enhance employability incentives and opportunities for assistance recipients, but it also recommended that employable recipients who refused these opportunities would have their benefits cut.<sup>31</sup> The Bouchard Report, submitted by three social scientists who had originally belonged to the same advisory group as Fortin, made more expansive proposals. It recommended that assistance benefits be maintained at their present levels, while additional incentives would be provided to enhance work incentives and job opportunities. This report also made detailed proposals about how the province might consolidate the numerous service points through which it, and Ottawa, delivered labour market programs.<sup>32</sup>

The province cited both sets of recommendations in support of a major reorganization of its social and employment services introduced in 1997. The reforms have been designed to consolidate the province's passive and active measures in the same department and to increase employment incentives. Quebec's service delivery system was also to be reformed along the lines recommended by the Bouchard Report.<sup>33</sup> Contrary to Bouchard's advice, some categories of benefits were cut significantly, although Fortin responded more favourably to the reforms.<sup>34</sup>

With the possible and partial exception of Quebec, then, non-governmental inquiries, like legislative action, have had a modest impact on labour market policy-making in a context where the dominant reform imperatives for governments have been fiscal restraint and, at the federal level, pressure for jurisdictional retrenchment. Ministers and their bureaucratic advisors, moreover, have made key reform decisions. With Ottawa and most provinces now emerging from their deficit straightjacket, however, such inquiries may in the future have better prospects.

## THE GOVERNMENT-SOCIETY NEXUS

Governments in Canada have created a variety of formal mechanisms to facilitate the influence of non-governmental actors in labour market policy-making. For the most part, these have failed, with the result that informal mechanisms of influence have remained most important. Business interests have benefited most from these informal arrangements and are even more likely to do so in the future. This section reviews the legacy of these formal mechanisms, addressing the two levels of government separately; it then examines the impact of business's privileged position in this policy sector.

### *Federal Jurisdiction*

It has been assumed since the creation of UI in 1940 that business and labour should have a formal role in federal labour market policy, because employers and workers have usually paid for most, if not all, of the scheme's benefits. The 1940 *Unemployment Insurance Act* created an Unemployment Insurance Commission (UIC) to oversee administration of the Act; the UIC consisted of a chief commissioner and one representative each from business and labour. The UI Act also created an Unemployment Insurance Advisory Committee (UIAC) to report annually on the financial status and the eligibility criteria of the plan.<sup>35</sup> From the outset, however, these bodies played a marginal role. During the 1940s, commissioners complained that they were not consulted about program adjustments.<sup>36</sup>

Changes to the UI Act in 1977 "finally buried the 1940 principles that UI should be 'insulated' from political pressure through management by an autonomous commission and that employers and employees had a proprietary right to the program and should therefore be represented on the commission."<sup>37</sup> The changes made the deputy minister of manpower the chair, and diluted private sector membership on the commission. The influence of societal actors on the UI system has therefore been limited, despite the fact that the legal responsibilities of the commission have always been considerable. The 1996 *Employment Insurance Act*, for instance, continued to empower the four-member commission (now called the Canada Employment and Immigration Commission) to assess the effectiveness of the Act, and to report to the minister of employment annually.<sup>38</sup> But McIntosh and Boychuk's study of the recent EI reforms gives no reason to believe that the commission's future *de facto* role will be greater than it has been in the past.

During the 1980s, private sector organizations began to seek an extension of their role in federal labour market policy, especially ALMP; the Canadian Labour Market Productivity Centre (CLMPC), a private sector business-labour entity, advocated such an extension. This coincided with the emergence among policy analysts of the view that private sector involvement could improve the effectiveness of ALMP measures. After considerable deliberation, Ottawa consented to this request by launching the Canadian Labour Force Development Board (CLFDB) in January 1991.<sup>39</sup> With the CLFDB's creation, Ottawa terminated the Canada Employment and Immigration Advisory Committee (the successor to the UIAC). It was hoped that the new board would be a more effective conduit of private sector influence than the purely advisory committee had been. At the insistence of then-Employment Minister Barbara MacDougall, it was decided that the board would include four representatives from "equity" constituencies and two from the educational community; but it would be dominated by business and labour, which would have eight representatives each. This displayed an important extension in the definition of who was considered to have a legitimate interest in the labour market field; since 1940 this had included only business and labour, the traditional labour market partners.

HRDC planned to sponsor additional labour force development boards (LFDBs) in the provinces to complement the CLFDB. As Klassen points out in his study, however, this initiative caused considerable friction with the provinces. Under federal leadership, boards were created in Newfoundland, New Brunswick, Nova Scotia, and Saskatchewan. Several provinces — Quebec, Ontario, and British Columbia — created LFDBs at their own initiative. These are discussed below. All of these boards followed the CLFDB in granting equal representation to business and labour.

The record of the federally-created boards would have to be judged to be disappointing. The Newfoundland and Nova Scotia LFDBs closed; the boards in New Brunswick and Saskatchewan survived, in 1999, but with advisory mandates and with very modest roles in their jurisdictions' policy-making. The CLFDB, which was given some supra-advisory responsibilities at the outset, never acquired significant influence, and was scheduled for closure at the end of 1999. The federally-sponsored LFDBs had a number of significant problems. First, bureaucrats and responsible ministers were sceptical of the policy-making abilities of private sector board members and sought to protect their own traditional prerogatives in the field. Second, the boards failed to attract prominent members, especially from the business community. Third,

all boards were also burdened, to one degree or another, by conflicts among the many constituencies represented on them.<sup>40</sup>

### *The Provinces*

The LFDBs were more successful when launched by the provinces. The three provinces that took that initiative, Quebec, Ontario, and British Columbia, at one time or another created a decision-making board, in contrast with the largely advisory structures sponsored by Ottawa. Quebec's Société Québécoise de développement de la main d'oeuvre (SQDM), and its Commission des partenaires du marché du travail, which succeeded the SQDM in 1997, was the most successful of these. It established itself in provincial labour market policy as a decision-making body with a senior representation from the province's business and labour elites.<sup>41</sup> The Ontario Training and Adjustment Board (OTAB) also had a decision-making mandate, but was undermined by internal dissension and was closed in 1996. But one by-product of this experiment remains in place, namely the establishment of a network of 25 local training boards across Ontario. British Columbia's initial experiment with an advisory LFDB failed in 1996. But in 1997 it created an Industry Training and Apprenticeship Commission which has decision-making powers, though in a rather narrow area.

That the three provinces that launched LFDBs with more than an advisory mandate all did so at their own initiative, not under federal leadership, suggests that in some provincial jurisdictions there may be greater potential than there has been in Ottawa for the emergence of effective deliberative bodies that include a formal representation of business and labour. Moreover, province-level boards with decision-making powers continue to operate in the two provinces — Quebec and British Columbia — generally reputed to have the strongest union movements. Such deliberative assemblies are likely to be less successful where unions are weaker.

Sectoral training councils have turned out to be a more consistently fruitful experiment with private sector participation. Almost two dozen such councils were in operation at the end of 1999 at the federal level, and Ottawa was determined to maintain a role in supporting them despite its withdrawal from many other aspects of ALMP. These federally-sponsored councils will nevertheless have to construct relationships with the provinces if they are to work effectively. Quebec is developing its own network of sectoral councils, and all provinces now control many of the labour market programs that sector councils draw upon.

The composition of these sectoral councils is more variable than is that of the LFDBs. In sectors where unions are substantially present, labour may have equal representation with business; otherwise, business representatives, or independent professionals and trainers, predominate. The greater success of sectoral councils reflects the more focused nature of their agenda, the clear sense that board members have tangible interest in improving skills relevant to their industry, and the financial support of government.<sup>42</sup> HRDC has, however, severely limited its future financial commitment to the operating budgets of sectoral boards, and it is questionable how many will survive without this support. In Quebec, by contrast, the commitment to sectoral councils appears to be more enduring.

In Ontario, business and (sometimes) labour representatives play an important role in setting training standards on approximately 80 councils that oversee the province's apprenticeship system, which is more extensive than in most other jurisdictions. Apprenticeship boards exist in most provinces, moreover, and they are another mechanism through which business and labour representatives have been able to affect this part of ALMP.

Two aspects of labour market policy that have caused considerable friction between employers and unions are under provincial jurisdiction for most Canadians: industrial relations and Workers' Compensation. The former determines the fundamental rules according to which collective bargaining occurs, while the latter represents a chronic flash point between employers who pay a great deal of the system's premiums, and workers who seek to draw benefits from it. Business and labour organizations have therefore been more vocal in pressing their case upon governments in these areas than they have regarding PLMP and ALMP. The predominance of the provinces in the industrial relations field has also persuaded organized labour to mobilize more effectively in most provinces than it has at the federal level; business federations are also often very active in provincial capitals.

Nevertheless, mechanisms designed to represent the social partners formally in public deliberative bodies are not well developed in these areas. Provincial workers' compensation boards (WCB) do provide formal representation to business and labour representatives, but David Johnson's study of regulatory agencies in Ontario stressed that the province's WCB responded to the government regarding its overall objectives. This suggests that the Ontario WCB's ability to serve as a conduit of business and labour influence is limited. Johnson nevertheless stresses that board members see the accommodation

of divergent perspectives from both business and labour as an essential aspect of their work.<sup>43</sup>

Although occupational health and safety committees in many provinces include representatives of workers and employers, according to Drache and Glasbeek "much of the daily administration and application of [health and safety regulations] has been left to an internal responsibility system" within firms. Thus, these health and safety committees typically "have been given nothing but recommendatory power."<sup>44</sup> Similarly, both employers' organizations and unions are usually offered seats on provincial labour relations boards, but Drache and Glasbeek's review of Canadian industrial relations legislation suggests that these boards generally prefer to adopt a neutral outlook. Despite this apparent neutrality, these boards generally side with the views of employers more often than with those of unions.<sup>45</sup> In addition, these boards have only limited autonomy from provincial governments and these governments have used their legislative power to override board decisions with which they disagree. Though examples of this may be rare, that is because "more often than not the objectives of the administrative agencies and governments are compatible. On the few occasions when they get out of kilter, the boards are well placed to divine what a government's wishes are and to give them effect."<sup>46</sup> Business and labour are often vociferous in advocating their views to provincial governments in the field of collective bargaining, but neither seems to have been offered a formal policy-making role in this area.<sup>47</sup>

### *The Privileged Position of Business*

The reluctance of business to participate in LFDBs points to an important feature of the societal setting of labour market policy. In the broader political setting, business is generally more influential than labour, or any of the equity interests represented on LFDBs. Moreover, this advantage has increased in recent years. As McBride and Stoyko point out, fundamental changes occurred in the Canadian political economy during the past two decades. These changes coincided with the fall from favour of Keynesian economics and the curtailment of government's commitment to minimizing unemployment (which had strengthened organized labour during the quarter century after the Second World War). In the wake of these changes, the legitimacy of business among policymakers has grown, as government seeks to curtail its role in the economy and to strengthen market-based incentives. For instance, many prescriptions

for labour market reform in recent years, discussed below, stress the importance of "flexibility" and of reducing labour market "rigidities" if Canada is to remain economically competitive. Reforms undertaken in the name of these goals have been more likely to advantage business than labour.

In this setting, business representatives generally prefer to use existing informal means of influencing policy, through the political party system and through conventional lobbying, rather than dilute this influence in formal bodies on which labour unions have an equal representation, and where other interests are represented that otherwise may rarely get a hearing. In addition, several aspects of labour market policy in recent years have offered to business specific conduits of influence that do not require it to share influence with labour or other interests.

The Canadian Jobs Strategy (CJS), launched in 1985, included measures that gave individual employers, or community-level committees typically dominated by them, considerable discretionary authority over the allocation of funds.<sup>48</sup> Many of these continued to exist after the LFDS was launched in 1989. With the CLFDB, Ottawa created a macro-level deliberative assembly that reflected the view that the societal bodies with a legitimate interest in labour market policy included labour on equal terms with business, as well as other interests. But it continued to administer measures at the local and intermediate level that relied largely on close and informal relationships between officials and businesses. This pattern remains very much in evidence regarding the five ALMP measures included in the 1996 EI legislation, which are discussed at greater length by McIntosh and Boychuk. One of these, wage subsidies, involves a direct relationship with employers; two others — job-creation partnerships and targeted earnings supplements — either grant individual or community-level businesses the opportunity to participate in sponsoring jobs, or make them the likely beneficiaries of subsidized employment. In those provinces that choose to administer these options under agreements with Ottawa, business will be offered the same privileged access to government programs.

Advocates of more formalized modes of societal representation, such as LFDBs and sector councils, argue that these foster job creation and skills formation that transcend the immediate and short-term needs of individual employers, and provide more durable advantages to workers and to the economy as a whole. But these mechanisms also imply a degree of labour market "regulation," that is, of constraint on the labour market prerogatives of firms. This is exactly what governments, desirous of being as market-friendly as possible, are now anxious to avoid. The tools with which government has pursued these

two agendas therefore undermine each other. Business is suspicious of handing authority to boards dominated by other interests; non-business interests are suspicious that existing micro-level initiatives, such as those in the new *Employment Insurance Act*, represent simple subsidies to employers. In the future, formalized bodies are more likely to succeed in provinces that have strong labour movements than they are in other provinces or at the federal level. But even in the former jurisdictions, the usual, and growing, predominance of business concerns in labour market policy-making makes it likely that employers will continue to prefer informal, and exclusive, means of exercising influence.

### THE ROLE OF PUBLIC OPINION

Canadians generally want government to foster job-related skills and to provide a positive climate for job creation. They often express impatience with government's record in fulfilling these responsibilities. Except in the area of youth education and employment, however, public opinion has not motivated governments to expand their spending in the labour market field in recent years. In fact, the trend has been in the opposite direction, and governments usually have not paid a steep price politically for cutting benefits. One possible reason for this is that the public's concern for employment is highly ambiguous in terms of its policy implications, and that it is less noticeable in response to open-ended survey questions than in reply to closed ones. Governments may calculate that they are well-advised to address other, more sustained and focused public concerns, such as health, in allocating scarce financial resources. Moreover, the abandonment of Keynesian economics by most policymakers has made active labour market measures less legitimate for them than they may be for ordinary citizens. Elite opinion in Canada is now less favourably disposed toward economic intervention than is the broader public. Each of these themes is expanded upon below.

A November 1995 public opinion poll by Ekos Research determined that "[l]abour market issues are at the forefront of the public's priority list: three of the top six priorities for the federal government are related to human investment: education, unemployment and job creation." Dissatisfaction with government's performance was also highest in this field: "four of the top five areas [deemed by respondents to be] in need of attention are related to labour market issues: job creation, unemployment, education and job training."<sup>49</sup> In November 1996, job training, unemployment, and job creation remained the three areas where respondents were most dissatisfied.<sup>50</sup>



This pattern would seem to call for an urgent governmental response. As McBride and Stoyko point out, Ottawa has responded to public opinion in the area of postsecondary education spending (student loans and scholarships), aware that "polls consistently show that Canadians have responded to anxieties over the global economy with an enhanced commitment to the value of a good education."<sup>51</sup> By contrast, governments are cutting measures more conventionally associated with labour market policy: training, job creation or passive income support. One reason for this may be that public support for government action in these areas is less clear-cut than it is regarding education. Open-ended survey questions about policy priorities, which allow respondents to identify these priorities themselves, do not reveal substantial interest in passive income support (welfare or Unemployment Insurance). Education, by contrast, does receive some attention (it was mentioned by 9 percent in January 1997 and by 17 percent the following November in one such survey by the Angus Reid group).

Admittedly, unemployment/jobs consistently has attracted the largest number of responses of any single category in the Angus Reid survey since 1993 — 38 percent identified this as their priority area in November 1997, and a further 21 percent identified "the economy in general."<sup>52</sup> But this does not necessarily imply strong public desire for more government spending to create skills and jobs. The same poll found that 67 percent of respondents did "not think that our federal government does a good job of spending taxpayers' money wisely."<sup>53</sup> It may be that respondents were as likely to support lower taxes and reduced regulation as panaceas for stimulating job growth, as they were to favour more spending on job creation or benefits for the unemployed. The survey data are simply not nearly as conclusive on this matter as they are regarding Canadians' robust support for public health insurance or student aid.

Canadian public opinion is also highly mixed, and of little direct consequence for what governments have done recently regarding the federal-provincial relationship in the labour market field. The November 1995 survey found that "Canadians believe that job creation should be shared almost equally between the federal government, the provinces and business ... Education is overwhelmingly believed to be a government domain, particularly [for] the provincial government ... Job training is shared equally between business and the provincial government; the federal government is assigned a relatively small role in this area." It also determined that "[a] large plurality (48 percent) worry that as the federal government withdraws [from] traditional programs and services our Canadian identity will be weakened.... Citizens are looking for real

change but this does not mean federal withdrawal.”<sup>54</sup> A July 1996 survey found that “the federal government is assigned a preferred role in areas of setting policies and goals and providing funding.”<sup>55</sup> The 1995 survey’s most striking finding was that “the majority of Quebecers (80-85 percent) favour a continued, ‘significant’ federal role in labour markets.”<sup>56</sup> It is unlikely, then, that mass opinion in Quebec, or elsewhere in Canada, played an important role in motivating Ottawa’s 1996 move to devolve much of its ALMP programming to the provinces. The views and conduct of political elites in the provincial and national capitals, discussed in Klassen’s case study, presumably motivated these changes.

Elite opinion also likely played a prominent role in motivating the significant reduction in passive support under the federal UI and provincial social assistance programs discussed by McIntosh and Boychuk. A study by Ekos Research Associates in 1995 found that private and public sector elites expressed much greater concern with “competitiveness” and “minimal government” (preferences that might motivate program cuts) than did the general public.<sup>57</sup> There is no reason to doubt that elite views — especially those of the ministerial and bureaucratic cadres who, as we have seen, dominate this policy sector — will continue to be more important than mass opinion in shaping future labour market policy.

## CANADA’S EVOLVING LABOUR MARKET: WHAT IS HAPPENING AND WHY

As Canadian labour market policy has evolved recently, so has the labour market itself; changes in the former, moreover, are increasingly likely to have a significant impact on the latter. Since 1980, unemployment has remained widespread. Earned income inequality also increased after that date according to some measures, and only the relative generosity (by American standards) of Canada’s tax and transfer system in the past prevented this from being translated into growing inequality of final incomes. Cuts in this tax and transfer system during the 1990s likely will result in growing inequality of final income in the future. These aggregate patterns also hide important variations in labour market outcomes based on gender and age.

Canada has long experienced much higher rates of unemployment than the United States, though it now outperforms many European nations in this respect. Unemployment averaged 10.1 percent between 1990 and 1996, after averaging 9.4 percent in the 1980s (compared with 5 percent and 6.7 percent

in the 1960s and 1970s respectively). After a period of sustained growth during the 1990s, the rate fell to 7.5 percent in 1999. The labour market participation rate fell by 0.56 percent annually between 1989 and 1996, after growing only modestly during the 1980s.<sup>58</sup> Several factors likely account for persistently high unemployment. Education has become more important in securing and keeping employment. Persons with a high school education or less have experienced increasing bouts of relatively long-term unemployment. Nevertheless, a similar premium on education has not resulted in such high unemployment rates in the United States. A second factor is therefore often cited to explain this discrepancy: Canada's relatively generous social benefits — above all Unemployment Insurance and social assistance — in the past created a disincentive for many unskilled Canadian workers to take up low-wage employment that their American counterparts would accept.<sup>59</sup> If this is true, the significant curtailments in Canada's UI (now Employment Insurance or EI) program since 1990 and recent cuts in assistance benefits in many provinces (discussed in the McIntosh and Boychuk chapter), should lower unemployment rates among poorly educated workers. For many observers, though, insufficient demand for labour, and a lack of macroeconomic policies to create this demand, must also be counted among the causes of high unemployment.<sup>60</sup>

There is now an extensive body of research regarding inequality of income in Canada. Research published between the late 1980s and 1995 suggests that the distribution of earned income, both for individuals and for families, became significantly more unequal during the early- to mid-1980s.<sup>61</sup> Recently published research indicates that inequality of individual earned income has not continued to grow since the late 1980s.<sup>62</sup> This relative stasis of earned individual income is a distinctive feature of the Canadian labour market and it runs counter to evidence in most other developed economies that such income is distributed significantly less equally today than it was 15 or 20 years ago. But aggregate stability hides a number of "offsetting trends": "Inequality increased significantly among male workers, among all full-time workers, and in the entire male working-age population. However, it fell among female workers, and in particular among the female working-age population, as the proportion of women working rose throughout the 1980s."<sup>63</sup> Family earned income, moreover, became more unequal between 1981 and 1993, according to Zybblock and Tyrrell.<sup>64</sup> One likely explanation for this change, according to these authors, is that "similar individuals, in terms of income levels, [might now] be more likely to form a family than in the past." This would "create a

greater concentration of families by income: rich families comprised of rich partners and poor families comprised of poor partners.<sup>65</sup>

Canada's record has been more clearly positive regarding final income (i.e., income after taxes are deducted from, and government transfers added to, earned income). By one standard measure of inequality (the Gini index) Canadians' final family incomes were not more unequal in 1995 than they were in 1979.<sup>66</sup> That Canadians' final incomes have not become more unequal, while earned incomes to a degree have, suggests that Canada's welfare state has played an important compensatory and redistributive role. Taxes and social transfers have cancelled out the impact of growing inequality of individuals' and families' earning power in the marketplace. But the mid-1990s cuts in EI and social assistance benefits, and the tax cuts associated with them in some provinces, may substantially reduce this compensatory effect.

Evidence of this is already apparent in poverty rates. In the wake of a major recession, the poverty rate for all persons rose from 13.6 percent in 1989 to 17.4 percent in 1993. However, rather than falling again when economic growth resumed, the rate remained at this higher level well into a new period of economic growth — it was 17.6 percent in 1996.<sup>67</sup> Here too, aggregate trends hide substantial variations in poverty rates for different demographic categories. In 1996, female, single parents experienced a poverty rate of 61.4 percent; 11.9 percent of non-elderly couples with children were poor; as were 10.3 percent of non-elderly childless couples; and 8.6 percent of elderly couples.<sup>68</sup>

What then determines where a particular individual or family ends up on the income ladder? Education plays an important role. University and college graduates are much more amply rewarded than persons with a high school education or less. Unlike the US; however, the earnings differential between well- and poorly educated workers has grown only modestly since 1980. This is mainly because well-educated workers have become a much larger proportion of the Canadian labour market. In effect, a probable secular increase in the education premium (greater demand for well-educated workers over poorly educated ones) has been partly offset by a rapid increase in the supply of well-educated workers.<sup>69</sup>

There is also a generational aspect to these developments: to a much greater extent than in the US, young Canadian workers are experiencing declining relative incomes. This is despite their relatively high levels of education. One of the most vulnerable demographic cohorts, therefore, is young, poorly educated workers. Because they suffer from two of the current labour market's

leading penalties — a poor education and a lack of employment experience — this group incurs very high levels of unemployment and of low income.<sup>70</sup>

### WHAT SHOULD BE DONE?

Public policy can approach the labour market from either the demand or the supply side. For many economists, an adequate response to high unemployment must include macroeconomic measures designed to stimulate employment. According to Keynesian economic theory, expansionary monetary and stimulative fiscal policies foster job creation; and the most poorly paid benefit most from a tighter labour market. But as Beach and Slotsve point out, Canadian labour market initiatives in recent years have concentrated almost entirely on supply-side remedies.<sup>71</sup> This section therefore concentrates on the leading supply-side remedies that have been proposed recently, in Canada and abroad, to the labour market maladies reviewed in the previous section.

Limited education and work experience are, as we have seen, increasingly being penalized in the labour market. Consequently, there is a near-consensus among labour market observers that improved ALMP initiatives are crucial. These include measures designed to improve the literacy and skills of the poorly educated, and of those with redundant skills, and to provide work experience for the young and the long-term unemployed (recent Canadian responses to these ideas are discussed in the McBride and Stoyko chapter). A second and related theme in recent policy discussions has been the need to transfer more of government's labour market spending to ALMP from PLMP measures (an issue explored by McIntosh and Boychuk). Besides making more money available for active measures, such a transfer would reduce the harm caused by passive measures that discourage unemployed persons from accepting available employment. A third perspective which is now receiving attention is the view that labour markets must be "deregulated" — that is, that putative impediments to the efficient functioning of the laws of supply and demand for labour should be removed. These include: high payroll taxes, rules that restrict the hiring and firing of employees, overly intrusive regulations regarding hours of work, centralized industrial relations regimes (which prevent wages from reflecting local variations in working conditions and skills), and excessive minimum wage standards.

There is, however, considerable disagreement among observers regarding the appropriate mix of measures to include in this redesign of labour market policy. Mainstream (or neo-classical) economists and political conservatives

tend to stress the deleterious consequences of ample passive measures, and the need to reduce these benefits sharply. They are also ambivalent about the value of training, especially if it is not addressed directly to the existing needs of employers and they prefer measures that, like wage subsidies, facilitate immediate re-insertion of the jobless into the labour market. They are often willing to consider compulsory measures to induce the recipients of passive measures to take up active alternatives. Finally, they often see a curtailment of legal protection for labour unions and the lowering of minimum wages as an important part of a deregulation agenda.

Social democratic and (reform) liberal critics of this perspective warn of the debilitating consequences of inadequate passive income support on the long-term potential value of recipients' work (or that of their children). They prefer positive inducements for recipients to take up active alternatives and they emphasize the time and expense required to provide poorly prepared recipients with the aptitudes needed to re-enter the labour market successfully. They also dispute orthodox claims about labour unions and minimum wages, suggesting that these can enhance labour market efficiency, as well as equity.<sup>72</sup>

These two tendencies are unequally represented in current policy debates in Canada. In a straightened fiscal setting, and the increasingly business-oriented climate alluded to earlier in this chapter, most policy reform proposals in Canada in recent years have been heavily indebted to the conservative version of this agenda. As McIntosh and Boychuk observe, Lloyd Axworthy's *Agenda: Jobs and Growth*, which launched his abortive Social Security Review in 1994, proposed more cuts in passive measures than extensions of active ones. The most common reforms of social assistance at the provincial level have had a similarly conservative texture.

Regardless of other disagreements, proponents of both tendencies agree on the need for more effective active measures. "In particular," Riddell has suggested, referring to the Canadian policy consensus, "the combination of training and work experience, involvement of the private sector in decisions and training and the availability of employment opportunities appear to be factors that make training more likely to be effective."<sup>73</sup> A recent survey by the Organization for Economic Cooperation and Development (OECD) summarizes the findings of numerous studies that assessed the effectiveness of different active programs.

The most valuable measures offer recipients a direct attachment to the labour market. These include: job-search assistance, wage subsidies, and aid to help unemployed persons start an enterprise. Formal training is most likely

to succeed when provided on-the-job. Formal classroom training is less valuable, unless its recipients are carefully screened to determine their suitability, and unless the skills imparted are clearly in short supply in the labour market. Public sector job creation is judged to be a failure. Moreover, none of these measures were found to be adequate to address the needs of young people. The survey concluded that "relatively intensive and costly programs may be needed for youths," and that these should concentrate on providing basic educational upgrading (literacy and numeracy skills), as well as conventional active measures.<sup>74</sup> In view of the especially problematic labour market position of Canadian youth, this recommendation is particularly relevant to Canada.

### WHAT HAS BEEN DONE?

During the 1990s, federal and provincial governments in Canada implemented part of the policy agenda described above; these changes leaned strongly toward the agenda's conservative variant. Developments in three crucial areas are treated in this volume's case studies. This section briefly describes the broad policy trajectory of which the developments examined in the case studies are part.

Federal and provincial governments have both been active in the labour market field for many years, but as Klassen indicates, the federal role has recently been strongly contested by some provinces, especially Quebec. Constitutionally, the federal role reflects its responsibility for macroeconomic policy, and is backed by its spending power. During the postwar years, Ottawa's role in PLMP and ALMP consisted of: administering the (Un)employment Insurance program; funding training and other active measures in the provinces; and sharing the costs of provincial social assistance and social services for employable and disabled persons. In addition, Ottawa has also been responsible for labour market policy for Aboriginal people. The provinces have contributed: their network of vocational colleges; additional spending on training programs; and the administration and part of the financing of social assistance and related services.

#### *Policy Change in the Federal Arena*

Historically, Ottawa has expended much more on passive measures than on active ones. This pattern is common throughout the OECD, except in Sweden

and Norway. Unemployment Insurance benefits were Ottawa's largest target for passive spending, while its largest active expenditures were for training purchases from the federal Consolidated Revenue Fund (CRF), and for its share of benefits under the Vocational Rehabilitation of Disabled Persons program. During the 1970s, Ottawa also began to expend a small part of its UI revenues on active measures (developmental uses). In 1990-91, the cost of passive UI benefits far exceeded that of these three active measures.<sup>75</sup> The other major federal contribution to labour market expenditures at that time — its sharing of provincial assistance costs under the Canada Assistance Plan (CAP) — cannot readily be disaggregated into active and passive labour market, and non-labour market, components, based on available data. But here too the balance is likely to have leaned heavily toward passive expenditures.<sup>76</sup>

During the 1990s, Ottawa made important changes in its labour market programs. In several stages, described in detail by McIntosh and Boychuk, it reduced substantially the generosity of its UI benefits scheme, renaming it the Employment Insurance in 1996.<sup>77</sup> In constant (1986) dollars, Ottawa expended \$9,350 on UI benefits per unemployed person during 1990; the comparable figure for 1996-97 was \$5,907.<sup>78</sup> Meanwhile, it extended significantly its use of the UI/EI fund to finance active measures. But Ottawa is cutting its funding of active measures from the CRF at about the same pace as it is extending such funding from the EI account. Consequently, its overall financial commitment to active measures will be about the same at the turn of the millennium as it was when the Liberals came to power in 1993.<sup>79</sup>

The main objective of the cuts in passive benefits was to help reduce Ottawa's substantial budgetary deficit. A *21st Century Employment System for Canada*, in which Ottawa described the reforms, nevertheless used many of the specific arguments that form part of the conservative variant of the reform agenda described above, especially a need to reduce work disincentives, to justify the reductions.<sup>80</sup> Again responding to the deficit imperative, Ottawa also terminated the Canada Assistance Plan in 1996. The monies previously expended under this program, whose costs had been shared on a 50-50 basis with the provinces until 1990, were combined with block funds for health and postsecondary education in a new block grant called the Canada Health and Social Transfer (CHST). The combined total of expenditures for these three fields was expected to fall by \$4.6 billion between 1995-96 and 1997-98. However, Ottawa restored a significant part of this money to the CHST in its 1998 and 1999 budgets.



Ottawa has long been criticized for delivering passive benefits in the guise of active ones, especially in the country's poorer regions.<sup>81</sup> This pattern continued during the 1990s, with The Atlantic Groundfish Strategy (TAGS) and the Transitional Jobs Fund (now the Canada Jobs Fund). The former was designed to provide re-employment assistance and income support to fishers displaced by the collapse of the cod fishery. The latter targets high unemployment regions for special job-creation initiatives to compensate them for income support benefits that were lost when the more restrictive EI legislation was passed in 1996.<sup>82</sup>

Federal labour market officials have nevertheless recently made significant efforts to refocus their ALMP measures in line with the conservative prescriptions discussed in the previous section. The 1996 *Employment Insurance Act* reorganized EI-funded ALMP expenditures into five categories. Four of these are designed to steer recipients directly into the workforce. Only the fifth, *Skills Loans and Grants*, envisages assisting individuals who are acquiring new skills in an educational institution. This is all that remains of Ottawa's erstwhile commitment to financing institutional training, whose relevance to the labour market has, as we have seen, frequently been called into question. Ottawa's CRF-funded ALMP expenditures, moreover, are now being focused on youth, a demographic segment that is having particular difficulty succeeding in the current labour market. Ottawa has also made significant new forays into the field of student assistance, by increasing funding for student aid and by launching a Millennium Scholarship Fund — measures mainly addressed to the needs of youth.

In any case, in the wake of devolution agreements with nine provinces, signed between December 1996 and early 1998, the federal role in defining the objectives of EI-funded ALMP programs will be reduced significantly. Only Ontario has not yet signed such an agreement. The agreements transfer the administration of most EI-funded ALMP funds to the provinces. As Klassen argues in his chapter, most observers believe that the terms of the agreements are such as to grant considerable discretion in the design and delivery of program funds to the provinces.<sup>83</sup>

In the wake of these changes, Ottawa's future role in this sector will be fairly modest. Its CRF-funded ALMP spending will remain significant only for youth, Aboriginal people, and the disabled. Its most substantial ongoing role of relevance to the labour market (but not usually called "labour market policy") will be in the area of student assistance. But here too its role is challenged by Quebec and, sometimes, by other provinces. Ottawa will remain

active in PLMP through its control of income support payments from the EI fund (though here too Quebec is seeking a transfer of responsibility to the province), but ALMP will increasingly be controlled by the provinces.

### *Developments in the Provincial Arena*

Historically, provincial labour market measures have also been predominantly passive in orientation, and have been administered in welfare or community services ministries. The more limited resources made available to active measures have mostly been used to support classroom training in community colleges. Until recently, provincial community colleges have often benefited from a close relationship with the provincial educational bureaucracies that oversaw them, which helped perpetuate this situation.<sup>84</sup> In 1994-95, the provinces expended \$14.9 billion on social assistance income support and related services, including their share of CAP-financed measures (\$7.9 billion) and other assistance measures that were not cost-shared under federal legislation (\$7 billion). Far more of the CAP money was used to support passive income assistance than to finance rehabilitative services and it is likely that the same is true with respect to the non-cost-shared provincial spending.<sup>85</sup> With respect to active measures, at mid-decade institutional ALMP also continued to predominate over non-institutional alternatives.<sup>86</sup>

Like Ottawa, however, most provinces have moved their labour market programs in a more active direction during the 1990s. Community colleges were forced to become more sensitive to market needs, because private sector actors were granted more discretion regarding the expenditures of public training and because private trainers are now receiving a larger share of training budgets. Provinces have also modernized their apprenticeship and skills certification procedures. In the case of the "red seal" skills certification process, most provinces have affirmed a desire to promote more of these interprovincially recognized standards for skills certification.

But the most extensive reforms have been made to provincial social assistance regimes. This is not surprising, given the costs of these programs to the provinces in a time of fiscal restraint. The purpose of these reforms has generally been to make assistance programs more of a support for, rather than a barrier to, their recipients making a transition into the labour market. In pursuing this goal, social democrats stress the importance of providing adequate passive support for those who remain on assistance, while offering employment and training opportunities to those who can benefit from them. More

conservative options seek to reduce work disincentives by cutting benefits and by increasing the scrutiny of case files. Workfare — the requirement that work be performed in exchange for assistance benefits — is also favoured by conservative commentators and politicians.

Considering the fiscal constraints that most provinces have faced during the 1990s, and the increasingly business-oriented atmosphere during these years, it is not surprising that most assistance reforms during the 1990s have reflected the conservative variant. Overall, according to a recent National Council of Welfare study, while rates improved for 8 of 12 reported categories of recipients between 1986 and 1992, they fell for 10 of the 12 categories between 1986 and 1992.<sup>87</sup> Moreover, Ontario has introduced a workfare program, and Alberta tightened eligibility rules substantially. Both provinces were rewarded with sharp reductions in their welfare caseload, although there is some dispute as to what has happened to those individuals no longer receiving benefits. Governments in these provinces argue that those leaving assistance have mostly returned to the workforce, but their critics dispute this claim.<sup>88</sup>

Some provinces have experimented with measures that rely less on benefit restrictions, and more on enhanced services and financial incentives to facilitate a return to the labour market. A modest example is BC Benefits, introduced in British Columbia in 1996, which includes an income supplement and additional dental and vision care measures for low-income working families with children. Ontario introduced the Support to Employment Program (STEP) in 1989 which provided an income supplement to persons moving from welfare to work. Ontario then introduced JobLink in 1993 to direct recipients toward training and job placement services.<sup>89</sup> The modest scope of these social democratic reforms in British Columbia and Ontario points to an important obstacle to this reform model: effective active measures that do not rely on substantially curtailing passive support are likely to be very expensive. On the other hand, recent assistance benefit cuts in many provinces, along with the EI reductions, have been blamed for the persistently high poverty rates in Canada in the mid-1990s which were discussed in the previous section. Debates about the respective merits of these competing conservative and social democratic approaches to social assistance reform are likely to continue as the provincial role in the labour market field increases.

If the policy-making environment for labour market policy is becoming more favourable for business and less so for labour, has this been reflected in labour market regulation (i.e., in such areas as industrial relations, workers' compensation, and minimum wage legislation)? The evidence here is mixed.

Swimmer's recent review of provincial industrial relations law notes an increasingly restrictive approach to public sector wage bargaining, with governments resorting to back-to-work legislation to settle disputes with their employees. But he did not identify such a trend regarding private sector bargaining, and predicts for the future "a continuation of the current scenario."<sup>90</sup> Stoyko's review of federal industrial relations law also did not report a drift toward a more restrictive stance during the Chrétien government's first term.<sup>91</sup> But other observers paint a more consistently negative picture of the impact of changes in industrial relations law on unions during the past 15 years. Panitch and Swartz suggest that since the 1980s there has been a noticeable contraction of the rights of labour unions, and a championing of the rights of employers, both private and public.<sup>92</sup> McIntosh's research also indicates that starting in the early 1980s both federal and provincial governments have frequently used legislation to restrict public sector union collective bargaining rights, and to curtail wages and benefits. If the Chrétien administration has not curtailed the bargaining rights of public sector unions even further, neither did it move quickly to relax restrictions introduced before it came to power. Full collective bargaining rights were not restored to the federal public sector until 1997. Moreover, there was a tendency for concessionary collective bargaining to spill over into the private sector, though with less pervasiveness and intensity.<sup>93</sup>

Card and Freeman note that unionization levels have remained relatively high in Canada, while they collapsed in the US during the past three decades; they suggest that a less union-hostile labour relations regime in Canada largely accounts for this difference.<sup>94</sup> However, McIntosh has pointed out that Canadian unions are much stronger in the public sector than in the private sector. This continued public sector strength largely explains why overall unionization levels are now much higher in Canada than in the US. "In the growing sectors of the economy, such as financial services, and in much of the low-wage service sector, the labour movement barely registers on the radar."<sup>95</sup>

A drift to a more restrictive, market-oriented pattern is even more apparent regarding minimum wages. Governments across Canada have allowed these to fall substantially during the past two decades. The most dramatic decline was experienced in the federal minimum wage, which fell from 106 percent of the National Council of Welfare poverty line in 1976 to 55 percent in 1992. In relation to the poverty line, minimum wage rates also fell in every province. They had ranged from 96 percent in Ontario to 111 percent in British Columbia in 1976; in 1992, they ranged from 67 percent of the poverty line in Alberta to 83 percent in Ontario.<sup>96</sup>

## CONCLUSION

The first three sections of this chapter examined the constellation of forces that shape labour market policy in Canada. Within government, it argued that ministers and their bureaucratic advisors have predominated in the field, at the expense of legislatures and quasi-governmental advisory bodies. Relations between government and societal interests, moreover, typically are unorganized and based on informal lobbying and on micro-level relationships. Business has long benefited from this pluralist system of interest intermediation in Canada, and it is especially likely to do so now, when economic and ideological change in Canada and abroad is making its interests—especially legitimate in the eyes of policymakers. Public opinion has not, for the most part, been a determinant of new policy initiatives. In this context, the greatest change in the policy-making setting has been that Ottawa has retreated to a degree from the ALMP field, ceding to the provinces considerable authority over federal spending; executive and bureaucratic actors in the provinces have assumed responsibilities previously exercised by their counterparts in Ottawa.

But there are exceptions to each of these patterns. MPs have long used labour market measures to secure electoral support in their home ridings. This influence has contributed to the robustness of passive labour market initiatives in Canada and it now serves as a break in the development of more active alternatives. This is despite the fact that the latter are clearly preferred by ministerial and bureaucratic elites. While more often ignored than followed, the advice of quasi-governmental committees has occasionally been influential in the past, and may be more so in the future. Formal mechanisms for bringing the views of organized labour and of equity groups, as well as those of business, into the policy-making process have abounded during the 1990s, but these have had a very chequered record of success, and have often been resisted by ministers and bureaucrats. Experiments such as the various labour force development boards have also been regarded with scepticism by business interests, which are often satisfied with existing informal channels of influence. Still, there are noteworthy examples of success among these neo-corporatist bodies, and they have reasonably good future prospects at the sector and local level, and in jurisdictions where organized labour is particularly influential. Public opinion, finally, has motivated recent initiatives where it has mobilized behind a particular policy option, such as subsidizing education and employment opportunities for young people.

The chapter's second half discussed the evolving nature of Canada's labour market, and reviewed the main policy proposals that have emerged and the reforms that have transpired during the 1990s. Other than among the legislators from poorer regions, alluded to above, there is a broad consensus among students of the field that active labour measures are preferable to passive ones, and that where possible discretionary expenditures should be allocated to the former, not the latter. There is also agreement that business must not be subject to an unnecessary regulatory burden in the labour market. There is disagreement among informed observers, however, about the advisability of significantly reducing passive benefits, and on the likely effectiveness of specific programs. There is also disagreement about whether deregulatory initiatives should include the reduction of union rights, the lowering of minimum wages and the curtailment of workers' compensation and occupational health and safety regimes. In each of these areas, though, broadly conservative views have become more prominent in recent years.

In keeping with this conservative variant of the new consensus, federal and provincial governments in Canada now promote active measures over passive ones, and have attempted to make active measures more responsive to market needs. Passive expenditures still predominate, and they are supported by influential, legislatively-based political interests, but they have been cut significantly during the 1990s. In the context of budgetary constraints, incremental resources for active measures have been modest, and spending on active measures has been sustained largely from funds freed up by cuts in passive provision. Industrial relations and minimum wage legislation have also been adjusted in a business-friendly manner, although this trend is more consistent regarding the latter than the former.

The three case studies that follow this chapter explore in impressive detail the most important of these recent changes in Canadian labour market policy in the 1990s. They also examine more fully than was possible here the dynamics of policy-making in the sector. McIntosh and Boychuk analyze the evolution of the main passive labour market programs — federal Employment Insurance and provincial social assistance. After a detailed review of the history of these programs, they document the considerable curtailment of these benefits in recent years. As a result of these cuts, they suggest, it is likely that a gap has opened up between federal EI and provincial assistance, exposing many Canadians to very low incomes without the prospect of claiming benefits from either program. The extent of this gap, however, cannot be determined

without further research. In keeping with the norm described in this chapter, McIntosh and Boychuk's evidence strongly suggests that recent changes in passive measures have been guided by executive and bureaucratic actors at both levels of government.

Klassen's case study examines recent changes in active labour market measures, and describes in detail the complex relationship between the federal and provincial governments in this field; this relationship changed fundamentally with the signing of labour market development agreements (LMDAs) between Ottawa and all but one of the provinces. As we have seen, active measures have not been subject to the kind of wide-ranging cuts that passive programs experienced in recent years. Consequently, the implications of the sheer intricacy of this intergovernmental relationship is the major focus of Klassen's study. Again directed mainly by federal and, increasingly, provincial executives, this federal-provincial nexus is subject to very little democratic oversight by legislatures and other mechanisms of societal representation, such as the private sector boards reviewed earlier.

McBride and Stoyko's study of youth initiatives suggests an equally complex federal-provincial dynamic. Labour market programs for young people differ significantly among jurisdictions, and the intergovernmental relationship varies considerably from one province to the next. While both levels of government have launched new initiatives for youth in recent years, these authors suggest that these steps reflect — rather than contradict — the generally conservative drift of policy change in the labour market sector. As Keynesian macroeconomic policies were abandoned in the 1980s, modest supply-side initiatives directed at young people became the preferred alternative. Most of the new measures that they describe are designed to encourage a rapid return to employment, as the conservative reform variant described earlier prefers, rather than providing more extensive, and expensive, pre-employment training. Here again, executives in Ottawa and the provincial capitals have guided the policy change.

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NOTES

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<sup>1</sup>Leon Muszynski, "The Politics of Labour Market Policy," in *The Politics of Economic Policy*, ed. G.B. Doern (Toronto: University of Toronto Press, 1985), p. 251.

<sup>2</sup>Organization for Economic Cooperation and Development, *The OECD Jobs Study: Facts, Analysis, Strategies* (Paris: OECD, 1994), n.p.

<sup>3</sup>Michael Atkinson, "Parliamentary Government in Canada," in *Canadian Politics in the 1990s*, ed. M. Whittington and G. Williams (Toronto: Nelson, 1995), pp. 372-76.

<sup>4</sup>G. White, "Comparing Political Legislatures," in *Provinces*, ed. C. Dunn (Peterborough, ON: Broadview Press, 1996), p. 107.

<sup>5</sup>Richard Simeon, *Federal-Provincial Diplomacy* (Toronto: University of Toronto Press, 1972), pp. 279-80.

<sup>6</sup>C. McFadyen, "State, Society and the Development of Active Labour Market Policy in Canada" (PhD dissertation, University of Toronto, 1994), p. 265.

<sup>7</sup>Leslie Pal, *State, Class and Bureaucracy: Canadian Unemployment Insurance and Public Policy* (Montreal: McGill-Queen's University Press, 1988), ch. 5.

<sup>8</sup>Muszynski, "The Politics of Labour Market Policy," p. 280.

<sup>9</sup>Canada, *The History of Unemployment Insurance* (Ottawa: Human Resources Development Canada), n.p.

<sup>10</sup>Rianne Mahon, "Adjusting to Win? The New Tory Training Initiative," in *How Ottawa Spends, 1990-91*, ed. K. Graham (Ottawa: Carleton University Press, 1990), pp. 73-74.

<sup>11</sup>Herman Bakvis, "Shrinking the House of 'HRIF': Program Review and the Department of Human Resources Development," in *How Ottawa Spends, 1996-97*, ed. G. Swimmer (Ottawa: Carleton University Press, 1996), p. 141.

<sup>12</sup>Canada. Parliament. House of Commons. *Ensuring Access: Assistance for Post-Secondary Students* (Ottawa: Supply and Services Canada, 1997).

<sup>13</sup>Rand Dyck, *Poverty and Policy-Making in the 1960s: The Canada Assistance Plan* (PhD dissertation, Queen's University, 1973), pp. 64-81.

<sup>14</sup>Leslie Bella, "The Administrator's Contribution to Alberta's Provincial Welfare State," unpublished manuscript, pp. 27-30.

<sup>15</sup>Stefan Dupré et al., *Federalism and Policy Development: The Case of Adult Occupational Training in Ontario* (Toronto: University of Toronto Press, 1973).

<sup>16</sup>Rodney Haddow and Andrew Sharpe, "Canada's Experiment with Labour Force Development Boards: An Introduction," and "Labour Force Development Boards: A Viable Model?" in *Social Partnerships for Training*, ed. A. Sharpe and R. Haddow (Kingston: School of Policy Studies, Queen's University, 1997).



<sup>17</sup>J. Bickerton, *Nova Scotia, Ottawa and the Politics of Regional Development* (Toronto: University of Toronto Press, 1990), p. 265.

<sup>18</sup>Leslie Pal, *State, Class and Bureaucracy: Canadian Unemployment Insurance and Public Policy* (Montreal: McGill-Queen's University Press), p. 165.

<sup>19</sup>Muszynski, "The Politics of Labour Market Policy," p. 270.

<sup>20</sup>*Ibid.*, p. 288.

<sup>21</sup>Bakvis, "'Shrinking the House of HRIF,'" p. 147.

<sup>22</sup>*Ibid.*, pp. 152, 162.

<sup>23</sup>Pal, *State, Class and Bureaucracy*, p. 75.

<sup>24</sup>Muszynski, "The Politics of Labour Market Policy," p. 280; S. McBride, *Not Working* (Toronto: University of Toronto Press, 1992), p. 134.

<sup>25</sup>Canada. *The History of Unemployment Insurance*, n.p.

<sup>26</sup>National Council of Welfare, *Another Look at Welfare Reform* (Ottawa: Supply and Services Canada, 1997), pp. 12-13.

<sup>27</sup>Ontario. Social Assistance Review Committee. *Transitions* (Toronto: Queen's Printer, 1988).

<sup>28</sup>National Council of Welfare, *Another Look at Welfare Reform*, p. 51.

<sup>29</sup>Ontario. Advisory Group on New Social Assistance Legislation, *Time for Action* (Toronto: Queen's Printer, 1992), pp. 179-201.

<sup>30</sup>National Council of Welfare, *Another Look at Welfare Reform*, pp. 60-65.

<sup>31</sup>Quebec. *Pour un régime équitable axé sur l'emploi. Résumé. Rapport soumis à la ministre de la Sécurité du revenu*, by Pierre Fortin and Francine Séguin (Quebec: 1996), p. 5.

<sup>32</sup>Quebec. *Chacun sa part. Rapport de trois membres du Comité externe de réforme de la sécurité du revenu*, by Camil Bouchard, Vivian Labrie and Alain Noël (Quebec, 1996), pp. 5-6.

<sup>33</sup>Quebec. "Le projet de loi: le fruit d'une démarche concertée," news release, 18 December 1997.

<sup>34</sup>National Council of Welfare, *Another Look at Welfare Reform*, p. 47.

<sup>35</sup>Pal, *State, Class and Bureaucracy*, pp. 40-41.

<sup>36</sup>*Ibid.*, p. 122.

<sup>37</sup>*Ibid.*, p. 132.

<sup>38</sup>Canada. Parliament. Bill C-12, *An Act Respecting Employment Insurance in Canada*, 1996: sec. 3.

<sup>39</sup>Haddow and Sharpe, "Canada's Experiment with Labour Force Development Boards," pp. 4-5.

<sup>40</sup>Haddow and Sharpe, "Labour Force Development Boards: A Viable Model?" pp. 297-307.

<sup>41</sup>Rodney Haddow, "Reforming Labour Market Policy Governance," *Canadian Public Administration* 41, 3 (1998):343-68.

<sup>42</sup>Andrew Sharpe, *Sector Councils in Canada: Future Challenges* (Ottawa: Centre for the Study of Living Standards, 1996), pp. 49-50.

<sup>43</sup>David Johnson, "Regulatory Agencies and Accountability: An Ontario Perspective," *Canadian Public Administration* 34, 3 (1991):430-34.

<sup>44</sup>D. Drache and H. Glasbeek, *The Changing Workplace* (Toronto: Lorimer, 1992), p. 51.

<sup>45</sup>*Ibid.*, ch. 4.

<sup>46</sup>*Ibid.*, p. 63.

<sup>47</sup>Gene Swimmer, "Provincial Policies Concerning Collective Bargaining," in *Provinces*, ed. Dunn, pp. 375-76.

<sup>48</sup>Rodney Haddow, "Federalism and Training Policy in Canada," in *New Trends in Canadian Federalism*, ed. F. Rocher and M. Smith (Peterborough, ON: Broadview Press, 1995), pp. 345-47.

<sup>49</sup>Ekos Research Associates, *Rethinking Government* (Toronto: Ekos Research Associates, 1995), p. 33.

<sup>50</sup>*Ibid.* (November 1996), p. v.

<sup>51</sup>*The Globe and Mail*, 16 October 1997, p. A4.

<sup>52</sup>Angus Reid Group, *Press Release*, 6 December 1997.

<sup>53</sup>*Ibid.*, 9 December 1997.

<sup>54</sup>Ekos, *Rethinking Government* (November 1995), pp. viii, 33, 35.

<sup>55</sup>*Ibid.* (July 1996), p. xvi.

<sup>56</sup>*Ibid.* (November 1995), p. 41.

<sup>57</sup>Reported in Keith G. Banting, "Social Policy," in *Border Crossings*, ed. G.B. Doern *et al.* (Toronto: Oxford University Press, 1996), p. 39.

<sup>58</sup>Andrew Sharpe and Rodney Haddow, "Labour Market Corporatism and Labour Market Performance," in *Social Partnerships for Training*, ed. Sharpe and Haddow, pp. 26-27.

<sup>59</sup>This view became popular in Human Resources Development Canada Department (HRDC) during the 1990s. Departmental research briefs which argued that relatively generous UI benefits would increase the UI caseload included C. Kapsalis, *Social Assistance Benefit Rates and the Employment Rate of Lone Mothers* (Ottawa: Human Resources Development Canada, 1996); and P. Crémieux *et al.*, *The Impact of Unemployment Insurance on Wages, Search Intensity and the Probability of Re-employment* (Ottawa: Human Resources Development Canada, 1996). Another study for the department agreed that more generous UI in Canada contributed to higher unemployment rates than those found in the US, but also stressed the importance of other factors; see Andrew Sharpe, *The Canada-US Unemployment Rate Gap* (Ottawa: Human Resources Development Canada, 1996).

<sup>60</sup>See, for instance, R. Eisner, "Our NAIRU Limit," *The American Prospect* 21(1995):58-64.

<sup>61</sup>Rene Morissette *et al.*, "Earnings Polarization in Canada, 1969-1991," in *Labour Market Polarization and Social Policy Reform*, ed. K. Banting and C. Beach (Kingston: School of Policy Studies, Queen's University, 1995).

<sup>62</sup>Garnet Picot, "What is Happening to Earnings Inequality?" *Canadian Business Economics* 5, 1(1997):65.

<sup>63</sup>*Ibid.*, p. 74.

<sup>64</sup>M. Zyblock and I. Tyrell, "Decomposing Family Income Inequality in Canada, 1981-93," *Canadian Business Economics* 5, 1(1997):108-19.

<sup>65</sup>*Ibid.*, p. 113.

<sup>66</sup>P. Gottschalk and T. Smeeding, "Empirical Evidence on Income Inequality in Industrialized Countries," paper prepared for the Luxembourg Income Study, February 1997, Figure 5.

<sup>67</sup>National Council of Welfare, *Poverty Profile 1996* (Ottawa: Supply and Services Canada, 1998), p. 1.

<sup>68</sup>*Ibid.*, p. 18.

<sup>69</sup>W. Craig Riddell, "Human Capital Formation in Canada," in *Labour Market Polarization and Social Policy Reform*, ed. Banting and Beach, pp. 135-37.

<sup>70</sup>Morissette *et al.*, "Earnings Polarization in Canada, 1969-1991," pp. 41-42.

<sup>71</sup>Charles Beach and George Slotsve, *Are We Becoming Two Societies?* (Toronto: C. D. Howe Institute, 1996), p. 127.

<sup>72</sup>Each tendency referred to here is an "ideal type," not necessarily reflected in any one particular author or school of thought. Popular versions of the social democratic options include R. Reich, *The Wealth of Nations* (New York: Vintage Books, 1991); W. Hutton, *The State We're In* (London: Vintage, 1995); and Ontario. Social Assistance Review Committee, *Transitions*. Charles Murray offers a popular version of the conservative view, with specific reference to its implications for social assistance policy: see *Losing Ground* (New York: Basic Books, 1995). The Organization for Economic Cooperation and Development increasingly has leaned toward the more conservative approach in recent years: see *Implementing the OECD Jobs Strategy*. This has also been the case at Human Resources Development Canada: see note 59.

<sup>73</sup>Riddell, "Human Capital Formation in Canada," p. 164.

<sup>74</sup>R. Fay, *Enhancing the Effectiveness of Active Labour Market Policies*, OECD Labour Market and Social Policy Occasional Papers No. 18 (Paris: OECD, 1996), pp. 27-29.

<sup>75</sup>This calculation is based on data from the following sources. For 1990-01: Canada. Human Resources Development Canada, *Social Security Statistics. Canada and the Provinces, 1970-71 to 1994-95* (Ottawa: HRDC, 1994), Table 2. For 1997-98: Canada, *Estimates, Part III, 1997-98* (Ottawa: Supply and Services Canada, 1997), pp. 2-16, 3-43.

<sup>76</sup>Ottawa's share of general income assistance in 1990-91 was \$4,441 million; a sizeable share of support payments financed with this money would have been granted to claimants that provincial administrators considered employable, and would therefore amount to passive labour market expenditures. By contrast, Ottawa's share of general welfare services under CAP (most of which qualify to be called active measures, as they are designed, at least in part, to "rehabilitate" claimants, would ultimately be returning them to the workforce) was only \$1,238 in 1990-91. Source: see note 75.

<sup>77</sup>See also Bakvis, "Shrinking the House of 'HRIF'"

<sup>77</sup>Calculations made by the author based on data from Canada, *1997-98 Estimates, Part III, Expenditure Plan, Human Resources Development Canada* (Ottawa: Supply and Services Canada, 1997), p. 3-43, and similar data from previous years.

<sup>79</sup>Rodney Haddow, "How Ottawa Shrivels! Ottawa's Declining Role in Active Labour Market Policy," draft chapter for *How Ottawa Spends, 1998-99*, ed. L. Pal (Toronto: Oxford University Press, 1998), p. 104.

<sup>80</sup>Canada, *A 21st Century Employment System for Canada* (Ottawa: Supply and Services Canada, 1996), pp. 4, 18.

<sup>81</sup>Muszynski, "The Politics of Labour Market Policy," pp. 275-80.

<sup>82</sup>Bakvis, "Shrinking the House of 'HRIF,'" pp. 152-53.

<sup>83</sup>See also Haddow, "How Ottawa Shrivels!" pp. 105-12.

<sup>84</sup>Dupré et al., *Federalism and Policy Development*, pp. 170-74.

<sup>85</sup>Canada, *Social Security Statistics, Canada and the Provinces, 1970-71 to 1994-95* (Ottawa: Supply and Services Canada, 1994), Table 2.

<sup>86</sup>In Ontario alone, in 1994-95, \$808 million was expended on operating grants for the province's community college system; in 1997-98, in the wake of Premier Harris's spending cuts, Ontario plans to expend \$686 million on this purpose. See Ontario, *Report of the Ministry of Education and Training, 1994-95* (Toronto: Queen's Printer, 1994); Ontario, *Ontario Government Business Plans: 1997-98: Ministry of Education and Training* (Toronto: Queen's Printer, 1997). By contrast, in 1994-95 all provinces and territories combined spent only \$820 million on "labour, employment and immigration" — a category that would include most of each jurisdiction's ALMP spending other than support of college operating grants, as well as some unrelated services. Moreover, this last category of spending is falling quickly, as provinces attempt to deal with their own deficits. After rising quickly through the 1980s, it peaked at \$865 million in 1993-94, but fell to \$763 million in 1996-97; Statistics Canada, CANSIM databases, matrix no. 2781.

<sup>87</sup>National Council of Welfare, *Welfare Incomes 1996* (Ottawa: Minister of Public Works and Government Services, 1997), pp. 31-33, 36-38.

<sup>88</sup>National Council of Welfare, *Another Look at Welfare Reform*, pp. 69, 88.

<sup>89</sup>*Ibid.*, pp. 51, 57, 97.

<sup>90</sup>Swimmer, "Provincial Policies Concerning Collective Bargaining," p. 375.

<sup>91</sup>Peter Stoyko, "Creating Opportunity or Creative Opportunism?" in *How Ottawa Spends, 1997-98*, ed. G. Swimmer (Ottawa: Carleton University Press, 1997), pp. 102-03.

<sup>92</sup>Leo Panitch and David Swartz, *The Assault on Trade Union Freedoms* (Toronto: Garamond Press, 1988); McBride, *Not Working*, pp. 198-206.

<sup>93</sup>Tom McIntosh, "Organized Labour in a Federal Society: Solidarity, Coalition Building and Canadian Unions," in *Canada: State of the Federation, 1998/99: How Canadians Connect*, ed. H. Lazar and T. McIntosh (Kingston: Institute of Intergovernmental Relations, Queen's University and McGill-Queen's University Press, 1999), p. 166. For a fuller explication of McIntosh's analysis see "The Political

Economy of Industrial Relations: The State and Concession Bargaining in Canada" (PhD dissertation, Queen's University, 1996).

<sup>94</sup>David Card and Richard Freeman, "Small Differences that Matter: Canada vs. the United States," in *Working Under Different Rules*, ed. R. Freeman (New York: Sage, 1994), pp. 198-99.

<sup>95</sup>McIntosh, "Organized Labour in a Federal Society," p. 167. In addition to the sources cited, this passage has benefited from very helpful comments by Tom McIntosh.

<sup>96</sup>National Council of Welfare, *Incentives and Disincentives to Work* (Ottawa: Supply and Services Canada, 1993), p. 69.

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## DIS-COVERED: EI, SOCIAL ASSISTANCE AND THE GROWING GAP IN INCOME SUPPORT FOR UNEMPLOYED CANADIANS

*Tom McIntosh and Gerard W. Boychuk*

### INTRODUCTION

The intergovernmental negotiations that resulted in the Social Union Framework Agreement came after a significant amount of restructuring had already occurred in two of the most important elements of Canadian social welfare policy — provincial social assistance programs and the federal Employment Insurance (EI) program, formerly known as Unemployment Insurance (UI). Given the important role that both social assistance and EI play in income maintenance for the unemployed, this study is an attempt to come to grips with the current state of governance for these programs in light of these changes and also to understand how provincial social assistance programs interact with EI. Understanding this will, to some degree, perhaps point toward some comprehension of how these programs will be governed in the future and may have implications for the manner in which the Framework Agreement is implemented and operationalized.

Social assistance and UI/EI are, historically and currently, two distinct types of social policy. They have different histories and different rationales. They also engender different politics, and the two programs are perceived very differently in the minds of the Canadian public.<sup>1</sup> Despite these differences, there has always been some degree of overlap between the two programs.

However, they have, by and large, operated independently of one another. Yet the political and economic context in which social policy exists has undergone significant changes in Canada and other western nations in recent years. This change may indicate that two programs long thought to be more or less independent of each other may need to be examined more closely, and more thoroughly, in terms of the manner in which they interact. The question that arises is whether the two programs are interacting more now than in the past and what that may — or should — mean for the independent governance of these programs.

While the period from 1950 through the 1980s was marked by expansion in the UI system,<sup>2</sup> in the 1990s the UI system became less generous — paying lower benefits for shorter periods — and the transformation from UI to EI has further restricted the program. Thus, it would appear that those who fall off the UI/EI rolls would, to some extent, be taken up on provincial social assistance rolls (providing they meet the eligibility requirements). This should increase the interaction between the two programs in terms of the provision of income support to the unemployed. Yet, as is demonstrated below, the social assistance programs in the provinces have also contracted in recent years — becoming less generous and imposing more restrictions on eligibility. In addition, the rise of two-income families further reduces an individual's eligibility for social assistance because it is calculated on household rather than individual income.

This study attempts to understand the transformations of both UI/EI and social assistance and the importance of these changes for the interaction of these two programs. The study is divided into five substantive sections. The first deals with the development of the different social assistance regimes in Canada and with their current state. This section examines the federal-provincial dimension of social assistance as represented through federal transfers used to fund social assistance, the extent to which social assistance is and is not a source of "income support for the unemployed" and the changes that many social assistance programs have undergone in recent years. The analysis here reveals that there appears to be a higher proportion of employable unemployed receiving social assistance benefits than was previously the case. However, there are significant and important variations across the provinces and this should not be taken to indicate that it is easier for those deemed "employable" to qualify for and receive social assistance benefits. What is evident is that it is difficult to talk about "social assistance in Canada." Rather, the provincial programs have significant differences in terms of their history, their goals, and

their structure. This makes the overall assessment of how social assistance and EI interact with each other that much more complex.

The second section of this chapter explores the history of the federal UI program from its beginnings in the 1940s through to the recent overhaul that created the new EI system. Included here are the most important sets of "reforms" the program underwent from the 1970s through to the 1990s and the important role that UI/EI has in the political economy of particular regions of the country. The section ends with an examination of the recent controversy concerning the EI surplus, premium rates, benefit levels, and the changing nature of the program's coverage.

The third section explores the interaction between provincial social assistance programs and the federal EI program in recent years. What becomes evident here is that there are important holes in the data around this interaction that make clear conclusions difficult. There has yet to be a long-term study of the interaction across most or all of the provinces that links EI and social assistance data. Yet it appears likely that the recent changes both to EI and provincial social assistance programs, coupled with some socio-economic changes around the composition of the workforce and the nature of employment, have made the "distance" between the two programs greater now than in the past.

The fourth section attempts to assess the nature of the intergovernmental regime that is governing this interaction. This assessment is based on the interplay of three general sets of factors — principles of federalism, democratic principles, and policy goals — as they relate to different intergovernmental regimes.<sup>3</sup> Different intergovernmental regimes each pose particular problems or challenges for the interplay of those factors. What becomes clear in this assessment is that the divided nature of what we have termed "income support for the unemployed" has resulted in important barriers to understanding the interaction of the relevant parts of the EI and social assistance systems. The growing gap between the two programs is not a policy "failure" in and of itself and is, in fact, the intended result of quite deliberate policy on the part of both the federal and provincial governments.

However, it does represent a policy failure in the sense that there is a serious lack of information on who is falling between the programs, whether they are able to reinsert themselves into the labour market, and what the implications are for future periods of high unemployment. The current information failure may lead to more serious policy failures in the face of future economic downturns which will leave "a substantial proportion of the labour force without



any income."<sup>4</sup> Secondly, the division of responsibility for income support for the unemployed between the different orders of government contributes to problems with democratic accountability as it is unclear as to which order of government is properly responsible for the people falling between the two programs.

This section then outlines possible options around the future governance of the two programs that could help eliminate some of the democratic and policy failures, but which would involve significant trade-offs in terms of some of the other assessment criteria. At the same time, this section attempts to understand the political consequences of different forms of governance and the political context in which a debate around such alternatives will occur. As for the alternatives themselves, in the first instance is the possibility of making "income support for the unemployed" the responsibility of only one order of government. Whether such policy was to be centralized with the federal government or decentralized to the provincial governments, either option would involve difficult policy and political choices. Another option proposes a concerted effort on the part of both orders of government to fill in the gaps in the understanding of the social assistance-EI interaction. Such an effort would be designed to highlight more clearly the effects of the policy gaps noted in the previous sections.

The final section of the paper attempts to assess the alternative regimes with reference to the same criteria that were applied to the assessment of the current regime. If the analysis of the current regime is correct, that there are growing gaps in terms of the provision of income support (as a result of the simultaneous contraction of both UI/EI and social assistance), then an attempt needs to be made to understand how the possible alternatives might address this situation while keeping in mind that any alternative regime will have both positive and negative consequences with regard to the other assessment criteria.

## SOCIAL ASSISTANCE IN CANADA

### *The Federal-Provincial Aspect*

Provinces have jurisdiction over social assistance by virtue of the constitutional provision granting them exclusive jurisdiction over "hospitals, asylums, charities and eleemosynary institutions" (section 97, 7) which was buttressed by powers over "all matters of a merely local or private nature" (section 92, 16).<sup>5</sup> Despite this constitutional allocation of responsibility, the field of social assistance has not been as clearly disentangled as it might be presumed from

the formal division of powers. Yet, at the same time, it is extremely important not to overstate the significance of federal involvement in this field.

Because of the division of powers, federal involvement in the provision of social assistance has taken the form of cost-sharing under the auspices of the federal spending power. This involvement in social assistance first took the form of categorical cost-sharing programs for the aged (1927), blind (1952), and disabled (1954). Federal cost-sharing for unemployment assistance (1956) considerably broadened the programs eligible for cost-sharing as needs-tested categorical social assistance programs. This broadening was significantly furthered under the auspices of the Canada Assistance Plan (CAP) in 1966 which consolidated these existing federal programs under one umbrella program. In addition to this consolidation, CAP extended cost-sharing for social assistance for needy mothers and widows which were not previously cost-shared.

The federal government viewed flexibility in these cost-sharing arrangements as an "end in itself."<sup>6</sup> The provinces were to remain fully responsible for administration and program delivery. CAP was intended to have little effect on the delivery of social assistance programs which would continue to be provided on the basis of existing provincial categories. In keeping with this thrust, federal conditions were not very rigorous.<sup>7</sup> However, federal transfers could be expected to be "a critical factor in equalizing the capacity of provinces to provide ... social assistance."<sup>8</sup> Cost-sharing would "break the bond between the strength and wealth of a provincial economy and its access to public revenue ... Once the link has been broken, then the poorer provinces are able to provide a level of spending comparable with the other provinces."<sup>9</sup> However, cost-sharing appears to have had contradictory effects. On the one hand, cost-sharing is said to equalize the fiscal capacity of provinces so that they might be expected to provide more similar levels of services. On the other hand, cost-sharing allows provinces that are already willing to commit funds to social assistance to offer those services at an even higher level relative to other provinces. Thus, despite the advent of federal cost-sharing for social assistance, the range of aggregate provincial gross expenditures per capita was roughly the same by the early 1980s as it was in the late 1940s. Provincial differences in per capita expenditure on social assistance did not merely reflect differences in overall provincial spending or differences in provincial wealth. Further, provincial social assistance rates over the CAP period did not demonstrate significant convergence.

CAP remained relatively unchanged from its inception until the early 1990s. The 1990 federal budget announced that the funds transferred to the

three richest provinces — Alberta, British Columbia, and Ontario — would be limited to a 5 percent annual increase for the following two years. This change fundamentally altered the open-ended, matching cost-sharing of CAP. This cap on CAP is largely explained by the fact that Ontario had the highest rate of growth in CAP transfers in the mid- to late 1980s and expensive plans for reform. The federal move simply indicated the federal government's refusal to pay for Ontario's proposed reforms. The cap on CAP clearly represented a level of federal unilateralism that had not yet been seen in terms of cost-sharing for social assistance.

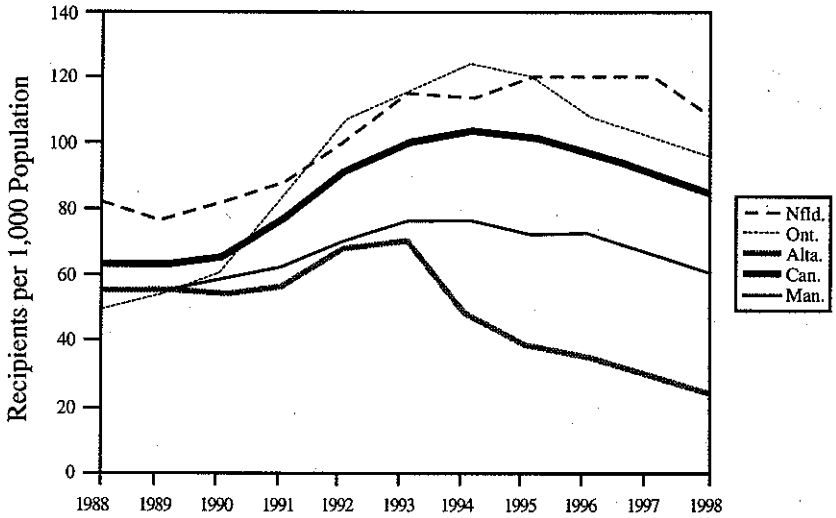
This proclivity on the part of the federal government toward unilateralism was reinforced and greatly amplified with the replacement of CAP with block-funding for social assistance under the Canada Health and Social Transfer (CHST) in 1996. This move represented a clear trend toward disentanglement in the field of social assistance. Current federal policy has moved explicitly toward accepting diversity in provincial program design and delivery. Unlike CAP, under the CHST there will not even be federal pretensions of ensuring any standards of uniformity in provincial social assistance provision except for a restriction against provincial residency requirements.

### *Patterns of Development in Social Assistance Provision*

One of the most striking aspects of the recent development of social assistance provision in Canada is that, despite much rhetoric about the dismantling of the social safety net, social assistance expenditures and levels of benefit receipt have been amazingly resilient.<sup>10</sup> (See Figure 1.) Levels of social assistance receipt nearly doubled from 1990 to 1994 when they first began to climb significantly since the early 1980s. Since the peak in 1994, levels of assistance receipt had declined by 1988 by about 17 percent to rest at levels similar to those of the early 1990s.

Considerable increases in the number of social assistance recipients over the late 1980s and early 1990s have prompted a search for explanations. One of the prime candidates for providing an explanation is the proposition that social assistance has increasingly become a program of income support for the unemployed. Especially important in this regard are claims that "[r]educ[ed] federal support for employment insurance means more dependency on provincial and territorial welfare programs" — a claim that the provinces largely support and the federal government largely denies.<sup>11</sup> The federal-provincial debate on this issue provides the backdrop for the central question of this

FIGURE 1  
 Social Assistance Recipients, Canada and Selected Provinces, 1988-1998



section: To what extent has social assistance become a program of income support for the unemployed?

*Social Assistance: Income Support for the Unemployed?*

Social assistance defined as cash or in-kind benefits provided to those deemed to be without the means for an adequate level of subsistence, while crucial in this regard, is both broader as well as narrower than simply being a program of income support for the unemployed. There are two ways in which social assistance is broader. First of all, social assistance also provides assistance to those who are unemployable or have no significant labour market attachment. Second, social assistance may also provide support to those who are *employed* but remain in need. On the other hand, social assistance is a narrower program than providing income support to the unemployed in the sense that unemployed persons seeking social assistance benefits *also must be in need*. As such benefits are generally provided after stringent income, asset, and needs tests, a large proportion of those finding themselves unemployed are not eligible for social assistance.

Considering the ways in which social assistance is both broader and narrower than simply providing income support to the unemployed, social assistance may become more clearly a program aimed at providing income support to the unemployed in two distinct ways: first, to the extent that, of all social assistance recipients, the proportion who are considered unemployed employables is increasing and second, to the extent that unemployed persons receiving social assistance benefits constitute a greater proportion of the entire unemployed population. This distinction is crucial. Several provincial social assistance regimes now define a greater proportion of their beneficiary population as employable but have not extended social assistance benefits to a greater proportion of the unemployed and, in this sense, have not become more clearly programs of income support to the unemployed.

*Unemployed "Employables" as a Proportion of Social Assistance Beneficiaries*

Provincially reported figures make a distinction between employable and unemployable recipients and the relative proportions of each have changed significantly in certain provinces.<sup>12</sup> It is often argued that across provinces the proportion of employable recipients has risen considerably. There are at least two rejoinders to such claims. The first is in regards to the actual numbers. In 1995, Patricia A. Evans claimed that the most recent data (1993) then available revealed that the percentage of employable recipients had *declined* by 10 percent between 1986 and 1993.<sup>13</sup> The second rejoinder regards the definition of employability. Variations in the proportion of employable recipients both across provinces and time periods may be simply the result of changing definitions of employability.

An examination of changes in the proportion of employable recipients from 1985 to 1992 — albeit dated — reveals significant differences among provinces both in the overall proportion of social assistance recipients considered employable as well as variation in the rate of change in this proportion over time.

While it is likely that these changes are the result both of demographic changes and policy changes, there has been little work done on the extent to which these changes are a function of actual changes in social assistance caseloads or a function of changing provincial definitions of employability. Evans notes that "most changes to the definition of employability have tended to broaden it, but there is no estimation of the impact of these changes on the

TABLE 1  
 Percentage of Social Assistance Caseload Reported as Unemployed, 1985, 1992

	1985 %	1992 %	% Change %
Newfoundland*	25.4	28.2	+ 15.1
Prince Edward Island	33.7	35.7	+ 5.9
Nova Scotia**	31.5	38.2	+ 21.3
New Brunswick	n/a	n/a	n/a
Quebec	66.7	76.7	+ 15.0
Ontario	22.9	35.6	+ 55.5
Manitoba*	16.1	45.2	+180.7
Saskatchewan	49.1	51.1	+ 4.1
Alberta	32.1	41.6	+ 29.6
British Columbia	n/a	n/a	n/a

Notes:

\*Data include persons who are employed but with insufficient earnings.

\*\*All municipal recipients are treated as unemployable.

Source: National Health and Welfare, *Inventory of Income Security Programs in Canada* (Ottawa: Supply and Services Canada, 1995).

size of the employable caseload."<sup>14</sup> Changes to the definition of employability have tended toward defining it more widely.<sup>15</sup> There are, however, some notable exceptions to this process of broadening the definition of employability.<sup>16</sup>

What is needed to separate out the influence of these two different explanations — changes in provincial definition of employability versus changes in the actual characteristics of the caseload — is micro-data simulation that would apply employability rules of one province to the caseloads of the others. In the absence of such simulations, one might examine the demographic characteristics of the caseload to see if changes in the caseload composition are suggestive of demographic differences driving the higher levels of employable recipients.

There is little evidence to suggest that the nature of provincial social assistance caseloads has changed dramatically (See Appendix B). From 1987 (when CAP annual reports first began to include the family composition of households receiving social assistance) to 1994, there was *no change* in the family composition of social assistance recipients. Despite the fact that this picture varies considerably across provinces, the proportion of the caseload

comprised of those for whom social assistance programs "were originally conceived and designed"<sup>17</sup> has been *increasing* rather than decreasing. Recipients *within* particular categories might well be more employable than they were in the earlier period and changes in the level of employability of recipients may be more than an artifact of changing definitions of employability. However, changes in the number of employable social assistance recipients are not the results of changes in the proportions of the caseloads comprised by various family types which are generally assumed to exhibit differing levels of employability as is argued by Barrett *et al.* for example.

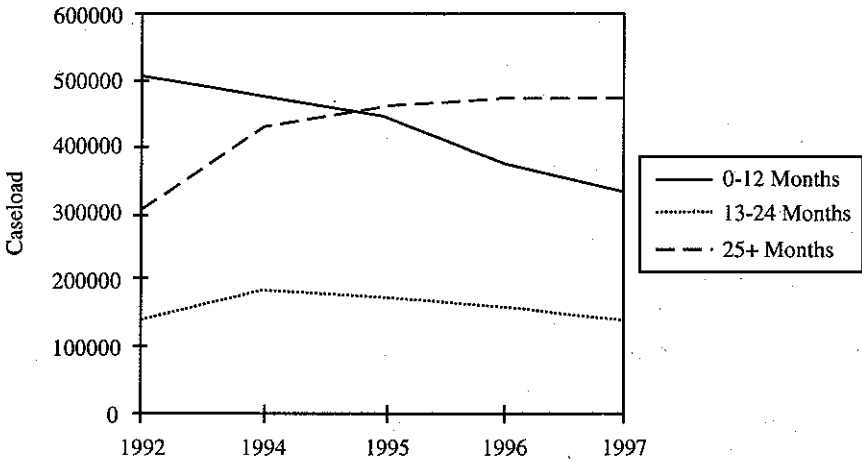
One might expect, if it were the case that social assistance was increasingly coming to be a mechanism of income support to the employable, that the caseloads would increasingly be made up of people using social assistance for relatively brief spells to replace income during periods of unemployment. There are some indications that average duration of benefits (at least in certain provinces) was dropping significantly over the late 1980s and early 1990s.<sup>18</sup>

However, over the course of the 1990s, it appears that the opposite has been the case and that the caseload is increasingly becoming composed of long-term recipients. In the five-year period from 1992 to 1997, the number of cases experiencing spells of welfare receipt of less than one year duration fell by 35 percent.<sup>19</sup> The number of cases experiencing spells of welfare receipt of more than one year but less than two rose and then dropped — ending the period at the same level at which it started. However, the number of cases experiencing a spell of welfare receipt of more than two years increased by over 50 percent in this period. While the proportion of the total caseload comprised of short-term recipients (less than one year) dropped from over half the total caseload to just over one-third, the opposite was the case with long-term recipients (more than two years) which increased as a proportion of the total caseload from just over one-third to fully one-half of the total caseload.

These figures cast significant doubt on the claim that social assistance caseloads are increasingly comprised of people with high employability and strong labour market attachment. Instead, these patterns are suggestive of a hardening of the welfare rolls with social assistance caseloads increasingly coming to be comprised of those who are further away from, rather than nearer to, the labour market.

Just because social assistance programs were becoming more geared toward providing income support to the unemployed in terms of the proportion of recipients deemed "employable," this would not mean that it is necessarily any easier for unemployed persons to receive social assistance or that a greater

FIGURE 2  
Welfare Cases by Length of Current Spell in March of Each Year, 1992-1997



Source: National Council of Welfare, *Profiles of Welfare: Myths and Realities* (Ottawa: Minister of Public Works and Government Services, 1998).

proportion of all unemployed people are coming to rely on social assistance. Key information needed to assess the extent to which social assistance has come to more closely approximate a program of income support for the unemployed is the proportion of people experiencing job separations who come to receive social assistance benefits. Of all job separations sampled (1993), Wong reports that 5.9 percent of those experiencing job separation received social assistance benefits at some point within five months after their job separation<sup>20</sup> and this figure varies widely over provinces.<sup>21</sup> (See Appendix C.) Unfortunately, similar data are not examined *over time* and there is nothing to suggest that the proportion of people coming to rely on social assistance after experiencing a job separation has been increasing.

*Changing Provincial Social Assistance Provision:  
Trends and Provincial Differences*

The National Council of Welfare noted that “[o]ne of the most discouraging trends in welfare reforms in the 1990s is the hardening of the welfare systems



toward the people it was set up to serve. Welfare fraud squads, telephone hotlines for suspected abuse and intrusive new verification methods have stripped even more of the dignity of people on welfare. Welfare rights groups everywhere have reported a deterioration in the attitude of the welfare system towards recipients."<sup>22</sup> These types of restrictive actions described by the National Council of Welfare are not only important symbolically, they are likely highly effective in terms of dissuading unemployed employables from applying for benefits. More speculatively, such policies may be discouraging persons in tenuous employment positions from counting on social assistance as a potential avenue of income support should they become unemployed.<sup>23</sup>

These trends are likely linked to generalized perceptions that social assistance has come to be a program of income support to unemployed employables rather than to more deserving recipients. However, these trends are indicative of a backlash against such a development and of the fact that provincial governments are for the most part unwilling to further extend the availability of social assistance benefits to people who are employable. Furthermore, provincial governments are only willing to extend support to those who are willing to endure elevated levels of intrusion and stigmatization in order to receive benefits. To the extent that social assistance has come increasingly to provide income support to the unemployed, these developments appear largely to have taken place contrary to the policy intentions of the provinces. In this sense, provinces have actively resisted policy overlap with other programs of income support to the unemployed.

One example of this is asset exemptions. Asset exemptions are very important in determining the availability of social assistance as a mechanism of income support to the unemployed. They are a critical component in determining whether unemployed persons are *in need* and thus eligible for assistance. Lowering asset exemptions will result in a lower proportion of the unemployed being eligible for social assistance benefits. Asset exemptions in Canada are strict by comparative international standards.<sup>24</sup> Over the course of the 1990s, several provinces have made significant changes to their asset exemption policies that have served to further restrict the level of allowable assets and make social assistance *less* available as income support for the unemployed (see Appendix D).

However, despite these general trends, it is crucial to note that social assistance systems also differ considerably from province to province.<sup>25</sup> While the common theme in the development of provincial social assistance regimes over the 1990s has been the creation of incentives — either for social assistance

recipients to accept paid employment or to discourage people from entering the welfare rolls in the first place — there have been at least three distinct variations evident in the development of provincial social assistance systems:

- simply cutting social assistance (both benefits and eligibility) and providing increased incentives to gain or maintain paid employment through lowering levels of social assistance and making the conditions of social assistance less attractive relative to wage labour;
- providing positive reinforcements of work incentives which often entails extending benefits to recipients who leave assistance for work and implementing generous earnings disregards;
- and, finally, providing benefits and programs to *all* low-income families to ameliorate the disincentive of leaving social assistance for paid employment.<sup>26</sup>

These variations are significant as each entails different political dynamics and each has different implications for the extent to which social assistance may serve as a mechanism of income support to the unemployed. Various provinces fit more or less easily into any one of these models and traces of each are found in all provincial systems. Nonetheless, there are significant differences between provinces in the extent to which they have espoused these different models. Such differences also mark differences in the extent to which social assistance in various provinces can be expected to act as a mechanism of income support to the unemployed.

The first strategy ranges from provinces that primarily rely on simply cutting benefits and eligibility (Alberta) to those that rely (or appear to rely) on more active intervention by the government in discouraging reliance on social assistance by those otherwise able to work (such as the implementation of workfare in Ontario). A range of options in between includes such measures as increasing intrusive enforcement and verification mechanisms.

Alberta provides an excellent example of increasing work incentives through retrenching social assistance provision. The social assistance caseload in Alberta fell by nearly 50 percent from 1993 to 1996. While undoubtedly aided by the economic boom, these caseload reductions far exceeded reductions in other provinces that at various times experienced higher and more sustained economic growth rates. They also exceeded by far the caseload changes experienced during the much more robust growth rates of the mid-1980s.<sup>27</sup> Clearly, caseload reductions in Alberta are the direct result of changes in social assistance provision. The major changes in the provision of social

assistance have been twofold: the restriction of eligibility and the reduction of benefits.<sup>28</sup> The National Council of Welfare notes that "Alberta made a concerted effort to minimize the number of people who would come onto the welfare rolls."<sup>29</sup> The practice in Alberta became to routinely deny the first application for assistance as a standard operating procedure.<sup>30</sup> This change alone explains most of the decrease in caseloads.<sup>31</sup>

Other provinces that have followed this pattern to various degrees include Newfoundland, Prince Edward Island, Nova Scotia, Quebec, and Ontario. Ontario announced a major social assistance benefit reduction in 1995; however, this mainly countered the large increases of the late 1980s. The major change in social assistance provision in Ontario has been the rhetoric and halting implementation of workfare. Workfare was introduced as part of a package of "tightening up" the social assistance system which had been taking place since before 1993. This tightening of the system included new eligibility restrictions (including restrictions on persons quitting or losing a job) as well as reinstating the spouse-in-the-house rule.<sup>32</sup> Enhanced verification and enforcement mechanisms included the reinstatement of mandatory home visits and a province-wide "snitch line" which "was inaugurated with much fanfare."<sup>33</sup> Rather than extending benefits for persons leaving social assistance for employment, Ontario began to retract such extended benefits. For example, health benefits, which were previously extended to recipients leaving social assistance, were ended and, as of April 1998, when recipients leave social assistance for employment, they now lose their health benefits.<sup>34</sup>

An alternative approach is to enrich employment programs for social assistance recipients as well as extend benefits provided to recipients leaving social assistance for employment. While this model is perhaps most evident in the case New Brunswick, it is also evident in particular aspects of social assistance provision in Manitoba, Saskatchewan, and Newfoundland.

Changes to the social assistance system in New Brunswick, implemented under the *Family Income Security Act*, included extending earning exemptions as well as expanding health benefits, social services, and daycare assistance for persons leaving social assistance for employment.<sup>35</sup> Asset exemptions for employable recipients were also doubled making it easier for unemployed persons to claim assistance benefits. However, the key element in the social assistance system in New Brunswick has been employment programs — such as NB Works which offers a continuum of activities: job placement, extramural high school, skills training, and subsidized employment.<sup>36</sup> While these

types of programs are sometimes referred to as workfare, it is crucial to note that this program is voluntary and restricted to persons who have been on social assistance for more than six months and who have also been assessed as having the greatest potential for success. These are hardly the characteristics one might expect in a punitive workfare program.<sup>37</sup>

British Columbia, Saskatchewan, and Quebec have undertaken fundamental reform of social assistance that extends a range of benefits to both the unemployed and the working poor based on income tests rather than needs tests. While these new income-tested benefits mark a significant change in the provision of social assistance in these provinces, none of these provinces go so far as to have meaningfully taken children off welfare — to use the phrase often applied to such programs (see Appendix E).

This is the model that underpins the new National Child Benefit (see Appendix F). The development of these initiatives both at the federal and provincial level will have very important implications for the relationship between social assistance and Employment Insurance. Income-tested child benefits for all low-income families that replace part of the financial aid that families now receive through social assistance have at least two effects in terms of the extent to which social assistance will serve to act as a program of income support for the unemployed. On the one hand, income contingent programs are much more easily available to people with children who become unemployed than are needs-tested programs. Because they are income-tested and hence much more responsive than social assistance to changes in income resulting from unemployment, the linkage between these programs and the federal UI/EI program will be much more direct than was the case for provincial social assistance. Secondly, the residual provincial social assistance programs — to the extent that children and the disabled are increasingly provided for under other programs — become much more clearly programs of income support for the unemployed. In fact, it may be argued that there is little justification for maintaining provincial programs of income support, distinct from EI, for parents and single persons who are not disabled. Certainly, the politics of maintaining or enriching such programs seem dismal, especially in contrast to enriching programs ostensibly providing benefits to children of both the unemployed and working poor. Concomitantly, the increasing focus of provincial social assistance programs on providing income support to ostensibly employable adults may force the provision of income maintenance for this group squarely back into Ottawa's court.

*Concluding Comments on Social Assistance*

Among the provinces in the 1990s, the retrenchment model appears to have dominated. However, as of the mid- to late 1990s, the extension of income-tested benefits has acquired considerable cachet and may provide both a model and as well as political momentum in favour of a system based on separate income support for dependent children and income support for the unemployed.

The likelihood that the income-tested child benefit model will emerge as the dominant model in provincial provision of income support for the needy is contingent upon two factors. First, further developments in this direction will likely hinge on the perceived success of assistance systems in the three provinces that have adopted this model as well as the perceived success of the National Child Benefit program and associated provincial reinvestments. Second, it will depend on the coalescence of a broader consensus among various groups that have thus far seen social policy reform primarily in zero-sum — rather than positive sum terms — such as those seeking to maintain the path of deficit reduction and those concerned about the poor.<sup>38</sup> Income-tested benefits appear to have the potential to provide a basis around which such coalitions may form. However, their formation is neither pre-ordained nor automatic.

What is the likelihood that provincial policies will develop that will provide a focus around which such coalitions may form? It has been argued that the politically easiest route for the development of such policies is through the reform of extensive universal flat-rate benefits in which benefit reductions for high-income families finance enriched benefits for low-income families.<sup>39</sup> Thus, the development of an income-contingent child benefit out of universal Family Allowances seems a logical pattern of policy development in a period of retrenchment.<sup>40</sup> At the provincial level in which the dominant model of social provision is the needs-tested approach, this avenue of policy development is foreclosed. There are no substantial universal social programs to provide funding for enriched targeted benefit programs. A transition from needs-tested programs to income-contingent benefits for all low-income earners will undoubtedly entail increased expenditures. In many provinces — especially those that adopted the retrenchment model of social assistance provision in the 1990s — there are few indications that new funds will be available soon for social policy development. Provinces can, however, offset the increased costs of more extensive provision of benefits by decreasing the levels of benefits. In provinces that have already reduced benefits or had parsimonious benefits to begin with, this option is foreclosed.

However, there are two reasons to be more sanguine regarding the provincial development of such programs. The federal-provincial national child benefit initiative eases this transition problem by providing some, albeit limited, funding as well as some federal leadership. Perhaps as importantly as its implications regarding the prevailing approach to providing income support to the needy, the National Child Benefit also signals a particular direction in the development of federal-provincial relations:

with Ottawa's fiscal situation improving more rapidly than expected, there are indications that federal-provincial relations will be subject to a new set of dynamics. Rather than restoring social transfers to the provinces or reducing the tax room it occupies to reflect a diminished federal role in social policy, we see a definite trend toward highly visible and direct federal interventions.<sup>41</sup>

Perhaps more importantly, the associated provincial reinvestment strategies that generally follow the income-contingent benefit model ensure that provinces will have some experience with such programs. These programs will also now compete against other programs for any increased social spending. Thus, they may act as the thin edge of the wedge in loosening the dominant needs-tested approach in provincial social provision. Further, the nascent development of income-contingent child benefits out of the reform of needs-tested social assistance programs in British Columbia, Saskatchewan, and Quebec demonstrates that development in this direction is a real possibility even if reforms in this direction are likely to be more difficult than the transition to income-contingent benefits from pre-existing universal programs.

## THE EVOLUTION OF UNEMPLOYMENT INSURANCE

### *The Origins of a National Program*

Unemployment Insurance is somewhat unique in terms of social policy, as it is one of the few programs that is both national in scope and fully federal in jurisdiction. Indeed, its relative uniqueness is further emphasized in that it exists as the only major social program in the country that was developed in light of a constitutional amendment that placed the program unambiguously within the legislative jurisdiction of the national government.

The idea of a nationally administered program to deal with the employable unemployed goes back at least as far as 1919 when the Royal Commission on Industrial Relations recommended that there be a national insurance scheme

to deal with the temporarily unemployed. In 1935, in the midst of the economic turmoil of the Great Depression, Prime Minister R.B. Bennett passed a number of bills modeled on the Roosevelt "New Deal" in the United States. Among these was the *Employment and Social Insurance Act* which would have created a national unemployment insurance system. Following the 1935 election, the new Liberal government referred these bills to the Judicial Committee of the Privy Council which ultimately declared most of them *ultra vires*, or beyond the federal government's legislative competence.

In 1937, the federal government appointed the Royal Commission on Dominion-Provincial Relations, known popularly as the Rowell-Sirois Commission, to examine "the economic and financial basis of Confederation and of the distribution of legislative powers in light of the economic and social developments of the last seventy years."<sup>42</sup> The 1940 report recommended that "provisions for the employable unemployed should become the responsibility of the Dominion." The commission argued that the provinces would be unable to finance such programs and that in the interest of pan-Canadian uniformity, the federal government should administer such a program. On 25 June 1940, the House of Commons unanimously passed a motion calling for the British House of Commons to amend what was then the *British North America Act, 1867* to make the provision of unemployment insurance a matter of federal competence. The program went into effect 12 months later.

### *The Beginnings of Unemployment Insurance*

The point was made above that social assistance programs are both more and less than "income support for the unemployed." A similar statement, though somewhat qualified, can be made about unemployment insurance. It is, and remains, a means of income support for unemployed employables. It is designed to provide short-term benefits in periods of transition from one job to another and, in some cases, to offset the loss of income for seasonal workers during "down times." Yet, there has always been an element of the program that made it part of a broader set of labour market policies and, as time went on, this element grew in significance. This process is perhaps more subtle than it is in the case of social assistance, but it is an important element of the story that needs to be outlined. The first instance of this comes in the aftermath of World War II when the government used the UI program to provide a cushion for returning soldiers and as a cushion for the economic dislocation caused by the transformation to a postwar economy.

The intent here is not to outline the entire history of the program, but rather only to highlight its most important aspects. What follows is an analysis of some of the major changes to the program since the 1940s with a particular emphasis on how they have played themselves out in terms of the intergovernmental relations they engendered. Pal makes the point that there is a potential intergovernmental conflict between those elements of UI that are designed toward labour market adjustment (e.g., training programs) and provincial employment policies.<sup>43</sup> However, while there may be a consensus that, generally speaking, employment and labour market policy are areas of provincial concern, there is nothing in the constitution that makes this explicit. Indeed, there is a long federal history of involvement in this area under the *National Training Act* that may give some legitimacy to the fact that, at least *de facto*, this may be an area of shared jurisdiction.

There was also another potential area of intergovernmental conflict, Pal notes. In establishing UI, the federal government effectively took responsibility for a group of people previously thought to be within provincial jurisdiction, namely temporarily unemployed employables. As Pal points out, these individuals are, in most instances, the least needy of the needy. They have previous attachments to the labour market, they are clearly able to work, and they may have their own savings with which to supplement benefits. The provinces, on the other hand, were left with the most needy — those with the fewest skills and the biggest barriers to accessing the labour market. At the same time, there developed what Pal calls an informal “human bridge” between the federal UI program and provincial social assistance programs. If an individual exhausted their benefits under the former, they moved themselves eventually onto the latter. This Pal argues creates a “strong if undefined obligation” on the part of the federal government to help the provinces and drove, in part at least, the expansion of UI in the 1960s and 1970s and the establishment of the Canada Assistance Plan.<sup>44</sup>

Yet, Pal’s analogy of the “bridge” is somewhat misleading. It assumes a relatively straightforward transfer from one program to another and this is clearly not the case. As noted above, there are ten different social assistance regimes in Canada with different rules of eligibility and different levels of generosity. UI exhaustees are not necessarily eligible for social assistance. They may have assets that need to be liquefied and exhausted, they may have a spouse whose income precludes receipt of social assistance and there is a strong social stigma attached to social assistance that may mitigate the willingness of an individual to accept benefits. Rather than there being a bridge between UI



and social assistance, it may be better to see the programs as islands separated by varying distances of water between the UI "island" and the ten social assistance islands. Those distances present different obstacles to the individuals who must swim from the UI island to a particular social assistance island.

The early years of the UI program produced little in the way of overt intergovernmental conflict. One of the reasons for this may well be the limited nature of the program itself. It was, more literally than now, an insurance program that sought to minimize risk. A number of industries that were concentrated in the less economically secure regions of the west and Atlantic Canada (e.g., fishery and forestry workers) were deliberately excluded from the program while workers in the most secure sectors of the economy (e.g., government employees and teachers) were also excluded. In short, the original configuration of UI covered only about 42 percent of the Canadian workforce. This, in effect, minimized the potential for intergovernmental conflict over the structure of the program by minimizing regional differentiation within the program.

Amendments to the program in the following decades began to change these features. The program was expanded to include an increasing number of seasonal workers and by allowing essentially self-employed fishers to contribute to the program and thus receive benefits. To some extent these can be said to constitute departures from a model based on "sound actuarial principles," and they also begin to add a regional dimension to the program insofar as the "higher risk workers" being added to the program were disproportionately situated in particular parts of the country. As the federal government has itself pointed out: "social policy in the 1960s focused on improving the adequacy of income protection and social assistance and on increasing employment opportunities."<sup>45</sup> This, of course, coincided with the construction and expansion of the postwar welfare state in most western democracies and with a period of general economic growth and expansion. By 1968 the UI program had grown to cover 68 percent of the workforce, but there were also growing questions about the manner in which the program was dealing with "seasonal unemployment ... and the need to ensure effective linkages between UI and social assistance."<sup>46</sup>

The pressure to reform or restructure UI in some important manner reflects the concern raised by Pal above. The UI system was being increasingly seen not only as a means to provide temporary assistance during irregular periods of unemployment, but could also be used as part of a broader political

and economic strategy designed to redistribute income and deal with regional economic disparities.

### *The 1971 UI Act: Beyond Insurance*

The second overhaul of the *Unemployment Insurance Act*, the first having been implemented in 1955, and the first major "rethinking" of UI's political and economic policy goals came in 1971. The new UI Act was based on a federal government White Paper issued the previous year and entitled "Unemployment Insurance in the 1970s." The general thrust of the White Paper was to expand eligibility for UI while at the same time moving unemployment insurance clearly into the realm of social insurance. The paper called for the UI system to move beyond the provision of income replacement for the temporarily unemployed and into the provision of a much wider range of services to assist workers in retraining and reattachment to the labour market. This was necessitated, the paper argued, in light of a changing national and international political economy in which employment, even in traditional industries and in new sectors of the economy, was increasingly likely to be subject to significant and unpredictable fluctuations.<sup>47</sup> Despite some concerns being raised about the possible costs of an expanded and more generous UI system,<sup>48</sup> the new UI Act, drawn in large part from the White Paper, went into effect in June 1971.

The 1971 Act increased overall benefit rates, extended coverage to new classes of workers, and instituted a complex formula of extended benefits to unemployed workers in regions with unemployment rates substantially higher than the national average. This recognition of regional economic disparities across the country as a problem to be alleviated (if not solved) through the Unemployment Insurance program marked the largest step to date away from UI as simply income support for the unemployed. As a result, UI became, for the federal government, an integral part of the welfare state's attempt to redistribute income and as a means of interregional equalization.

The White Paper was certainly correct in at least part of its analysis. The 1970s was a period of significant economic turmoil both domestically and internationally. The combination of increasingly high rates of inflation and growing levels of unemployment, dubbed "stagflation," meant that employment in virtually all sectors of the economy became increasingly insecure. The global economy was undergoing an intense period of restructuring while the

underpinnings of the Keynesian welfare state and the predominance of Fordist production relations were being challenged.<sup>49</sup>

Through the 1960s, inflation had been persistent but relatively mild, hovering at just under 3 percent per year. This, according to Gonick, "was considered a small price to pay for near full employment."<sup>50</sup> This began to change in the latter years of that decade and persisted through the 1970s. Monetarists blamed excessive government spending, more traditional conservatives pointed to the increased power of unions and high taxes while others pointed to increased corporate power, arms spending (at least in the US) and the effects of the OPEC oil shock in 1973-74 and again in 1979. These are, however, more statements of fact than they are causal explanations,<sup>51</sup> but the result for the Canadian UI system was a massive increase in expenditures almost immediately following the adoption and implementation of the new legislation.

As Table 2 shows, the federal government's costs associated with UI fell immediately after the 1971 UI Act was implemented, but rose substantially in the decade following as the program became less and less "insurance" and increasingly a form of regional economic development. The overall cost of UI, including employer/employee contributions, more than doubled between 1970-71 and 1973-74. Again, this coincides with the international economic

TABLE 2  
The Cost of Unemployment Insurance, 1970-1980

Year	Total Cost of UI (\$ millions)	Total Cost as % of GDP	Federal Share of UI Costs (% of Total)	Federal Share of UI Costs as % of GDP
1970/71	730	0.81	24.8	0.18
1971/72	949	0.97	19.4	0.19
1972/73	1991	1.83	44.2	0.81
1973/74	2161	1.70	42.4	0.72
1974/75	2305	1.52	38.0	0.58
1975/76	3334	1.94	51.2	1.00
1976/77	3529	1.78	38.4	0.69
1977/78	4124	1.89	43.4	0.82
1978/79	4462	1.85	47.4	0.93
1979/80	4192	1.52	30.9	0.47

Source: Employment Insurance Commission Annual Reports, adapted from Stephen McBride, *Not Working* (Toronto: University of Toronto, 1992), pp. 167, 169.

turmoil noted above. As McBride states, "the shifting portion of UI borne by general revenues and contributions is the extent to which the program is redistributive."<sup>52</sup> Throughout the latter half of the 1970s the legislation governing UI would be further amended in an effort to restrain rising costs and tighten eligibility associated with the 1971 reforms.

### *Unemployment Insurance in the 1980s and 1990s*

These increased costs, related to increased generosity of benefits, the linking of eligibility to regional unemployment rates, and the increasing levels of unemployment, indicate the extent to which the goals of Unemployment Insurance were changing. The program was less and less an insurance program and increasingly a means of income redistribution and regional economic stabilization. However laudable these goals may or may not be there remain questions as to whether the UI system was the best means to achieve them.

The 1980s saw a number of reports and studies of the goals and costs of the Unemployment Insurance system; most of the studies recommended some degree of large-scale reform of the system. The Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission) in 1985 recommended that the use of UI to achieve income redistribution was inappropriate. The system, it argued, was having negative impacts on the functioning of the national labour market by reducing incentives for workers to accept work.<sup>53</sup> The Forget Commission on Unemployment Insurance took a similar line,<sup>54</sup> though a minority report of that commission argued that the main goals of the program were only in need of limited adjustments to make them more efficient.

In the following decade, the UI system would again be amended in light of increasing costs associated with the rising levels of unemployment and the desire to move UI away from simple income replacement (i.e., a passive program) toward a more active program that would seek to facilitate workers' adjustment to an increasingly uncertain labour market. At the insistence of the Auditor General the federal government effectively dismantled the separate "EI account" and the collected premiums were deposited into the federal government's general revenue fund. Whatever accounting logic this may make, it also helped fuel the use of the UI/EI surplus for deficit reduction in the 1990s, especially given that it remains possible to separate both the amount collected in premiums and the amount of UI expenditures.<sup>55</sup> The 1990 UI Act increased the emphasis on active measures under the Act and in 1993 the benefit rate was

lowered from 60 percent to 57 percent as a means of cost containment. In 1994, the benefit rate was again reduced (to 55 percent of insurable earnings), the duration of claims was shortened, entrance requirements were raised, and supplementary benefits for low-income claimants with dependents were reinstated.

These changes to the system reflect an increasing desire of the federal government to achieve two basic goals. The first is the containment of costs in light of higher levels of structural unemployment. The second is to remove the perceived negative impact that the UI program had on the functioning of the labour market. In other words, certain workers and employers, especially in seasonal industries, were in a sense becoming "dependent" on the availability of UI and were organizing "their work around the system, resulting in patterns of use of the program which are no longer consistent with a productive and dynamic labour market."<sup>56</sup>

Yet, there is a certain inconsistency with the way the government itself viewed the provision of UI. In the document, *From Unemployment Insurance to Employment Insurance: A Supplementary Paper*, the government acknowledges the multiple goals that UI was supposed to meet (income replacement, prevention of poverty, redistribution of income, economic stabilization, and labour market adjustment) immediately prior to raising the issue of frequent claimants and the regional variations as a justification for reforming the system.<sup>57</sup> The document does not explicitly disavow the "social policy" objectives of the UI system, but it does seem clear that, in the context of rising costs, they were seen to be impediments to continued functioning of the system.

What is clear, however, is that the regional variations in Unemployment Insurance were more intense than ever in terms of premiums paid, benefits collected, and the overall importance of UI as a means of income support and redistribution. It is no wonder, then, that whenever the government attempted to reform the UI system, usually by means of restrictions on benefits and eligibility, the opposition came, in the main, from those regions for which Unemployment Insurance had been most beneficial as a means of economic stabilization. As Pal pointed out in the late 1980s, the opposition to changes within the UI system were organized along regional rather than class lines despite the program's obvious redistribution between income classes.<sup>58</sup> More important than its redistribution between richer and poorer Canadians was its redistribution between richer and poorer regions of the country.<sup>59</sup>

Given the economic variations that inarguably exist across the country, it is obvious that Unemployment Insurance would always have regional

implications. From the time that seasonal workers were included in the program in the 1950s, it should have been expected that those regions with a higher dependence on seasonal employment would generally be net beneficiaries of any kind of unemployment insurance. Even if the kind of regional differentials in eligibility had not been instituted into the program it is still the case that certain regions, by virtue of the structure of the regional economy, would receive more in benefits than were paid in premiums. In this way, the UI program is, in a sense, redistributive by its very nature if one begins with the premise that "unemployment risk" is to be equally shared regardless of industrial sector.

The potential for political conflict over UI's regional impact comes with a program that has features that further heighten or reinforce those regional variations. And it is clear that, insofar as UI was redesigned in the 1970s to account for regional economic disparities, the program became strongly identified as a means of redistribution along regional lines and involved significant transfers from richer provinces to those less well off.

According to Statistics Canada, between 1980 and 1995 Atlantic Canada received almost \$20 billion in total transfers through the UI/EI program and Quebec received nearly \$15 billion. On the other hand, Ontario was responsible for nearly \$30 billion of those transfers, with the rest coming from western Canada and a much smaller transfer going to British Columbia. This amounts to an average annual transfer of nearly \$1.25 billion to the Atlantic region, just under \$1 billion to Quebec and approximately \$1.75 billion from Ontario.<sup>60</sup> As will be discussed in more detail below, the potential for such transfers to be a source of political tension within the federation becomes more apparent when restrictions to the UI system make the extent of the transfers more visible. That is, when the transfers continue despite restrictions that limit the ability of the unemployed in the richer regions from receiving benefits.

To further illustrate the regional importance of UI, Table 3 provides a snapshot of the role that UI payments play in the economic life of different provinces. Provinces east of Ontario all account for a higher proportion of the pool of UI claimants than they do the labour force as a whole while Ontario and the western provinces are the provinces responsible for the transfers.

Despite the fact that Table 3 is only a one-year "snap-shot" of the regional effects of the UI system, it is a picture that is replicated in previous years.<sup>61</sup> What is not yet clear, however, is why in recent years the UI system has become an increased source of intergovernmental tension in its own right. The answer to that question is not a simple one. But some of the reason may lie in the nature of the recent changes to the UI system that restructured it as

TABLE 3  
 UI Claimants and Benefits by Province, 1993

	Share of Labour Force	Distribution of UI Claimants	Total Benefits	Benefits as a Share of Disposable Income	Benefits Received/ Premiums Paid	Net Transfers	Benefits per Capita
	%	%	(\$ millions)	%	\$	(\$ millions)	\$
Nfld.	2.0	4.3	943	11.4	3.58	691	1335
PEI	0.5	1.0	216	11.1	3.37	153	1240
NS	3.2	4.1	844	6.1	1.62	327	775
NB	2.7	4.3	890	8.2	2.20	530	880
Que.	24.8	30.1	5598	5.0	1.29	1231	730
Ont.	38.1	31.0	5406	2.7	0.72	-2135	465
Man.	3.8	3.4	493	2.7	0.76	-134	440
Sask.	3.3	2.6	398	2.6	0.79	-98	370
Alta.*	9.7	7.2	1298	2.8	0.74	-480	465
BC**	11.9	12.0	2122	3.3	0.96	-86	520
Canada	100.0	100.0	18297	3.7	***1.00	***0	575

## Notes:

\*Includes data for the Northwest Territories.

\*\*Includes data for the Yukon Territory.

\*\*\*Adjusted to reflect a balanced UI account.

Source: Canada. HRDC, *From Unemployment Insurance to Employment Insurance: A Supplementary Paper* (Ottawa: Supply and Services Canada, 1994), p. 17.

Employment Insurance (EI), in the interpretation of the impact of those changes, and in the political battle over the so-called "EI surplus" and the politics of deficit control.

### UI, EI, Oh!

In 1995 the federal government announced a major restructuring of the Unemployment Insurance system motivated most importantly by a desire to reduce expenditures within the program as part of the government's overall strategy of deficit reduction. The resulting legislation, Bill C-12, *The Employment Insurance Act*, received Royal assent in June 1996. The previous two years had seen Unemployment Insurance again part of a vigorous debate around the restructuring of social policy at the federal level.

The Social Security Review undertaken by the federal government had, in October 1994, recommended what some called a two-tiered system of benefits whereby frequent claimants would have access to lower benefits. Of course, given the manner in which the UI system was then structured to account for regional economic disparities, it could be argued that the system was already multi-tiered. Insofar as regional unemployment rates and family status determined, in part, the length and amount of benefit coverage, then the system already made distinctions between types of unemployment. The Canadian Labour Congress, not surprisingly, denounced this proposal as blaming the worker for "the mismanagement of the firm and the economy."<sup>62</sup> For its part, the Canadian Labour Market and Productivity Centre denounced the government's unwillingness to cut the UI surplus and reduce premiums.<sup>63</sup> The parliamentary committee that reviewed the recommendations rejected the call for an officially two-tiered system, prompting the Canadian Chamber of Commerce to comment: "There is no way they have looked seriously at UI."<sup>64</sup>

The response of the government was to move away from the recommendations of the Social Security Review as it related to UI. The resulting legislation, however, did make a number of significant changes to the UI system beyond the name change:

- Eligibility changed from "weeks worked" to "hours worked" with the standard 12-20 weeks becoming 420-700 hours (based on a 35-hour workweek nothing changes, but the government argued that this better reflected changing work patterns) while minimum weekly earnings requirements were eliminated (first dollar coverage);
- New entrants and re-entrants to the labour market had eligibility requirements tightened, making a former substantial attachment to the labour market a requirement for benefits;
- Benefits based on total earnings over a fixed period not on average earnings during previous 12-20 weeks so as to induce workers to accept work beyond minimum needed to qualify for benefits;
- Benefit rates were reduced for frequent users (the "intensity rule"), though all claimants began the EI system with a "clean slate." Eventually frequent claimants could see their benefit rate fall from 55 percent of insured earnings to 50 percent;
- The threshold at which benefits would be "clawed-back" was lowered and a separate claw-back was instituted for frequent users of the system;



- The supplementary benefits for low-income claimants with dependants was restructured to take into account the Child Tax Benefit and such claimants were exempt from the intensity rule;
- Those receiving low benefits would be allowed to earn more income while on claim; and
- The maximum benefit duration was reduced from 50 weeks to 45 weeks, affecting workers in higher unemployment regions.<sup>65</sup>

It was noted above that the reform of UI into EI was motivated by the federal government's desire to contain costs within the program and to reduce overall government expenditures generally. Indeed, it is fair to say that the process of reform in the period between the Social Security Review and the eventual adoption of the EI legislation was, in a real sense, made subservient to the demands of the Department of Finance that the UI/EI system meet pre-determined cuts in expenditures.<sup>66</sup> At the same time, the Social Security Review's desire to dampen significantly the regional redistribution elements of the program was significantly modified in the final legislation. This was due to the political pressure brought to bear by members of the Atlantic caucus within the federal government and by the Atlantic premiers' direct lobbying of the prime minister during the 1995 Team Canada international trade mission.

The response to the introduction of the *Employment Insurance Act* was decidedly mixed. Business groups were generally positive, though General Motors expressed some concern on how reduced benefits and frequent claims penalties could impact on their use of UI plus partial pay during scheduled lay-offs.<sup>67</sup> Organized labour saw the reform as a means of forcing workers into low-paying, part-time work and predicted that only 25 percent of the unemployed west of Quebec would be eligible for benefits and only about one-third in Quebec and Atlantic Canada.<sup>68</sup>

In short, the transformation of UI into EI made the overall program less generous as benefit levels were cut, eligibility was made more difficult and inducements were introduced to move workers back into the labour market more quickly. At the same time the regional differentiation in terms of eligibility (i.e., the linking of benefits to the regional unemployment rate) were maintained, though made less generous through the intensity rule. Again, this is the result of the lobbying by both Atlantic Canadian MPs within the Liberal caucus and the pressures brought to bear by the Atlantic premiers.<sup>69</sup> The initial decision not to cut premium rates paid by employers and employees, however, would prove to be politically controversial in the more prosperous parts of the country.

### *B/U Ratios: The Rise and Fall of a Statistical Measure*

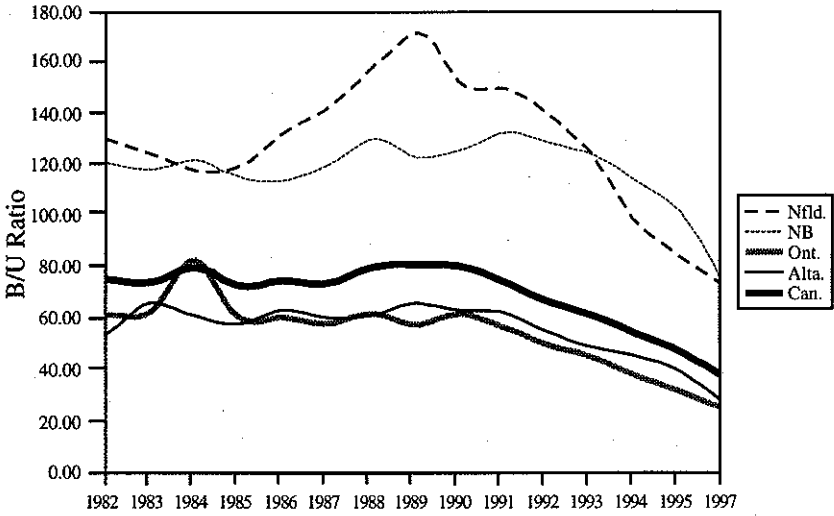
The new EI system that went into effect beginning in mid-1996, had cost-containment at its heart. The federal government had committed itself, in its 1995 budget, to reducing expenditures in this area by approximately 10 percent. At the same time, the so-called EI account was running large surpluses in the billions of dollars. Understandably, this led critics to charge that the government was using the EI surplus as a means of balancing its books. In other words, EI premiums being paid by workers and employers were an essentially regressive form of taxation and not a form of "insurance" against future unemployment given the restrictions to accessing EI under the new legislation.

This charge went hand in hand with the related concern that the new EI system made the regional differentials not only more explicit, but politically less palatable. This accusation was backed up by reference to the federal government's own statistical measure of benefit coverage: the Benefit-Unemployment Ratio, or B/U ratio. The numerator in the ratio is the number of people receiving unemployment benefits at a given time, while the denominator is the number of unemployed according to the Labour Force Surveys conducted by Statistics Canada. The ratio, expressed as a percentage, is meant to indicate the level of coverage of the UI/EI program, or the number of unemployed receiving benefits at a given point in time.

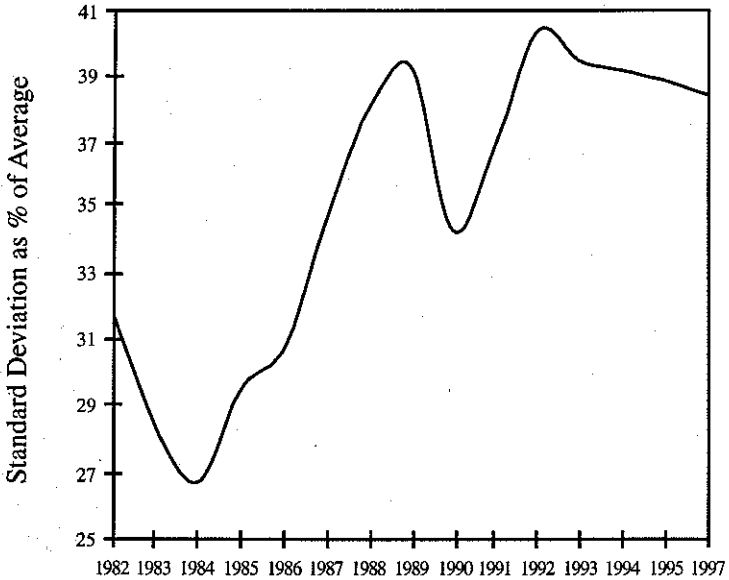
Figure 3 shows the B/U ratios for Canada and each of the provinces from 1982 through 1997,<sup>70</sup> and gives a general picture of benefit coverage. Figure 3 shows a national B/U ratio that is relatively constant from 1982 until 1991 at between roughly 70 and 80 percent. The ratio begins to fall substantially in the 1990s as successive amendments to the UI system begin to restrict eligibility and similarly fall in Newfoundland with the collapse of the fishery and subsequent adoption of the Atlantic Groundfish Strategy (TAGS) as a means of income support. The source of political tension, however, is the fall in the B/U ratio in Ontario and the other provinces that contribute more than they receive to the UI/EI system.

It may be the case that residents of wealthier more economically stable provinces are willing to accept B/U ratio differentials of the kind seen in the mid-1970s and early 1980s when the unemployed in those provinces are also substantially covered by the program. The overall decline in B/U ratios across the provinces is, though, only part of the story. Figure 4 shows that while B/U ratios are falling everywhere, the differences in those ratios between the provinces are in fact increasing as the standard deviation between the provincial

**FIGURE 3**  
Benefit to Unemployment Ratios, Canada and Selected Provinces, 1982-1997



**FIGURE 4**  
Dispersion in B/U Ratios across Canadian Provinces, 1982-1997



ratios is growing and the range between the highest and lowest ratio is greater now than it was in the 1980s.

In October of 1998, Human Resources Development Canada (HRDC), which oversees the EI system, issued a study that essentially backs off the B/U ratio as a legitimate measure of coverage.<sup>71</sup> The study concludes that the substantial fall in the B/U ratio during the 1990s (from 83 percent in 1989 to 42 percent in 1997) can only partly be attributed to changes in UI/EI. About half of the decline can be correlated to changes in the program's generosity or to eligibility restrictions, but the rest of the decline can be attributed to changes in the composition of unemployment. In particular, the study makes the point that the EI program was never designed to cover those with little or no previous attachment to the labour market, but that they are included in the denominator of the B/U ratio.

The 1998 Monitoring and Assessment Report makes a similar claim to explain the drop in the number of claims being made. Overall, the number of EI claims dropped 14 percent between 1995-96 and 1997-98, but claims by women dropped 20 percent and claims by younger workers dropped 27 percent. The report argues that because many of these people are new entrants or re-entrants to the labour market and because they work fewer hours and on a part-time basis they are less likely to be eligible under the new rules.<sup>72</sup> Yet, while people working in these circumstances are unlikely to ever qualify for benefits, they are required to continue to pay into the EI program.

At the same time, the changes to the EI program explain most of the change in the B/U ratio in the four western provinces.<sup>73</sup> Table 4, taken from the results of the 1998 HRDC study of B/U ratios, provides a startling picture of the regional variation in the impact of the EI amendments. The absolute drop in B/U ratios from 1989 to 1997, shown in the first column, has been highest in Quebec and the Atlantic provinces largely due to the fact that these are the provinces in which B/U ratios were highest in 1989. However, proportionally, overall changes in B/U ratios are comparable across all provinces, shown in the second column, with the exception of PEI and New Brunswick where the decline in B/U ratios are somewhat less marked.

B/U ratios can decline for at least two distinct reasons: the changing structure of the labour market independent of any changes in UI/EI coverage and changes in program coverage. Isolating the latter, provinces vary significantly in the extent to which changes in program coverage have affected the B/U ratio as shown in the third and fourth columns. In Ontario, only about a quarter of the change in the B/U ratio is explained by program changes — the

TABLE 4  
 Changes in B/U Ratios by Province, 1989-1997  
 (Total and Due to Program Changes)

	<i>Percentage Point Change in B/U (1989-1997)</i>	<i>Percentage Change in B/U Ratio (1989-1997)</i>	<i>Proportion of B/U Change due to Program Changes</i>	<i>Percentage Change in B/U Ratio due to Program Changes</i>
Nfld.	-97	-56	48	-27
PEI	-46	-36	52	-19
NS	-50	-47	44	-21
NB	-45	-36	54	-19
Que.	-44	-47	45	-21
Ont.	-29	-49	27	-13
Man.	-33	-47	77	-36
Sask.	-32	-47	79	-37
Alta.	-36	-53	83	-44
BC	-37	-49	64	-31

Source: Canada. HRDC, *An Analysis of Employment Insurance Benefit Coverage* (Ottawa: Applied Research Branch, HRDC, 1998), p. 39.

rest is presumably explained by labour market changes. At the other end of the spectrum, almost all of the decline in the B/U ratio in Alberta is explained by program changes. Proportionally, the extent to which B/U ratios have declined due to program changes also varies widely across provinces. Program changes have resulted in a 13 percent decrease in B/U ratios in Ontario while they have resulted in a 44 percent decrease in B/U ratios in Alberta. It speaks to the lobbying efforts of the Atlantic Liberal caucus and the Atlantic premiers that, proportionally at least, the EI changes were spread unevenly across the country.

The overall objective of the 1998 HRDC study of B/U ratios was to cast some doubt on the usefulness of that particular measure as an indicator of program coverage. Whatever the shortcomings of this measure, however, it still provides evidence that the new EI system has become both less generous and less comprehensive and it needs to be emphasized that this process was driven by the desire to reduce EI expenditures. Even if EI is covering far more people than the B/U ratio would have us believe, it is still the case that the new system is covering far fewer than would the pre-1990 arrangements. The change in coverage is similarly documented in a recent Canadian Labour Congress

study that demonstrates that in some urban areas of the country, fewer than 20 percent of the unemployed are receiving benefits.<sup>74</sup> This, coupled with the surpluses accumulated in the so-called EI account, becomes the starting point for what could be an intense period of intergovernmental wrangling that pits wealthier regions against the federal government and the poorer provinces.

It would be wrong to characterize this as simply a case of wealthier provinces no longer wanting to contribute to either explicit or implicit equalization. The tension over the decline in B/U ratios and the accumulated EI surplus is a manifestation of the intergovernmental tensions not only over the social union itself, but also possibly over the EI-social assistance interaction. The federal government is not the only government attempting to maintain a balanced budget. The argument over the EI surplus has its roots in the process whereby federal cuts to own-spending and transfers to the provinces led to provincial cuts in services and, in turn, to the negotiations over the social union. In a sense, this controversy is related to the "off-loading" argument whereby governments are accused of attempting to drive social policy clients into the jurisdiction of the other order of government. In this instance, the federal government is accused of both restricting the eligibility for UI/EI (which may drive clients onto provincial social assistance) while at the same time refusing to decrease the premiums it collects in order to make its own financial picture look brighter. It is as a result of these kinds of intergovernmental interactions that it becomes important to place EI, despite its constitutional status as wholly within federal jurisdiction, in the broader context of social policy and in particular to examine its interaction with provincial social assistance programs.

### THE EMPLOYMENT INSURANCE-SOCIAL ASSISTANCE NEXUS

The conventional wisdom regarding the interaction between social assistance and UI/EI is that there are high levels of movement between the two programs,<sup>75</sup> high levels of concurrent usage,<sup>76</sup> high levels of substitutability between the two programs,<sup>77</sup> and increasing overlap between the two programs.<sup>78</sup> Despite their likely accuracy in characterizing the relationship between the two programs in earlier periods, a variety of arguments suggest that this relationship is likely to be qualitatively different to varying degrees in the different provinces at the end of the 1990s than it was at the outset. By the mid- to late 1990s, the relationship that existed between these programs in earlier (generally expansionary) periods may no longer obtain.

There are several factors shaping the relationship between these two programs including the structure of the family and sources of family income, the nature of the labour market, the fiscal relationship between orders of government, federal policy regarding UI/EI coverage, and provincial policy affecting the ease of access to social assistance. Changes in these factors point in different directions in terms of the extent of overlap between the two programs and whether we should expect this overlap to be increasing. There are good reasons to expect that over the course of the 1990s the overlap should continue to grow. However, there are also compelling arguments generating the expectation of a growing gap between the two programs. Unfortunately, an examination of the existing empirical work on this interaction reveals that not all that much is known about the interaction between the two programs. That said, there is no compelling evidence that this interaction is increasing and there are compelling reasons to believe that the two programs may actually be pulling apart to varying degrees in the different provinces.

#### *Factors Affecting the UI/EI-Social Assistance Interaction*

The interaction between social assistance and UI/EI in providing income support for the unemployed is conditioned by several distinct factors. If one were allowed the luxury of *ceteris paribus* and could hold all but one of the relevant factors constant, one could more reliably speculate as to whether the overlap between the two programs is likely to be increasing. Much of the conventional wisdom regarding the relationship between the two programs appears to be based on such assumptions. However, in reality, all of the major factors shaping the interaction between the two programs are in a constant state of flux and produce pressures and counter-pressures that both overlap as well as cross-cut each other.

Current shifts in several of the factors outlined above do in fact augur in favour of a movement in the direction suggested by the conventional wisdom — increasing overlap between the two programs. Changes in the labour market such as the trend toward less stable and part-time employment which result in lower B/U ratios place increasing pressure on social assistance to act as a mechanism of income support for the unemployed who are not eligible for or have exhausted UI/EI benefits. These labour market shifts are widely recognized and undoubtedly have significant implications for the interaction between these two programs. Secondly, cost-sharing for social assistance under CAP reduced the incentives for either order of government to upload or download recipients

of their own income-support programs to programs financed by the other order of government.

Under the recent changes marked by the inception of the CHST, provinces now realize all of the savings of moving recipients from social assistance to UI/EI and the federal government realizes all of the savings of moving UI/EI recipients onto provincial social assistance rolls. However, there have also been crucial changes portending the emergence of a growing gap between the two programs. Significant demographic changes in family structure have important implications for the nature of the relationship between social assistance and UI/EI and the extent to which social assistance might serve as a mechanism of income support to the unemployed. The most significant change here is the rise of the two-earner family as a proportion of all two-parent families. For these economic units, UI/EI as opposed to social assistance is likely to become the dominant mode of income support for periods where one earner experiences a spell of unemployment. Unless both earners experience unemployment simultaneously, it is much more likely that the family income will remain above the level at which social assistance becomes available than is the case for a one-earner family that experiences a spell of unemployment. Thus, the increasing prevalence of the two-earner family is likely to reduce the extent of overlap between social assistance and UI/EI and the extent to which social assistance serves as a mechanism of income support for the unemployed.<sup>79</sup>

It appears that the current trend amongst both orders of government has been toward off-loading recipients rather than uploading or downloading them. Uploading or downloading (facilitating the passage of beneficiaries from one program to another) is significantly different than off-loading them (removing recipients from a program and simply letting them fall where they may).<sup>80</sup> The reduction in UI/EI coverage is not a case of deliberately downloading claimants to provincial social assistance rolls. Ineligible claimants may be thought to follow a number of other strategies — finding alternative employment, exhausting savings, etc. — rather than receiving social assistance. There is no evidence of federal policies deliberately designed to make UI/EI recipients more likely to be eligible for social assistance. Uploading from provincial to federal programs has been much more prevalent with provincial social assistance programs sometimes being deliberately designed to allow recipients to qualify for federal UI/EI programs.<sup>81</sup>

However, it increasingly appears that this is a strategy of the past for at least two reasons. First, provincial governments appear to have found that uploading is a more expensive proposition than off-loading. Increasing the



benefits offered through a program is an incentive for a greater number of people to initially enter that program. Certainly, the prospect of gaining eligibility for further federal benefits would represent an added incentive for people to enter the social assistance system. Thus, there may be significant costs accruing to provinces in terms of higher caseloads resulting from the uploading approach. Less subtly, simply removing social assistance recipients from the welfare rolls is much cheaper than spending considerable sums to allow them to qualify for federal programs. The latter requires provision of an appropriate job placement for at least 20 weeks likely requiring recipients to be on social assistance rolls for upwards of six months. In many cases, the creation of appropriate job placements may be considerably more expensive than simply providing benefits.

Incurring such expenditures is considerably less attractive to provincial governments in the current circumstances. The financial benefits to the provinces of uploading must be weighed relative to expenditures incurred by keeping individuals on provincial social assistance. In a period of fiscal restraint where provincial social assistance benefits and eligibility are increasingly restricted, the financial gains of uploading are similarly diminished. Changes in federal EI policy have made it more costly for provincial governments to mount programs that enable provincial social assistance recipients to receive UI/EI benefits and less likely that recipients leaving social assistance for employment will be able to gain such benefits. Thus, it is less likely that provincial governments will tailor social assistance programs toward these ends.

Certainly, the shift to the CHST has increased the incentive for uploading and downloading. However, the incentive to resist either uploading or downloading also increased. Provinces are going to be much less willing to facilitate the shift between federal programs and provincial social assistance programs now that they bear the full financial weight of such shifts. Thus, it is not surprising that a recent OECD review of social assistance provision in four Canadian provinces found that "[b]ecause of relatively stringent needs tests, a relatively small proportion of EI claimants move directly into social assistance" and that the dominant trend in Canada has been toward further restrictions of asset limits.<sup>82</sup> Similarly, the federal government can be expected to be more resistant to changes in the opposite direction. While there are incentives both in favour of downloading/uploading as well as incentives in favour of resistance to such strategies, the balance of forces seem to favour the latter. The current political context marked by the politics of fiscal restraint has made it increasingly acceptable to off-load recipients than was previously the case.

Strategies required to resist downloading by another level of government fit more easily with the politics of fiscal restraint than strategies of uploading which may require increased spending.

Similarly, regarding the possibility of increasing interaction between the two programs versus the emergence of a growing gap between the two, the balance of forces appears to favour the latter. Both orders of government have taken actions that restrict the level of interaction between the two programs and contribute to a growing space between them. As UI/EI benefits become less accessible, it becomes less likely that those otherwise eligible for provincial social assistance benefits will also be eligible for UI/EI benefits. As access to provincial social assistance benefits becomes more restrictive, it is less likely that persons experiencing spells of unemployment will be eligible for benefits.

### *The State of the Data*

Of interest in explaining higher levels of social assistance receipt is the relationship between social assistance and unemployment levels. Clearly, increases in social assistance receipt appear to be associated with elevated rates of unemployment: "Welfare statistics dating back to the beginning of the Canada Assistance Program show a strong link between the number of people on welfare and the number of people who are unemployed."<sup>83</sup> With few exceptions, the correlation in individual provinces between the percent of the population receiving social assistance and the rate of unemployment is strong. The correlation between the proportion of the population receiving social assistance and the rate of unemployment across provinces and across time is also strong. (See Appendix A for rates of social assistance receipt, unemployment rates, and B/U ratios by province, 1988-98.) Again, with few exceptions, there is a strong negative correlation between levels of social assistance receipt and B/U ratios within provinces. The general trend is that, within a given province, the lower the B/U ratio the higher the rate of social assistance receipt. Thus, a cursory examination of this circumstantial evidence points toward two possible conclusions: that social assistance does play a significant role as a mechanism of income support to the unemployed and, secondly, that there is a strong relationship between social assistance and UI/EI. However, as noted, this evidence is at best circumstantial and can be explained by a number of alternate hypotheses. What is needed is more detailed empirical research into the interaction of these two programs.

In 1994, the Auditor General noted that there were information gaps on the interaction of the two programs and that "[t]he impacts of the two programs

should be clarified.”<sup>84</sup> However, an overview of the current state of the empirical data on this issue reveals that there is still, as one of the few reports on the subject notes, “very little work to date, directly examining the interaction between the UI and welfare programs.”<sup>85</sup> The empirical data which do exist are of two types: (i) direct empirical studies of the cross-over between the two programs and (ii) statistical examinations of the correlation between aspects of EI/UI provision and social assistance caseloads.

The empirical data of the first type are not only limited in terms of volume but in terms of the quality of the data presented. Most significantly, the data are limited in terms of being dated — the most recent of these studies dealing with data from 1994 which, while helpful, is not illuminating regarding the argument that the relationship between EI/UI has changed over the course of the 1990s. Second, only one study empirically examines interaction between social assistance and unemployment insurance *over time* and then only for two provinces. These studies demonstrate only limited overlap between social assistance and UI/EI. Also, they demonstrate that the nature of this interaction varies significantly by province — providing presumptive evidence of the importance of the structure of provincial social assistance systems. Finally, there is no substantial evidence that this interaction has been increasing in significance over time. (For an overview of this literature and the data it presents, see Appendix G.)

There is an emergent literature using statistical analysis to attempt to help discern the relationship between these programs. Arnau, Crémieux and Fortin provide excellent documentation of the causes of changes in social assistance caseloads in the 1977 to 1996 period and outline the effects of changes in UI eligibility, duration, and replacement rates on social assistance caseloads across all ten provinces over this 20-year period. They conclude that “[c]hanges in the UI wage subsidy ... have large effects on social assistance.”<sup>86</sup> Applying the estimated coefficient of correlation between changes in the UI wage subsidy and changes in social assistance caseloads over this 20-year period to UI changes in the 1990s, they suggest that UI restrictions may have increased social assistance caseloads by up to 24 percent — a figure which they note is five times higher than has ever been officially acknowledged. (Thus, estimates of the extent to which UI/EI reform has contributed to cumulative caseload increases in the 1990s range from under 5 percent,<sup>87</sup> to 10 percent,<sup>88</sup> to just under 25 percent,<sup>89</sup> to 50 percent in certain provinces such as Saskatchewan.<sup>90</sup>)

While the statistical case provided by Arnau, Crémieux and Fortin is compelling in its characterization of the relationship between UI and social

assistance over the entire 20-year period, there are good reasons to believe that this relationship has changed significantly over the 1990s — a consideration that their model does not explicitly take into account. They do recognize that changes in provincial social assistance administration may have significant impacts on the relationship between UI/EI reform and provincial caseload changes, arguing that provincial caseload decreases have occurred even in the face of tighter UI/EI eligibility because of more stringent administrative practices. However, changes in the 1990s toward tighter administration are suggestive of the fact that the number of people moving from UI/EI to social assistance is probably lower in the mid-1990s than over the entire period and suggest that estimations using a coefficient for the whole period likely overstate the increase in provincial social assistance caseload caused by EI restrictions.

The changes in the relationship between EI/UI and social assistance caused by changes in provincial social assistance administration as noted by Arnau, Crémieux and Fortin were examined by the OECD using parameter constancy tests to analyze the relationship between unemployment and social assistance caseloads.<sup>91</sup> The OECD reports structural changes in the relationship between unemployment and social assistance caseloads which coincide with policy reforms in New Brunswick (mid-1990 and end of 1994), Ontario (mid-1990 and beginning of 1996), and Saskatchewan (mid-1992). Reforms in all provinces in the early 1990s toward more generous social assistance regimes are associated with a structural change in the relationship between unemployment and social assistance caseloads.<sup>92</sup> However, a shift toward tighter administration in New Brunswick and — more markedly — Ontario in the mid-1990s are again both associated with structural changes in the relationship between unemployment and social assistance caseloads in these provinces. Undoubtedly, a similar examination of caseloads in Alberta would likely reveal a significant structural shift in this relationship resulting from the 1993 reforms to social assistance in that province. These examples demonstrate that estimating caseload increases resulting from EI/UI reform in the mid- to late 1990s on the basis of the relationship as it existed in the early 1990s would significantly overstate these effects.

## ASSESSING THE GOVERNANCE OF INCOME SUPPORT: THE CURRENT SITUATION

The intent of this section is to look more specifically at the assessment criteria spoken of above and outlined in the earlier work by Harvey Lazar and Tom

McIntosh<sup>93</sup> and in Chapter 1 in this volume. That methodology was predicated on the assumption that it would be possible to map the intergovernmental regime in specific areas of social policy and, by doing so, perhaps understand the trade-offs involved in moving to different forms of intergovernmental governance. The assessment that follows examines the interplay of three sets of factors: principles of federalism, democratic values or goals, and policy goals or outcomes. By understanding how the current regime in this sector reflects those principles, we can begin to understand the consequences of moving toward a different intergovernmental regime.

What must be understood is that this study is not an attempt to comprehend how these criteria apply to EI or social assistance as distinct programs, but rather how the programs reflect these criteria when taken together under the rubric of income support for the unemployed. The previous sections on the development of each of the programs and their interaction set the stage for this analysis. It was crucial to understand where these programs came from and how they interact. The fact that the understanding of the interaction is not as clear as it should be is one of the most important elements in the discussion that follows. Here an attempt is made to assess how the principles are reflected in the current governance of income support for the unemployed.

### *Putting Income Support on the "Map"*

As currently constituted, income support for the unemployed is best characterized as a "disentangled" form of intergovernmentalism. Given both the continuum of intergovernmental regimes and the intergovernmental relationships outlined in Chapter 1, then income support for the unemployed would fit clearly in the lower right quadrant of the map developed by Lazar and McIntosh.<sup>94</sup> Insofar as each order of government sets both the policy framework and implements the policy programs independently of each other, and that they are operating more or less clearly within their own jurisdictions, then such a regime can be characterized as being disentangled. That is, it exhibits, more or less, the characteristics of that idealized classical model of federalism with little or no overlap or duplication.

This relative "disentanglement" in the area of income support for the unemployed is evident from the discussion above concerning the development of both provincial social assistance programs and the federal UI/EI program. Though this gives us an initial sense of where the sector would fit on the map, it does not tell us much about the nature of the regime or the dynamics between EI and social assistance.

### *Income Support and Federalism*

Though the Canada Assistance Plan meant there was some federal involvement in the provision of social assistance through the federal spending power, the provinces have generally designed and implemented welfare policy with minimal federal interference. This is even more evident in the era of the Canada Health and Social Transfer which initiated a period of even fewer federal conditions on social spending transfers. Employment Insurance is clearly a federal responsibility and the provinces have no input, formally or informally, into its design or delivery. Provinces were made aware of the EI reforms in the mid-1990s, but in the words of one federal civil servant, such information-sharing was meant only to give provincial governments a "heads up" on a policy change that could well impact on their social assistance provision. If one accepts that the responsibility for the different elements of income support for the unemployed is divided more or less clearly then federalism principles are well served in this area of social policy. In this sense, the formal division of powers is respected and the political sovereignty of both orders of government is similarly maintained.

It might be possible, though, to conclude that there is no real commitment to either legal or political processes to resolve disputes or to improve outcomes. This stems, in effect, from the fact that both social assistance and EI are not just about income support and that the extent of the interaction between the two is not as clearly understood as it should be. Thus, the governments may be unaware of the actual extent to which policy changes within their competence affect the other order of government. However, the federal government was clearly aware that the implementation of EI would negatively affect provincial social assistance programs by restricting access to EI benefits, but the effects of these changes were significantly different in different provinces. As the discussion of the interaction between the two programs pointed out, the change from UI to EI is only one factor affecting provincial social assistance expenditures.

### *Democratic Governance and Income Support*

Insofar as democratic governance is predicated, at the most basic level, on the balancing of the interests of both majorities and minorities, the governance of income support is particularly problematic. In the case of EI and social assistance, the focus is clearly on a disadvantaged minority in need of assistance. However, the very nature of each program makes a crucial distinction between

these two minorities and the division of responsibility in this area and the politics surrounding each program reinforces this distinction. While such distinctions also exist in unitary states and do not exist in some federal states (like Australia), the federal division of responsibilities in this area reinforces this distinction.

From the start, EI has been envisioned as an entitlement created through individual contributions and supported by the sharing of risk between individuals. Social assistance rests on a distinction between the "deserving" and the "undeserving" poor or unemployable. Thus, when taken together as income support for the unemployed, EI and social assistance are perceived as serving entirely separate groups despite the changing sociological and economic factors discussed above which make such distinctions increasingly difficult to maintain. As long-term unemployment grows, as children are separated out of income-support programs, and as two-earner families become the norm, the deserving/undeserving distinction seems to make less and less sense. At the same time, the preservation of that distinction in the public's mind serves to inhibit the ability of those served by the programs to effectively mobilize politically insofar as they themselves are divided.

At first blush it would appear, given the clear division of responsibility, that levels of transparency and accountability would be relatively high. There is little confusion about "who does what" and citizens, therefore, know where to turn to demand information or lobby for changes to either program. Though some welfare advocates may trace provincial social assistance cutbacks to the withdrawal of federal funds through the CHST, there is little attempt to hold the federal government politically or electorally responsible for the actions of provincial governments. Yet, given the absence of good information on the interaction between the two programs — information that only both orders of government in collaboration are currently positioned to produce — such transparency is somewhat illusory.

These democratic shortfalls again appear to be most evident at the client level. If both programs have been constricted and if the distance between the two programs has been increased (or has been made more difficult to traverse for the client), then it may be more difficult for the client to understand why they have fallen between the two and whom to hold responsible. The fact that people fall between the two programs is not a result of the federal division of responsibility but, rather, a result of the functional division of responsibility between social insurance and social assistance and would continue to be problematic even in a unitary state.<sup>95</sup> However, in Canada, it is the division of

responsibility between the federal and provincial governments that accounts for the democratic failure by which people falling in between the two programs may not know which level of government to hold accountable. Although the problem of cost-shifting is "particularly difficult in federal countries,"<sup>96</sup> it is not the federal division of responsibility per se which allows for cost-shifting (which also occurs between administrative agencies in unitary governments); however, it is the federal division of responsibility that allows both orders to engage in attempting to shift democratic accountability for those falling between the programs.

Thus, there are two democratic deficits that can be ascertained: one that revolves around the lack of access points for citizens "in the middle" in order to seek redress and a second that relates to the process of marginalizing this group out of the social policy debate insofar as they no longer fall into either government's jurisdiction. As federal responsibility is increasingly being restricted to a "smaller part of the working population than before: those with strong attachment to the labour force" and increasingly stringent provincial needs tests ensure that "only a relatively small proportion of EI claimants flow directly onto SA upon expiry of EI," this democratic deficit will be magnified in the future as "any future downturn ... will leave a substantial proportion of the labour force without income."<sup>97</sup> At the same time, the relatively poor state of the data regarding the transition from EI to social assistance or the impact of falling B/U ratios on social assistance expenditures means that governments themselves do not appear to have a solid grasp on what is happening to those clients who exist between "the islands" of each program, or what will happen in future economic downturns.

With reference to the other democratic values noted in Chapter 1, the division between the two programs becomes important in making any significant assessment. As separate programs, there are reasonable levels of public consultation on major reforms and a significant role for both legislative committees and individual or groups of legislators. There are, of course, the kinds of democratic deficits associated with these policies that are connected with much of the legislative process generally. For example, the federal Social Security Review involved legislators, interest groups, and the public to a large degree. However, the final EI reforms were, as noted above, essentially hijacked by the federal Department of Finance and structured so as to serve the government's need/desire to balance its budget by increasing the surplus in the EI account and using those funds to eliminate the annual deficit. This reinforces the characterization of labour market policy-making provided in Chapter 2 by Rodney Haddow.



What seems clear at this point is that there is no effective role or even a means to find a role for citizens and legislators in the question of "income security for the unemployed." The division between the two programs in the public mind is replicated at the political level. In the public mind social assistance is "charity" for the "deserving poor" while Employment Insurance is an entitlement for which individuals have directly paid. The fact that these programs are both more and less than "income support for the unemployed" only further reinforces the division between them. This division is also apparent at the political level. Though political actors are well aware that changes to either program in terms of eligibility or benefit levels will have an impact on the programs of the other order of government, there has been no significant attempt to focus specifically on those interactions in a meaningful manner. Federal and provincial officials are well aware of the shortcomings of the data discussed above, and while there are some attempts being made to redress this, it requires a commitment of resources that simply are not available to all governments, especially the smaller provinces.

#### *Policy Goals and Outcomes*

The assessment of the policy goals and outcomes reflects a similar dilemma. As the second and third sections have outlined, the general goals of social assistance and EI are stated in very different terms and these goals are understood to be different by both the public and political actors. Taken separately, each program can be seen to reflect the goals noted above in various ways. Given the arguments presented above concerning the possibility of a growing pool of clients existing in the crack between the two programs, there appear to be a number of potentially serious policy failures when the programs are analyzed concurrently.

Social assistance is redistributive insofar as it provides a minimal, though perhaps not sufficient, means of support for those both in need and deemed deserving. Again, though, the extent to which social assistance as income support for the unemployed meets such goals is different from province to province and the extent of its redistributive nature has been compromised through provincial government cutbacks.<sup>98</sup> Employment Insurance is now less redistributive than was UI, at least in regional terms, and there is growing evidence that it is less redistributive in individual terms as well. At the same time, EI will continue to be a significant form of redistribution to economically less stable parts of the country despite the tightening of the rules and the reduced coverage.

In terms of both programs, it appears clear that another policy goal, namely cost-containment, has significantly constricted the redistributive impact of both programs as witnessed by the tightening of eligibility, the erection of barriers in the processing of claims, and the falling B/U ratios. The priority given to cost-containment in virtually all areas of social policy can be said to have increased the economic efficiency of these programs insofar as governments can point to smaller social assistance rolls and significant surpluses in the EI account which can be applied to the elimination of annual deficits.

The question of mobility raises a number of important concerns about the current state of governance in this area. An unemployed individual's ability to move in order to seek new employment has historically been linked with whatever form of income support they were receiving. In light of recent restructuring in both programs, it may well be the case that mobility has been further hampered.

With regard to UI/EI, benefits are portable and in this sense mobility should not be hindered. It has been asserted, though, that the relatively high benefits paid in the past and the higher generosity of the program in economically more troubled regions may have inhibited the willingness of individuals to move to areas where there are better job prospects. It is not clear, though, that lower EI benefits will spur movement. Given the resources needed to move from, for example, St. John's to Toronto, it would seem that having lower benefits would not spur movement to a new location away from formal and informal social support networks and with a higher cost of living.

In the midst of provincial cutbacks to social assistance in the early to mid-1990s, the federal government has made it clear that CHST transfers to the provinces will be reduced if provinces impose residency requirements on social assistance recipients. Though benefit levels and eligibility requirements differ from province to province, length of residency is not a valid criteria for eligibility. It remains the case that despite the public and political perception that generous welfare benefits attract claimants from other jurisdictions, claimants receiving lower benefits in one jurisdiction simply lack the resources necessary to make such a move even if they were willing to undertake it.<sup>99</sup>

However, the division of social assistance into provincial programs (even in the absence of residency requirements) likely poses significant barriers to mobility. First, benefits are not portable — just because you qualify in one province does not mean that you will qualify in another. Second, because of the complexity of assistance systems and special and discretionary benefits, social assistance recipients are unlikely to know how much assistance they

will receive in a new province. Third, recipients have to reapply for benefits in the new province and go through whatever waiting periods, administrative delays and hurdles (e.g., proving that they have exhausted all other means of support), and all the other various and sundry indignities that residents of that province applying for social assistance must go through. The ban on the residency requirement means that new arrivals cannot be treated differently from provincial residents — not that provinces cannot make it extremely hard for all applicants to get benefits. Thus, in stark contrast to EI where benefits are truly portable, the ban on residency requirements only partially alleviates the significant barriers that provincial social assistance erects against interprovincial mobility.

In terms of social equity, it seems fair to conclude that to some extent equality of access to income support during both short and longer term periods of unemployment has been sacrificed in order to contain costs. The falling B/U ratios and the recent coverage study conducted by the CLC seems to confirm this in the case of EI, especially given the current surpluses within that program. Social assistance cut-backs, the erection of barriers to accessing benefits and the move to shift children off social assistance rolls can be seen as further isolating the long-term unemployed and reinforcing the already significant stigma attached to those benefits. This simultaneous contraction of both income-support programs, and the extent to which the interaction between them is clouded by the poor state of the data, means that those who fall between the programs remain unaccounted for.

#### *Assessing the Current State of Governance*

Taken together as a means of income support for the unemployed, the two programs appear to present some important democratic and policy shortcomings. The separation of the two programs is probably not the most efficient means by which to provide income support, especially for the longer term unemployed. The simultaneous contraction of both social assistance and EI only reinforces those inefficiencies. The gap between the two programs, insofar as it is growing in some provinces, puts additional burdens on clients that can only be seen as negatively affecting both equity and developmental goals. The failure of governments to come to grips with the nature and degree of the social assistance-EI interface appears to be leaving a growing number of clients caught between the two programs.

However, to some significant degree this is not a policy failure per se to the extent that both federal and provincial tightening of requirements was intended to disenfranchise some proportion of potential recipients. The policy problems lie in not knowing who these people are, how and/or whether they are able to reintegrate into the labour market, and whether this system will be able to withstand the stresses of an inevitable economic downturn. As was noted above, the simultaneous contraction of both EI and social assistance has led to intergovernmental accusations of downloading and uploading of clientele. Yet there is little evidence to suggest that this is in fact happening to any great degree and there are important disincentives, especially for the provinces, for governments to expend significant resources to make this the case.

What is disturbing, though, is the possibility that what is happening is best described as off-loading, simply removing clientele from either the EI or social assistance rolls with no clear understanding of where they go from there. Obviously, some will find some form of employment while others will access private charity or fall back on family for support. As the requirement for "weeks worked" under the UI system increased in the early 1990s, even workers in those areas of the country heavily dependent on UI managed, in a high proportion of cases, to find the extra weeks needed to qualify for benefits. But it is simply inconceivable that this will account for all of the unemployed who qualify for neither program or who have exhausted their entitlements. The dilemma is that there is no clear picture of who these people are, where they are or how they are expected to return to the labour market. In the absence of a good understanding of the current interaction between the programs and the gap between them, there is no positive way of knowing how the system will stand up in the face of economic stagnation. In the final analysis, the system of income support for the unemployed exhibits both the strengths and weaknesses that were posited by Lazar and McIntosh. Disentanglement in a specific policy area may indeed be good federalism — each government acts only within its own sphere of competence with little overlap or duplication. However, such disentanglement may not produce the best policy outcomes and may create problems of democratic accountability and oversight.

## ASSESSING ALTERNATIVE GOVERNANCE SCENARIOS

In conceiving of alternative governance regimes, the goal is to attempt to ameliorate the shortcomings of the current regime while not weakening those

elements deemed to be its strengths. Again, the focus is on the trade-offs both within and between the assessment criteria. In addressing these problems, there are a variety of options that exist for restructuring the governance of income support for the unemployed. The first option encompasses modest adjustments aimed at making the current arrangements work more effectively. In short, the proposal aims at increasing the degree of information-sharing and coordination between the two programs in an effort to reduce the policy and democratic shortcomings while retaining the current division of powers and legislative competence. The second option would be a more radical reorganization of federal and provincial responsibilities in this area. This would involve either the transfer of EI to the provinces, the transfer of social assistance to the federal government, or re-dividing responsibilities in a manner that reflects other changes in the social union. In either case the aim is to create essentially a single (or at least coordinated) program of income support for the unemployed. With any of these options there are, however, other important political considerations that need to be recognized.

### *The Politics of Alternative Scenarios for Governance of Income Support*

Alternatives to the current structure of governance must be considered within the political context and associated set of political dynamics that will govern developments in this policy field into the millennium. Three factors are likely to contribute to strongly shaping the development of income-maintenance policy for the unemployed into the new millennium: current debates surrounding EI, dropping B/U ratios and the EI surplus; the emerging model of income-tested child benefits provided to all low-income families; and, finally, the social union agreement of February 1999 and the associated political pressures to make this agreement at least appear to work. The following section considers three possible avenues of development in income-maintenance policy for the unemployed — enhanced information-gathering/sharing, radical disentanglement, and the radical reassignment of responsibilities — in light of these considerations.

The Social Union Framework Agreement is motivated by a commitment to share information, to engage in joint planning, and to clarify roles and responsibilities as well as to publicly recognize and explain these roles and responsibilities. Certainly, if governments are serious about undertaking these tasks the provision of income support for the unemployed is undoubtedly a

likely candidate for such efforts. While the SUFA agreement may provide the impetus for a reconsideration of federal-provincial roles in this area, it provides much less guidance as to possible future avenues of reform.

More substantively, the extension of income-tested benefits for all low-income children in the mid- to late 1990s has acquired considerable *cachet*. This model is only just emerging and it is not at all clear that it will come to dominate either federal or provincial policy in this area. Nevertheless, it may provide both a model as well as political momentum in favour of a radical overhaul of the income-support system based on a separate provision of income support for dependent children (and those not expected to work) and income support for unemployed adults. Certainly, further movement in this direction will generate new demands for the clarification of the roles and responsibilities of the two orders of government. First, because they are income-tested and hence much more responsive than social assistance to changes in income resulting from unemployment, the linkage between these programs and the federal EI program will be more direct than was the case for provincial social assistance. Also, to the extent that children and the disabled are increasingly provided for under other programs, provincial social assistance programs will become more clearly programs of income support for unemployed adults.<sup>100</sup> One might well anticipate arguments that there will be no remaining justification for maintaining provincial programs of income support distinct from EI for non-disabled adults.

*The Politics of Intergovernmental Collaboration:  
Information-Gathering/Sharing Initiatives*

Information-gathering and sharing initiatives would be crucial first steps in reviewing governance arrangements for income support for the unemployed. The new social union agreement, which commits both orders of government to information-sharing, provides some grounds for optimism in these regards. However, there are reasons to limit this optimism as regards the extent to which either order of government can be expected to vigorously pursue such initiatives. Both data on what happens to individuals who leave or fail to qualify for social assistance and/or employment insurance as well as data on the interaction between the two programs have been conspicuously absent — an absence undoubtedly recognized by both federal and provincial officials. This dearth of data has not arisen in a political vacuum.

Both orders of government have political interests at stake in how the interaction between the two programs is portrayed — euphemistically referred to by the federal Auditor General as the “complexities of federalism.”<sup>101</sup> If restrictions in UI/EI have resulted in significantly increasing provincial social assistance caseloads, there may be significant disincentives to the federal government vigorously attempting to establish empirically that this is indeed the case. On the other side, the Auditor General notes “recent cuts to the Unemployment Insurance program could result in increased provincial welfare rolls but the two levels of government do not agree on the extent of this consequence. Such recent events have made provincial governments reluctant to provide more information on their welfare program activities.”<sup>102</sup>

The provincial claim that social assistance rolls are being swelled by individuals who, in the absence of new restrictions would be eligible for EI, is a key element in the new politics of social assistance. First, it helps provincial governments absolve themselves of responsibility for increased levels of social assistance receipt. These increased levels of receipt might otherwise be politically construed more clearly as the result of the failure of provincial economic or social policy. Second, it helps justify provincial restrictiveness in social assistance provision as provinces can portray restraint in social assistance programs as their unwillingness to bear the burden of federal withdrawal from its responsibilities. From the federal point of view, the political fallout of the charge of downloading (even if inaccurate) may be more palatable than the charge of off-loading — the claim that the federal government is denying benefits to the unemployed with no idea of where these individuals end up. It is one thing for the federal government to deny benefits to people who simply receive provincial social assistance benefits. It is another thing to deny benefits to people who then, at least in the short term, have no other government program on which to rely.

While the charge of off-loading may have more serious political implications for governments than the charge of downloading, the likelihood of the former being raised onto the political agenda and generating new pressure for information-sharing initiatives is less likely. In the case of downloading, the recipients who are “bumped off” a program have a strong political advocate in the government to which they are downloaded. However, individuals who are off-loaded and fall between programs — because they have no government to advocate their cause — are much less likely to have an effective political voice. In the context of a growing “space” between the two programs, there may be

an incentive for both orders of government to try and avoid blame for those who fall between the two programs. Periods of fiscal restraint are conducive to the politics of "blame avoidance" rather than the traditional politics of "credit claiming."<sup>103</sup> In such a context, pressures for renewed efforts at information-sharing may be slow to emerge. While the new social union agreement commits both orders of governments to such initiatives, whether they develop in a meaningful way in this policy area remains an open question.

### *Radical Reorganization: Further Disentanglement*

The social union commitment to the clarification of roles and responsibility combined with the new problems of overlap resulting from the emerging income-tested, child-benefit model may generate renewed calls for even more significant disentanglement — one based on a division between sectors as opposed to specific programs. Thus, EI and social assistance would be formally grouped together and responsibility for this amalgam given to one order of government. Whether disentanglement would take place through centralization or decentralization is an increasingly open question as current political dynamics generate new possibilities in both directions. The political salience of the obstacles to decentralization of responsibilities to the provinces, while still significant, may be fading. Alternatively, the changing situation in income support may generate new possibilities for the centralization of responsibilities.

There would likely be significant resistance to the transfer of EI to the provinces not the least of which is likely to come from some of the provinces themselves. The ability of the poorer provinces to fund such a program without either massive federal transfers or significantly higher premiums would make a downward devolution unlikely.<sup>104</sup> Equally important, there is no compelling political logic by which the federal government would willingly give up a program that has emerged as such a financial windfall — the cash cow of the 1990s. It may be questionable whether Canadian public opinion would support the devolution of EI to the provinces and would be even less likely to support the devolution of it to only some of the provinces. The Canadian public, even inside Quebec, believes strongly in "national programs," even in those areas (like health insurance) where they do not actually exist. Employment Insurance is one of few major national social program, and its devolution to the provinces would be politically problematic so long as EI retains some measure of political popularity.



However, political popularity of EI may increasingly be fading and this may allow the balance of forces to move in a decentralist direction. The discrepancy between contributions and coverage is even more stark than it has been historically and appears to be sufficiently visible to undermine the central appeal of unemployment insurance: that it is a benefit for which one pays and to which one is entitled.<sup>105</sup> Scrutiny of employment insurance benefits versus coverage in public debate is certain to implicate regional axes of political cleavage. Residents of the wealthier, more economically stable provinces may have been willing to accept, or at least to ignore, substantial B/U differentials when the unemployed in those provinces were also substantially covered by the program but this may no longer be the case. A final and more intractable problem for the political sustainability of EI as currently structured are structural changes in the labour market, particularly the growth of the dual-earner family, which may be contributing to the long-term erosion of the political bases of support for employment insurance. Dual-earner families are less vulnerable to the risk of income disruption posed by unemployment and more able to provide for themselves in periods of unemployment than single-earner families; yet, they pay two premiums for their coverage.<sup>106</sup> As the proportion of dual-earner families has increased relative to the traditional one-earner families — the model upon which employment insurance is largely based — increasingly it may be that “the system provides an insurance which they do not really need for those who fund it.”<sup>107</sup> Following this analysis, it should not be surprising that “the social basis of this system is eroding.”<sup>108</sup>

These dynamics have important implications for the intergovernmental regime governing employment insurance. First, they will impose sharper political limits on the extent to which EI can be used as a source of revenue by the federal government: limits that will become even more constricting as Canada enters the next recession. Second, these changes may effectively negate arguments against decentralizing responsibility for EI to the provinces. In the context of a general reduction in the need to protect individual earners and greatly restricted coverage, contributing workers probably have much less incentive to support enriching benefits, protecting coverage or maintaining pan-Canadian portability than simply limiting the contributions they make to the program. Those provinces that could mount a credible claim that a provincial employment insurance program could be run at similar or even reduced levels of coverage with much lower premiums may be able to tap into a powerful thread of public sentiment to a degree not possible in the past when insuring the family's single breadwinner against unemployment may have been a much

more central concern than reducing premiums paid. Further, for individuals who need EI less than was the case in the past and who are also less likely to qualify for benefits under the current regime, a provincial race to the bottom in benefits and coverage might not appear particularly problematic especially if it holds any promise for a race to the bottom in premiums.

At the same time, current political dynamics may be generating new possibilities for centralizing responsibility for all low-income persons. The political feasibility of centralizing responsibility for low-income people at the federal level by moving responsibility for social assistance to the federal level might seem unlikely as it presently exists.<sup>109</sup> However, this is a policy field currently in considerable flux and some of the main obstacles to centralizing responsibility for income support for the needy at the federal level may become considerably less salient than is currently the case. Income-tested benefits are clearly within the jurisdictional purview of the federal government while needs-tested social assistance is not. A strong federal role in the provision of income support to the needy becomes more likely as income support comes increasingly to be dominated by the income-tested model rather than the needs-tested model. However, should provincial social assistance provision increasingly become recast as a separate income-tested program for all low-income people with children and a residual needs-tested social assistance program for non-disabled adults, provinces may be reluctant to relinquish the former as such programs may come to enjoy a political popularity that is not currently enjoyed by needs-tested social assistance.<sup>110</sup>

Alternatively, the social union commitment to the clarification of roles and responsibilities, the emergence of a new model of provision of income support, and the political dynamics surrounding EI may create a window of opportunity for radically reorganizing responsibilities in this policy field in ways that would not be politically feasible in the current context.

One possible direction would be the provincial assumption of responsibility for income support for children and the disabled, and the federal government taking responsibility for income support for all able-bodied adults. Clearly, there are some potential objections to such a development. For example, given current patterns regarding the decentralization of responsibility for active labour market programs to the province, the centralization of income support for all employable adults would leave passive and active programs as the responsibility of different orders of government. As the linkage between income-contingent child benefits and EI become more direct and immediate (as is argued above), the reasons for avoiding bifurcation become all the more

compelling. Politically, it is far from clear that the federal government would willingly cede its recently reinvigorated role in the provision of benefits to children.

Another possibility would be the federal acceptance of responsibility for all low-income children with provincial governments taking full responsibility for income support and active labour market programming for unemployed adults. Linking these changes together may mollify those whose preference for national programs would preclude their support for the decentralization of responsibility for EI. Income support for children also has more appeal as a program guaranteeing pan-Canadian rights of citizenship than contributory earnings insurance for unemployed adults. The most significant remaining obstacle will be that which currently bars the transfer of federal responsibility of EI to the provinces — it represents a large cash windfall. However, as argued above, the financial attraction of EI is limited politically and will certainly fade as the next recession sets in.

### *Assessing the Alternatives*

Although the politics that surround the alternative regimes are important, there is still another dimension around which they need to be assessed. Our interest here is in understanding the trade-offs (what would be lost and what would be gained) in moving income support toward a different intergovernmental regime relative to the same criteria used to assess the current regime. In other words, what happens to the nature of the governance of the regime when the policy sector moves around the map. What follows, then, is a discussion of what could result from such a move in terms of the practice of federalism, democratic oversight, and policy goals.

### *A Radical Reorganization*

The so-called “radical” option would formally recognize that income support for the unemployed needs to be taken as a single policy area. Thus, there are those who argue that the interaction and overlap between the two programs increasingly requires that coordination be undertaken by a single order of government. There is also the possibility, outlined above, that the distance between the two programs is becoming wider. Thus, while there may be less interaction and overlap between the two programs, there are still important arguments for making the current system more disentangled by making the

division of responsibility even more clear. The rationale for coordinating the programs under one order of government is to avoid both policy and democratic failures: policy failures resulting from a disentangled regime that result in unemployed individuals falling through the middle without knowing who they are, how or whether they are reinserted into the labour market, or what the effects of a future downturn will be and democratic failures resulting from each government being able to avoid responsibility for these people in the middle. With this in mind, there are two possible options: centralizing income support for the unemployed at the federal level or, alternatively, decentralizing all responsibility for income support for the unemployed to the provinces.

In his recent work on the restructuring of the welfare state John Richards makes the point that the federal government is best suited to large-scale passive income redistribution on a national scale.<sup>111</sup> Thus, one option in this regard would be to transfer "income support" to the federal government, while "active labour market" policy stays with the provinces.<sup>112</sup> In keeping with this type of approach, Vaillancourt argues, regarding the interaction between social assistance and EI, that an appropriate solution would involve:

the federal government finally taking over the field of income support by a constitutional amendment giving it responsibility for welfare. This would allow full coordination between EI and welfare payments and programs, and make offloading activities unnecessary. Provinces could still administer welfare. Such an amendment would raise the hackles of all Quebec politicians. Ottawa could ignore this or choose to devolve EI and welfare to Quebec. What matters is coordination.<sup>113</sup>

Alternatively, other observers call for the decentralization of responsibility for EI back to the provinces — a solution that has been discussed particularly with reference to Quebec. Noël argues:

a labour market policy that is integrated and sensitive to market realities is only possible at the local level and must be based on concentration at the local and provincial levels. Ideally, all passive income support measures would be integrated into active human resources development measures, which would imply making employment insurance a provincial responsibility.... In this case, decentralization, not the imposition of national standards, is the way to promote innovation and social development.<sup>114</sup>

Neither of these two scenarios violates the principles of federalism nor is inimical to the logic of federalism as either of these scenarios would involve

a reordering of the constitutional responsibilities within the federation and would require both levels of government to agree to such a reordering. It seems likely that either centralization or decentralization of income support for the unemployed would necessitate a constitutional amendment to move responsibility for EI to the provinces or social assistance to the national government. Such a move would require the consent of the governments concerned and in this sense would, in fact, demonstrate a shared commitment to the resolution of intergovernmental conflicts.

Both approaches would have some significant impacts on the kinds of failures associated with the disentangled system as it stands. If either order of government took full responsibility for the unemployed more generally, it would reduce the ease with which governments are able to deny responsibility for people who fall between the programs and reduce the scope for governments to avoid blame for serious flaws in this policy field.<sup>115</sup> Having only a single government involved in program design and delivery would ameliorate those problems that currently exist in terms of transparency and accountability. Similarly, questions of equity and human development could be addressed by removing the distinction between the "deserving" and the "undeserving." People would simply be unemployed. The intergovernmental tension over the cuts in federal transfers or the surplus in the EI account could also be lessened if only one government was involved. Finally, the sole government responsible for income support to the unemployed would be well-placed to determine the magnitude of the group falling between programs, who they are and whether or not they are able to reinsert themselves into the labour market. It would also be better placed to attempt to judge the sufficiency of the system in light of future economic downturns.

There would be some important trade-offs. The federal government, with its control over important aspects of the tax system, could be better suited to integrate income support for the unemployed into much more of a "seamless web" than could the provinces. This would, of course, encourage those who support the eventual creation of something along the lines of a Guaranteed Annual Income (GAI), though this need not be the ultimate endpoint of such coordination. At the same time, centralizing income support with the federal government might need to be part of a grand vision (such as a GAI proposal) in order to overcome the political and constitutional obstacles that would confront such a move.

While Noël is correct that for most people the relevant labour market is the local one and there is much to recommend the integration of both passive

and active measures, the question of mobility cannot be so easily dismissed. The structure and level of benefits may not encourage movement, but they should not be a barrier if an individual chooses to relocate. The levels of inter-provincial movement are significant and the question of the portability of benefits under a radically decentralized system would need to be addressed. Overcoming the mobility question would require a significant degree of inter-provincial collaboration, perhaps along the lines described in Tom Courchene's ACCESS model. The dilemma here, of course, is that there is no precedent for such agreement, especially in the absence of the federal government.

The policy trade-offs here are quite stark. A centralized system would encourage mobility based on the portability of benefits. It would, though, reinforce the separation of active and passive labour market measures and would, thus, run counter to the current process, under the Labour Market Development Agreements, that has devolved active measures to most of the provinces. This process has been predicated on the belief that provincial governments can more effectively respond to the economic and social needs of individuals within their local labour market. There is no simple calculus that makes one choice more readily preferable, but rather it involves an essentially political choice over which goals and values are to be given priority.

In terms of equity and redistribution, there are also concerns that would need to be addressed — at least insofar as the focus is on pan-Canadian equity. It seems unlikely that some of the provinces could finance unemployment insurance on their own for their own citizenry. As it stands, the national EI system still transfers billions of dollars across the country — transfers that are vitally important to the economic life of the recipient provinces. In policy terms this would mean either large differentials in premiums across the country (relative to the "risk" involved) or significantly different benefit levels. Not only would pan-Canadian equity possibly suffer, but also such a move would run counter to the public's oft-expressed desire for comparability of programs across the country. This could be countered by a major restructuring of the existing equalization schedule in order to offset these missing transfers. The political dilemma in this is determining whether Canadians would accept the more transparent and much larger equalization system that would be required in moving EI to the provinces. Provincial politicians in provinces receiving implicit equalization under EI are likely to be resistant to moves that result in making such equalization more visible and thus more politically tenuous. This would require a forthright commitment on the part of Canadians to see this larger system of equalization as part and parcel of Canadian citizenship.

*Making the Current System Function Better*

A number of large-scale changes are currently underway — the changing nature of work, longer terms of unemployment, less job stability, shifts in the composition of households — which undoubtedly are having and will continue to have crucial impacts on the effectiveness of various approaches to providing income support. However, perhaps the biggest obstacle in suggesting options for the future governance of income support is that the level and nature of interaction between EI and social assistance is still very unclear. Vaillancourt's point about coordination being essential, though, suggests a much less radical option that could, in some way, begin to provide a solution to the problems associated with the current state of governance.

As was noted throughout this study, one of the biggest challenges is understanding the interaction, overlap or possible "space between" the two programs of income support. This makes assessing the exact nature and extent of any possible policy failures very difficult and this is further complicated by the existence of ten separate provincial social assistance programs with their different histories, rationales, etc. There is evidence of significant overlap between the two programs, but what overlap exists is asymmetrical, varies widely from province to province, and is likely to be qualitatively quite different now than it was at the outset of the 1990s. What may be needed, in the first instance, is not a widescale process of policy collaboration or coordination but an increased level of information-sharing and government commitment to understanding the interaction of social assistance and EI. To some extent, this would entail operationalizing the commitment made in this regard in the Social Union Framework Agreement.

As a starting point, there would need to be a forum through which such information-sharing and policy analysis could be accomplished and a likely candidate is the currently constituted Forum of Labour Market Ministers. This intergovernmental body could, if it had some increased resources, become a means by which governments could begin to come to grips with understanding how the current disentanglement in this area is operating.

Increased levels of intergovernmentalism always carry some risks and this would be no different. The point of using the Forum of Labour Market Ministers (FLMM) would not be to set up some kind of extra-parliamentary policy-making body that would further remove income support from political or public oversight. Rather, the FLMM could propose merely to begin a process of information collection and sharing that would give both levels of

government a better idea of the implications of their policy changes on the other governments. At the same time, though, if the FLMM managed to undertake a more comprehensive analysis of the interaction then it might provide much more in terms of making governments accountable and make what is happening with the simultaneous contraction of social assistance and EI more transparent. It may be the case that Vaillancourt is right about the "necessity" of coordination. It seems that moving first toward a better understanding of what exactly needs to be coordinated would be a modest beginning. To some extent this is a naïve and technocratic solution, but it could be the means to begin addressing the problem of tracking the "people in the middle."

### FINAL THOUGHTS ON THE GOVERNANCE OF INCOME SUPPORT FOR THE UNEMPLOYED

The options outlined above are not the only ones that could be put forward in terms of rethinking income support for the unemployed. They are directed though at alleviating the most important problem in terms of the current governance regime, namely the possible existence of a growing number of people who survive between Employment Insurance and social assistance. Yet as should be clear, it is impossible to solve the perceived policy gaps without also changing the constellation of forces around the principles of federalism and democratic governance. From the outset, this study has tried to recognize that any change in the way these programs are structured and delivered will involve trade-offs in these areas.

The relationship between UI/EI and social assistance varies significantly across provinces and, somewhat more tentatively, also varies significantly across time. There are broad structural changes taking place which, while shifting the relationship between these two programs over time, likely play out quite differently in the various provinces. In addition, there are also more obvious and immediate political factors contributing to shifts in the relationship between the two programs across provinces and across time. The broad perception that the two programs are increasingly overlapping is a more apt characterization of patterns of development in a context of expansion at the federal level (or in particular provinces) rather than the more recent period of relatively generalized restraint. In the latter, it is likely that a more accurate depiction is one of the two programs pulling away from the other, leaving a growing space between the two. Again this would vary from province to province. However, in



certain senses, each of these two very different patterns of development present certain similar policy challenges.

The current allocation of responsibilities between the two orders of government respects the formal division of powers in the Canadian federation. The existing sharply bifurcated approach to income support for the unemployed respects their jurisdictional sovereignty. There *may* be costs in terms of a limited ability to use either program as an effective tool of labour market policy; however, it is not clear that a similar functional division between social insurance and social assistance within one level of government would not simply replicate many of the problems currently evident in the existing system. It is likely, though, that problems in information-gathering which represent the most obvious policy failure would be lessened if both types of programs were the responsibility of one level of government. Also, there are clearly costs in terms of democratic responsibility for and accountability to those who fall between the two programs. In regards to income support for the unemployed, this information failure and democratic deficit represents the "price of federalism."<sup>116</sup> For a variety of pragmatic reasons outlined above, both orders of government in Canada may continue to be willing to pay it. In a multinational federal system designed to accommodate "territorially defined national minorities within a multination state" (as opposed to territorial federalism in which "a single national community can divide and diffuse power")<sup>117</sup> there are also important *principled* reasons for doing so.

The current arrangement of political forces makes it appear unlikely that changes to the status quo are imminent and, unfortunately, making the current system work better while respecting the present federal division of powers may also face significant political obstacles. However, there may be longer term patterns emerging that will present new sets of options ranging from concentrating responsibility for income support for all individuals in need with one order of government to novel possibilities for a more complex division of responsibility for income support for adults and children. While these new options may present the opportunity to modernize the social union, they do not necessarily *have* to but *may* also "take us away from the logic of federalism."<sup>118</sup> Whether various governments in Canada are willing to pay this price in negotiating a new social union remains to be seen.

APPENDIX A

Social Assistance Receipt (% of Population), Unemployment Rate (%), and B/U Ratios, by Province, 1988-98

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Corr:SA-B/U	Corr:SA-UR	Corr:UR-B/U
Nfld.	SA	8.2	7.7	8.2	8.9	10.3	11.7	11.6	12.3	12.4	12.4	11.1		
	UR	16.4	15.7	17.0	18.3	20.2	20.1	20.4	18.3	19.4	18.8	18.7		
	B/U	1.61	1.73	1.53	1.53	1.42	1.26	1.02	0.89	n/a	0.76	n/a	0.76	-0.58
PEI	SA	6.6	6.2	6.4	7.7	8.8	9.4	9.8	9.3	8.7	8.3	8.1		
	UR	12.8	14.0	14.9	17	17.9	18.1	17.2	14.7	14.5	15.1	15.4		
	B/U	1.34	1.32	1.19	1.18	1.13	1.12	1.02	0.97	n/a	0.83	n/a	0.63	-0.31
NS	SA	7.9	8.1	8.4	9.2	9.9	10.5	11.1	11.1	11.0	10.0	9.1		
	UR	10.2	9.9	10.6	12	13.1	14.6	13.3	12.1	12.6	12.3	10.6		
	B/U	1.02	1.07	1.03	1.02	0.95	0.82	0.83	0.72	n/a	0.58	n/a	0.81	-0.53
NB	SA	9.3	8.9	8.9	9.5	10.3	10.3	9.7	8.9	8.8	9.3	8.8		
	UR	12.0	12.4	12.1	12.8	12.8	12.5	12.5	11.5	11.7	12.9	11.6		
	B/U	1.32	1.25	1.29	1.35	1.32	1.27	1.17	1.05	n/a	0.79	n/a	0.66	0.05
Que.	SA	8.2	7.7	7.6	8.2	9.3	10.2	10.8	11.0	11.2	10.9	10.0		
	UR	9.4	9.3	10.2	12.0	12.8	13.2	12.2	11.3	11.8	11.4	9.9		
	B/U	0.90	0.94	0.92	0.88	0.82	0.75	0.69	0.62	n/a	0.50	n/a	0.52	-0.44
Ont.	SA	4.9	5.4	6.2	8.5	10.8	11.8	12.6	12.3	11.1	10.5	10.0		
	UR	5.0	5.1	6.3	9.6	10.9	10.6	9.6	8.7	9.1	8.5	6.9		
	B/U	0.64	0.60	0.64	0.59	0.53	0.49	0.42	0.36	n/a	0.30	n/a	0.83	-0.47
Man.	SA	5.5	5.6	5.9	6.3	7.2	7.8	7.9	7.5	7.6	7.0	6.4		
	UR	7.9	7.6	7.3	8.9	9.7	9.3	9.2	7.5	7.5	6.6	5.9		
	B/U	0.67	0.71	0.71	0.65	0.57	0.54	0.45	0.46	n/a	0.38	n/a	0.36	0.04

... continued

APPENDIX A  
(continued)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Cor-SA-B/U	Cor-SA-UR	Cor-UR-B/U
Sask.														
SA	5.9	5.6	5.3	5.3	5.9	6.7	7.8	8.1	7.9	7.8	7.1			
UR	7.5	7.5	7.0	7.3	8.2	8.0	7.0	6.9	6.6	6.0	6.3			
B/U	0.67	0.68	0.67	0.70	0.62	0.59	0.54	0.44	n/a	0.36	n/a		-0.57	-0.52
Alta.														
SA	5.5	5.6	5.5	5.8	6.9	7.2	5.1	4.2	3.9	3.3	2.8			
UR	8.1	7.3	7.0	8.3	9.5	9.7	8.6	7.8	7.0	6.0	5.7			
B/U	0.63	0.68	0.65	0.65	0.58	0.53	0.50	0.44	n/a	0.32	n/a		0.89	0.26
BC														
SA	6.6	6.3	5.9	6.7	7.6	8.8	9.6	10.2	10.1	8.8	8.1			
UR	10.3	9.1	8.4	10.0	10.5	9.7	9.4	9.0	8.9	8.7	8.0			
B/U	0.74	0.76	0.80	0.75	0.66	0.65	0.54	0.47	n/a	0.39	n/a		-0.17	0.28
Canada														
SA	6.3	6.3	6.6	7.8	9.3	10.2	10.6	10.5	10.0	9.5	8.8			
UR	7.8	7.5	8.1	10.4	11.3	11.2	10.4	9.5	9.7	9.2	8.0			
B/U	0.82	0.83	0.82	0.77	0.70	0.65	0.58	0.52	n/a	0.42	n/a		0.70	-0.40
COR.														
SA-B/U	0.74	0.67	0.79	0.66	0.55	0.43	0.30	0.20	n/a	0.46	n/a			
SA-UR	0.71	0.62	0.64	0.64	0.58	0.59	0.51	0.52	0.63	0.68	0.58			
UR-B/U	0.93	0.97	0.96	0.87	0.85	0.81	0.79	0.79	n/a	0.89	n/a			

Notes:

SA=Social assistance beneficiaries as a percent of total population.

UR=Unemployment rate.

B/U=Ratio of UI/EI beneficiaries to total unemployed.

COR=Coefficient of correlation.

APPENDIX B

FAMILY COMPOSITION OF THE SOCIAL ASSISTANCE CASELOAD

Examining social assistance receipt in British Columbia and New Brunswick from 1986 to 1992, Barrett *et al.* argue that “there is a growing tendency for individuals with characteristics normally associated with high employability and strong labour market attachment — young single men and women and members of two parent families — to increasingly rely upon welfare. The clientele for which the social assistance programs were originally conceived and designed, the disabled and single parent families, accounted for a diminishing proportion of recipients.”<sup>119</sup> These types of demographic changes in the caseload make claims of higher proportions of employable recipients more credible.

However, despite such claims and the fact that they appear credible in particular provinces in particular periods, overall, there appears to be little evidence to suggest that the nature of the caseload has changed dramatically and the data are much less compelling for Canada as a whole in more recent times.<sup>120</sup> From 1987 (when CAP annual reports first began to include the family composition of households receiving social assistance) to 1994, there was *no change* in the family composition of social assistance recipients. Children continued to make up 36-37 percent of the total number of recipients, single parents continued to constitute 15 percent of the total, and the proportion of single persons actually declined — albeit only from 32 percent to 31 percent of the total caseload.<sup>121</sup> This suggests that Barrett *et al.*'s findings are only of limited applicability.

Examining the 1990s, these claims have no resonance as regards overall Canadian caseloads. As the National Council of Welfare has noted: from 1990 to 1997, “[t]he distribution of welfare cases by family type did not change much.”<sup>122</sup>

TABLE B-1  
Distribution of Types of Welfare Caseloads

	<i>Singles</i>	<i>Couples (no children)</i>	<i>Single Parents</i>	<i>Couples (with children)</i>
	%	%	%	%
1990	57	5	29	9
1997	55	5	29	11

Note: Caseload figures are not equivalent to the proportion of individuals making up social assistance rolls. While single persons make up a relatively high proportion of the caseload, they comprise a much smaller percentage of the total population of social assistance beneficiaries.

However, this picture varies considerably across provinces.<sup>123</sup> Most provinces for which data are available have seen only minor increases in the number of singles as a proportion of the total caseload. Alberta and New Brunswick stand out — experiencing 35 percent and 20 percent increases respectively in the proportion of single recipients in the period from 1986 to 1992 and small decreases since then. In Ontario, the proportion of the caseload comprised of single individuals has dropped by 15 percent in the 1985-97 period. Elsewhere, changes have either been quite modest increases or modest decreases. Thus, outside Alberta and New Brunswick, there has been no swelling of the social assistance rolls by single recipients.

From 1985 to 1997, single parents as a proportion of the caseload increased by 17 percent in Ontario in this period and increased more modestly in Newfoundland, PEI, and Quebec while remaining unchanged in BC. The proportion of the caseload comprised of single parents increased substantially in Nova Scotia from 38 percent of the caseload to over 50 percent from 1992 to 1997. Thus, the proportion of the caseload comprised of those for whom social assistance programs “were originally conceived and designed” has been *increasing* rather than decreasing.

Data regarding two-parent families — another group which Barrett *et al.* refer to as having “characteristics normally associated with high employability” (p. 35) — are only available for five of the provinces from 1985 to 1997 and another two for 1992 to 1997. From 1985 to 1997, in most of these provinces, the proportion of the caseload comprised of two-parent families has been declining significantly: ranging from a decline of 35 percent in British Columbia and roughly 25 percent in Newfoundland, PEI, and New Brunswick. In Quebec, this proportion remained the same from 1985 to 1997. From 1992 to 1997, this proportion dropped by half in Nova Scotia while remaining roughly the same in Saskatchewan.

What can one conclude by comparing changes in the proportion of employable recipients with changes in the family composition of the caseload? The evidence is mixed and varies across provinces. In Alberta from 1987 to 1994, there was both a considerable increase in employable recipients (+30 percent) that occurred concomitantly with an increase in the number of single persons receiving assistance (+35 percent). It is hard to overlook the likely connection between these two changes. The evidence elsewhere is much less clear. Recipients *within* particular categories might well be more employable than they were in the earlier period and changes in the level of employability

TABLE B-2  
 Provincial Caseload by Family Type, 1985-1992

	Single			Single Parent			Couple			Couple +child		
	1985	1992	1997*	1985	1992	1997*	1985	1992	1997*	1985	1992	1997*
	%	%	%	%	%	%	%	%	%	%	%	%
Nfld.	46.4	45.3	48	19.9	25.1	22	7.7	8.8	10	26.0	20.8	19
PEI	50.6	50.8	53	27.2	31.8	29	4.1	4.6	5	18.2	14.2	13
NS**	n/a	44.3	39	n/a	38.1	52	n/a	5.1	3	n/a	12.3	6
NB	42.5	51.2	47	33.6	31.7	31	5.3	5.8	8	18.6	11.3	14
Que.	64.0	65.2	64	20.0	20.1	21	5.7	5.5	6	10.4	9.1	10
Ont.***	55.5	51.2	47	30.0	33.3	35	n/a	n/a	5	n/a	n/a	13
Man.**	n/a	n/a	46	n/a	n/a	48	n/a	n/a	3	n/a	n/a	3
Sask.****	53.9	56.3	54	n/a	28.1	31	n/a	4.2	4	n/a	11.3	11
Alta.*****	34.3	46.6	44	n/a	n/a	39	n/a	n/a	5	n/a	n/a	12
BC	59.7	64.0	63	25.4	24.9	25	4.2	4.0	4	10.8	7.0	7

## Notes:

\*Data for 1997 from National Council of Welfare, *Profiles of Welfare: Myths and Realities* (Ottawa: Minister of Public Works and Government Services, 1998), p. 12.

\*\*Data do not include municipal benefits.

\*\*\*Data for Ontario do not distinguish couples without dependants from two-parent families.

\*\*\*\*Data for Saskatchewan (1985) only distinguish between singles and families.

\*\*\*\*\*Data for Alberta only distinguish between single individuals and families.

Source: National Health and Welfare, *Inventory of Income Security Programs in Canada* (Ottawa: Supply and Services Canada, 1995).

of recipients may be more than an artifact of changing definitions of employability. However, changes in the number of employable social assistance recipients are not the result of changes in the proportions of the caseloads comprised of various family types which are generally assumed to exhibit differing levels of employability as is suggested by Barrett *et al.*

## APPENDIX C

SOCIAL ASSISTANCE BENEFICIARIES AS A PROPORTION OF THE  
UNEMPLOYED

Wong's data reveal wide variation in the extent to which residents of the various provinces are represented among those receiving social assistance in comparison to their representation in the total sample of all people experiencing job separations. Newfoundland, Nova Scotia, New Brunswick, and Quebec are notably underrepresented in the sample receiving social assistance. Conversely, Prince Edward Island, Ontario, and British Columbia are strongly overrepresented. With the exception of Manitoba and Prince Edward Island,<sup>124</sup> the receipt of social assistance by those experiencing job separation is lower in Quebec and the Atlantic provinces than in Ontario and the western provinces. These differences are suggestive of at least two possibilities: (i) significant differences in the provision of social assistance to the unemployed across provinces, and (ii) significant provincial/regional variation in the provision of other programs of income support to the unemployed — primarily UI/EI.

TABLE C-1

Ratio of Provincial Proportion of Job Separations Using Social Assistance (within five months) to Provincial Proportion of all Job Separations, 1993

	<i>Proportion of all Job Separations</i>	<i>Proportion of Job Separations Receiving Social Assistance</i>	<i>Ratio</i>
	%	%	
Nfld.	2.2	1.0	0.45
PEI	0.6	0.8	1.33
NS	3.4	2.5	0.74
NB	3.4	1.9	0.56
Que.	25.8	12.5	0.48
Ont.	35.9	46.9	1.31
Man.	2.9	2.4	0.83
Sask.	2.5	2.5	1.00
Alta.	9.5	9.6	1.01
BC	12.0	17.3	1.44

Source: Ging Wong, *Job Separation and the Passage to Unemployment and Welfare Benefits* (Ottawa: Insurance Programs Directorate, Evaluation Branch, Strategic Policy, Human Resources Development Canada, 1994).

## APPENDIX D

### SOCIAL ASSISTANCE ASSET EXEMPTIONS IN THE PROVINCES

Asset exemptions are *crucial* in determining the availability of social assistance as a mechanism of income support to the unemployed. They are a critical component in determining whether unemployed persons are *in need* and thus eligible for assistance. Lowering asset exemptions will result in a lower proportion of the unemployed being eligible for social assistance benefits. Over the course of the 1990s, several provinces have made significant changes to their asset exemption policies that have served to further restrict the level of allowable assets and make social assistance *less* available as income support for the unemployed.

Under CAP, the federal government specified guidelines in 1980 as to the maximum levels of liquid assets that social assistance recipients could hold in order for provincial social assistance programs to qualify for cost-sharing as providing assistance to people deemed to be "in need." These limits were to ensure that provinces would not use cost-shared social assistance programs as more generalized programs of income supplementation or income support to the unemployed for people other than for those having exhausted their own private means. In 1980, these federally stipulated limits were \$2,500 for a single non-disabled person and \$5,000 for a person with one dependant (either spouse or child) plus \$500 for every additional dependant.<sup>125</sup> Although these limits have never been increased, in 1998 dollars, the 1980 limits would amount to \$5,175 and \$10,350 respectively. These are considerable amounts. It would be quite unimaginable in the current political context for provinces to allow a single parent to qualify for social assistance while holding the equivalent of \$10,000 in cash or liquid assets. As it turned out, these federal limits were unnecessary. In the 1990s, British Columbia was the only province to set liquid asset exemptions at the federally stipulated maximum and then only for a brief period (1992-95). Rather, in most provinces, liquid asset exemptions were set *far* below this limit to *ensure* that social assistance *would not be used* as a program of income support by those who found themselves temporarily unemployed, although there are significant differences among provinces

The correlation between family asset exemptions and the proportion of job separations that result in receipt of social assistance in each province ranges from moderate to strong.<sup>126</sup> Certainly, high levels of asset exemptions appear as a plausible explanation of high rates of social assistance receipt by those experiencing job separation in British Columbia and Ontario. (See Table C-1.)



TABLE D-1

Liquid Asset Exemptions for *Employable* Applicants, by Province, 1990-1996

	<i>Single</i>			<i>Couple, 2 Children</i>		
	1990	1993	1996	1990	1993	1996
	\$	\$	\$	\$	\$	\$
Nfld.	40	40	40	100	100	100
PEI*	50	50	50	50	50	50
NS**	0	0	0	0	0	0
NB	500	500	1,000	1,000	1,000	2,000
Que.	1,500	1,500	689***	2,794	2,794	1,316***
Ont.****	130-260	153-306	106-212	1,379-4,137	1,572-4,715	1,220-3,660
Man.**	0	0	0	0	0	0
Sask.	1,500	1,500	1,500	4,000	4,000	4,000
Alta.*****	1,500	1,500	1,500	2,500	2,500	2,500
BC	160	2,500	500	1,500	6,000	6,000

## Notes:

\*Asset exemptions are higher (\$200 for a single individual and up to \$2,400 for a family depending on size) after four months of social assistance receipt.

\*\*Liquid assets are municipally determined but are "generally required to be expended." In Winnipeg, accounting for 90 percent of municipal (employable) caseload in Manitoba, no liquid assets are allowed in order for applicants to qualify for assistance; however, after qualifying, recipients may have liquid assets up to \$400 for an individual and up to \$2,000 for a family.

\*\*\*These are the liquid asset limits required for eligibility for assistance; however, remaining assets below this limit are deducted dollar for dollar from the first month's cheque. Thus, after the first month of assistance, liquid assets are expected to be exhausted.

\*\*\*\*Asset exemptions for employables are municipally-determined. The National Council of Welfare reports they usually range in value from one to three weeks of assistance benefits for single employables to one to three months of assistance benefits for families. These are the dollar figures presented here.

\*\*\*\*\*Only part of this may be held in cash (\$50 for single persons and \$250 for families). The remainder (\$1,450 and \$2,250 respectively) may be held in other non-cash liquid assets.

Source: National Council of Welfare, *Welfare Incomes* (Ottawa: Supply and Services Canada, various years).

Conversely, there are notable exceptions such as Quebec, which has high asset exemptions but a very low level of social assistance receipt by those experiencing job separation. While asset exemptions are certainly not the only factor determining the extent to which social assistance may act as a mechanism of income support for the unemployed, they are undoubtedly a significant factor in conditioning this relationship.

In the 1990s, there have only been limited examples of provinces increasing liquid asset exemptions.<sup>127</sup> Rather, the dominant trend has been toward reducing liquid asset exemptions.<sup>128</sup> Since 1995, the three most populous Canadian provinces have significantly reduced liquid asset exemptions. Even in those provinces where limits remain unchanged, liquid asset exemptions are only 85 percent of their 1990 levels in real terms. The combined effect of explicit reductions as well as the erosion of the real value of exemptions due to inflation is to reinforce the targeting of social assistance to the needy as defined by means-testing — a crucial distinction between social assistance and income support for the unemployed.

## APPENDIX E

### INCOME-TESTED BENEFITS IN THE PROVINCES

Table E-1 compares the proportion of income-tested benefits in each province as a proportion of the implicit social assistance benefits for the first child (or the amount a single parent receives in social assistance minus the benefits they would receive as a single employable). As of 1996, only Quebec offered an income-tested child benefit outside the federal Child Tax Benefit, although this was a relatively meager benefit. After 1998, four provinces offered provincial income-tested benefits. In these provinces, income-tested benefits ranged from about one-third of the implicit social assistance benefit for the first child in Nova Scotia (which only provides a meager income-tested benefit) to between 40-45 percent of the implicit social assistance benefit in Quebec, British Columbia, and Saskatchewan. In none of these provinces have these changes resulted in social assistance recipient families receiving less assistance. However, it is worthwhile to note that while all three provinces claim to have removed children from the welfare rolls, they have done so by providing an income-tested benefit that is less than half the implicit social assistance benefits they previously provided. Families with children may be less dependent on needs-tested benefits than they were before these programs, but by no means is it accurate to state that income-tested benefits available to all low-income persons have replaced social assistance benefits for children.

TABLE E-1  
Income-Tested Benefits (federal and provincial combined, 1998) as a Proportion of Implicit Social Assistance Benefits for the First Child, 1996\*\*

Province	Income-Tested Benefits, \$ per Annum, 1996	% of Implicit Social Assistance Benefits (first child), 1996	Income-Tested Benefits, \$ per Annum, after Aug. 1998	% of Implicit Social Assistance Benefits (first child), Aug. 1998
	\$	%	\$	%
Nfld.	1,020*	10.4*	1,625*	16.6*
PEI	1,020*	17.0*	1,625*	27.0*
NS	1,020*	18.0*	1,875	33.1
NB	1,020*	13.7*	1,625*	21.8*
Que. (Single Parent Family)***	1,258	19.2	3,900	59.6
Que. (Two-Parent Family)***	1,258	19.2	2,600	39.8
Ont.	1,020*	16.0*	1,625*	25.5*
Man.	1,020*	19.9*	1,625*	31.8*
Sask.	1,020*	18.0*	2,520	44.7
Alta.	1,020*	18.6*	1,625*	29.6*
BC	1,020*	14.9*	2,861	41.9

Notes:

\*No income-tested benefit other than the federal Child Tax Benefit/Canada Child Tax Benefit.

\*\*Implicit first child social assistance benefits are calculated as the difference between benefits for a single employable person and a single person with one child.

\*\*\*Single parent families in Quebec receive an income-tested family allowance supplement of \$1,300 per annum.

Source: National Council of Welfare, *Welfare Incomes 1996* and various provincial sources for income-tested child benefits, 1998.

## APPENDIX F

### THE NATIONAL CHILD BENEFIT

Creating work incentives through the extension of benefits to the working poor is the model that underpins the National Child Benefit. The National Child Benefit is not so much a departure from existing social policy practice as it is a departure from existing modes of federal-provincial interaction in social policy. The National Child Benefit simply enriched the existing Child Tax Benefit by roughly 60 percent for the first child to \$1,625 annually from the current benefit of \$1,020.<sup>129</sup> The existing Child Tax Benefit emerged out of a long process of changes to the Family Allowance program which began in 1978. These enriched benefits will entail an increase of \$1.7 billion dollars over several years.<sup>130</sup> While entailing increased expenditures, in and of itself, the enriched federal benefit does not mark a significant departure from the existing federal approach to providing benefits for low-income children.

However, it may well be that this initiative is "perhaps the most important new national initiative in social policy in decades."<sup>131</sup> The significant new element is the level of coordination among the federal and provincial governments. The National Child Benefit package was designed by the federal/provincial/territorial ministers responsible for social services and will be coordinated by the Council on Social Policy Renewal.

Under this agreement, the federal and provincial governments "have agreed on three objectives for the National Child Benefit:

- to help prevent and reduce the depth of child poverty;
- to promote attachment to the workforce — resulting in fewer families having to rely on social assistance — by ensuring that families will always be better off as a result of working; and
- to reduce overlap and duplication through closer harmonization of program objectives and benefits through simplified administration."<sup>132</sup>

In pursuing these three broad objectives, the National Child Benefit agreement entails three distinct but complementary components:

- the federal government will increase its benefits for low-income families with children, enabling it to assume more financial responsibility for providing basic income support for children;
- corresponding with the increased federal benefit, provinces and territories will decrease social assistance payments for families with children,

while ensuring these families receive at least the same level of overall income support from governments;

- provinces and territories will reinvest these newly-available funds in complementary programs targeted at improving work incentives, benefits and services for low-income families with children.<sup>133</sup>

However, an examination of the reinvestment strategies allowed under the agreement reveal that while there is a coordinated approach in that the federal and provincial governments broadly agree that benefits should be directed to children in need, there is latitude for a wide range of distinct approaches — rather than a single coordinated approach — to how such benefits should be structured and delivered and even to whom they should be targeted. Provinces may adopt one or a mix of several approaches including:

- income-support programs for low-income families with children and the extension of in-kind benefits now available for children in social assistance families such as health benefits to a broader range of low-income families;
- earned income supplements for low-income families with children; and/or
- the improvement of child benefits to families receiving social assistance and the provision of social services, such as child care, that support attachment to the workforce.<sup>134</sup>

These three options mark significantly distinct approaches to providing benefits to families in need and are indeed based on fundamentally different assumptions about the causes of poverty and the most appropriate measures for alleviating it. In fact, many observers might disagree that enriching benefits or services targeted to recipients on social assistance is even in keeping with the broad aim of the National Child Benefit of “ensuring that families will always be better off as a result of working.” While the federal component of the plan is modelled on the first approach, provinces are allowed to adopt quite different reinvestment strategies under the National Child Benefit. The provinces have not, thus far, sacrificed their policy latitude in the approach they may choose to adopt in reinvesting social assistance funds.

The agreement also ostensibly “will protect the overall benefit levels for families receiving social assistance.”<sup>135</sup> However, this aspect of the National Child Benefit is much more symbolic than substantive. The provinces have agreed that the decrease in social assistance benefits resulting from increased federal benefits received by social assistance recipients “will not exceed

the amount of the federal increase — the total benefit available to social assistance families will remain at least the same.”<sup>136</sup> While provinces have agreed not to use increases in the federal benefit as an opportunity to decrease social assistance benefits by an amount greater than the increase, provinces simply have not agreed in a general sense to maintain social assistance benefits at their current levels. Any province at any time could undertake the types of cuts to benefits undertaken in Alberta and Ontario and the National Child Benefit agreement would not even be relevant to such provincial policy decisions much less provide any protection against provinces adopting such an approach.

Despite the policy latitude outlined above, thus far, however, it appears that the provinces are, in general, adopting an approach similar to that of the federal government. For example, the Nova Scotia Child Benefit will extend income-tested benefits to all low-income families at rates of up to \$250 per annum for the first child. Alberta has implemented the Alberta Child Health Benefit which will “offer coverage of dental, optical, prescription drugs, and emergency ambulance services for children in low-income families.”<sup>137</sup> PEI’s reinvestment strategy includes extending daycare subsidies as well as basic coverage of prescription drugs for all low-income families. On a much more limited scale, the Ontario Child Care Supplement for Working Parents will provide up to \$4.25 a day per child subsidy.<sup>138</sup>

Perhaps as important as its implications regarding the prevailing approach to providing income support to the needy, the National Child Benefit also signals a particular direction in the development of federal-provincial relations: “with Ottawa’s fiscal situation improving more rapidly than expected, there are indications that federal-provincial relations will be subject to a new set of dynamics. Rather than restoring social transfers to the provinces or reducing the tax room it occupies to reflect a diminished federal role in social policy, we see a definite trend toward highly visible and direct federal interventions.”<sup>139</sup>

## APPENDIX G

### STUDIES OF THE INTERACTION OF UI AND SOCIAL ASSISTANCE

There are at least two points at which social assistance and unemployment insurance are directly interconnected and by which the structure of unemployment insurance has important impacts for social assistance programs. First, eligibility and coverage provisions of Employment Insurance will determine the extent to which those experiencing job separation are provided with income support in the short term rather than having to secure alternative means of subsistence — one of which being social assistance. Second, these two systems are connected in terms of social assistance receipt by individuals who do secure EI benefits but for whom insurance benefits are inadequate or for whom such insurance benefits become exhausted.

#### *Social Assistance Receipt by the UI/EI Ineligible*

Osberg and Phipps explicitly address the issue of the linkage between unemployment insurance and social assistance in terms of social assistance receipt by those not eligible for UI benefits. They conclude that the two programs are closely linked and, for example, that “increasing the weeks required to establish eligibility for UI ... would simply shift income maintenance expenditures from UI to social assistance.”<sup>140</sup> These are striking findings indeed! However, they are based on a micro-simulation model which models social assistance claims residually. That is, they automatically “assign individuals social assistance if they are non-students, not in receipt of pension income, are either the head or the spouse in the household, and without sufficient other means of support for more than two weeks of any year.”<sup>141</sup>

There are a wide variety of reasons why a number of potential UI recipients would not become social assistance recipients under the conditions specified by Osberg and Phipps. First, applying for social assistance benefits carries considerable social stigma and, although take-up rates vary significantly by province, large numbers of people who are eligible for benefits do not apply. However, even of those who would wish to apply for social assistance, a large number would not be eligible. For example, a crucial element in this regard would be liquid asset restrictions. It is likely that many people experiencing job separation would not meet the stringent asset restrictions specified (at varying levels) by all provinces after the two-week period specified by Osberg and Phipps. Even people so unfortunate as to meet these requirements



after a two-week period would likely still face considerable barriers to assistance receipt — again, varying by province. For example, those not eligible for EI in Alberta, would have their first application denied as a matter of standard operating procedure. They would not be eligible for benefits until after a second application in which they could demonstrate that “he or she had taken steps to exhaust other avenues, such as training programs and employment searches.”<sup>142</sup> The relationship between UI and social assistance programs is not an automatic one with those not eligible for UI simply shifting easily over to social assistance benefits. *The relationship between the two programs is concrete, varies considerably by province, and is an empirical question.*

Browning, Jones and Kuhn provide empirical evidence regarding this point of connection between employment insurance and social assistance in Canada.<sup>143</sup> They examine the changes to UI made under Bill C-113 in 1993 which disentitled individuals who voluntarily quit their jobs without cause (excluding those going to alternative employment) or were dismissed. These changes resulted in the UI claim rate among voluntary quitters dropping from 25.9 to 17.7 percent — a decrease of 8.1 percent of all voluntary quitters. Among the same group, receipt of social assistance benefits only increased after the change from 13.2 to 15.1 percent or by 1.9 percent of all voluntary quitters after the changes. Despite the fact that 8 percent of all voluntary quitters were disentitled as a result of the 1993 changes, only an additional 2 percent of all voluntary quitters made social assistance claims.<sup>144</sup>

#### *Concurrent Use: Social Assistance and UI/EI*

In addition to social assistance use by those ineligible for UI, another point of connection is the concurrent use of both programs. In 1997, only 1 percent of social assistance cases in Canada were also in receipt of Employment Insurance benefits.<sup>145</sup>

Defining concurrent use somewhat more broadly, Barrett *et al.* examine the concurrent use of UI and welfare in five provinces in the early 1990s: British Columbia, Alberta, New Brunswick, Newfoundland, and Prince Edward Island.<sup>146</sup> The most obvious caveat is that this examination draws conclusions on the basis of only half the Canadian provinces — including the three smallest Canadian provinces — comprising just over 25 percent of the Canadian population. This caveat aside they conclude that “there is a large overlap in the clientele of UI and social assistance.”<sup>147</sup> Also, on the basis of a consideration of UI and social assistance receipt in British Columbia and New Brunswick

over time, they conclude “we also find clear evidence of an upward trend over the 1986-92 period in the extent to which the programs serve a common group of recipients.”<sup>148</sup>

Regarding the extent of overlap between the two programs in these five provinces, the authors find that a “significant fraction” of UI beneficiaries received welfare pending UI benefits, concurrently with UI benefits, or within one month of receiving UI benefits.<sup>149</sup> The percentage of UI recipients receiving social assistance ranges from 5 percent in New Brunswick and Newfoundland to 14 percent in British Columbia.<sup>150</sup> While significant, these figures are far from striking and are likely to primarily reflect the practice of providing social assistance benefits to those awaiting UI claims — a practice that appears to be increasingly less common in the late 1990s than it was in the late 1980s and early 1990s. From 1992 to 1997, the social assistance cases receiving benefits for less than three months — the category that would include those receiving benefits pending UI/EI benefits — dropped by 40 percent in Canada both in terms of absolute numbers and as a proportion of the total caseload.<sup>151</sup>

TABLE G-1  
Percent of UI Recipients Receiving Social Assistance Benefits, Total, Concurrent with UI Benefits, and One Month Following UI Benefits, 1992

<i>Province</i>	<i>UI Recipients Receiving Social Assistance</i>	<i>Receiving UI and Social Assistance Concurrently</i>	<i>Receiving Social Assistance Following UI Receipt</i>
	<i>%</i>	<i>%</i>	<i>%</i>
British Columbia	15	14	1
New Brunswick	6	5	1
Newfoundland	7	5	2
PEI	10	8	2
Alberta	13	11	2

Much more striking, the authors use a broader specification of dual usage (receiving both social assistance and UI in the same year) to examine the population of individuals receiving welfare to examine their UI usage. They find a significant proportion of individuals receiving welfare also have UI claims open in the same calendar year — ranging in 1990 from 34 percent in Alberta to 61 percent in Newfoundland.<sup>152</sup>

TABLE G-2  
 Concurrent Usage, Percentage of Social Assistance Recipients Receiving  
 UI Benefits in Same Year, 1990

<i>Province</i>	<i>Social Assistance Recipients with Open UI Claims</i>
	%
British Columbia	46
New Brunswick	39
Newfoundland	61
Prince Edward Island	45
Alberta	34

Unquestionably, these proportions *appear* significant; however, they are extremely difficult to judge as absolute proportions. Barrett *et al.* do not use a weighted sample and it is likely that their random sample seriously overrepresents short-term recipients.<sup>153</sup> As short-term recipients have rates of dual usage that are much higher than long-term recipients,<sup>154</sup> their sampling technique has the concomitant effect of considerably overstating the number of social assistance recipients with UI claims in the previous year. Without being based on a weighted sample, these numbers are virtually meaningless as an absolute measure of UI receipt by social assistance recipients. For example, it is certain that at no time did 61percent of social assistance recipients in Newfoundland also have UI claims open in the same year!

These data, however, are helpful as relative indicators of trends both across provinces and across time. Unfortunately, they are only available over a significant length of time for two provinces: British Columbia and New Brunswick. Viewed across provinces, there is striking variation in the usage of UI by social assistance recipients. For example, overlap between social assistance and UI thus measured is almost double in Newfoundland relative to Alberta.

What is also extremely interesting are those cases in which there are notable discrepancies between the proportion of UI recipients receiving social assistance and the proportion of social assistance recipients receiving UI. For example, Newfoundland has a very high proportion of social assistance recipients who receive UI relative to the other provinces but is not notably different from other provinces in terms of the extent to which UI recipients also claim social assistance benefits — that is, they are not providing UI-pending welfare benefits at a much higher rate than other provinces. This asymmetry is

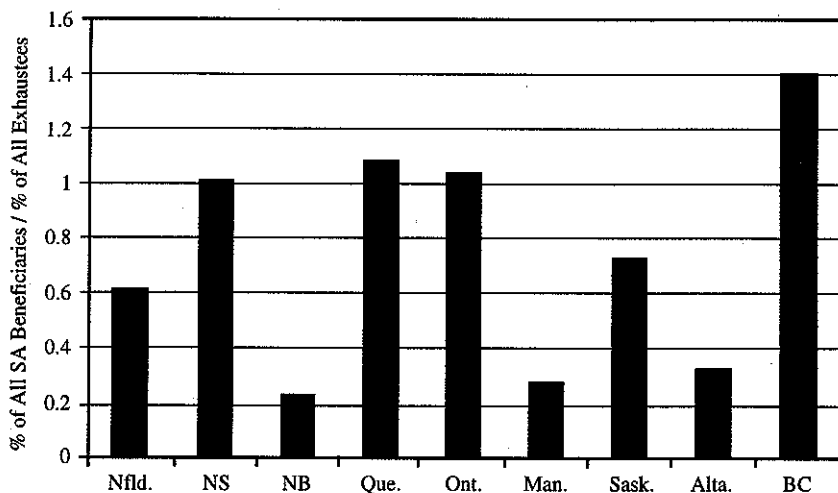
suggestive of the possibility that this province was engaging in considerable efforts at uploading social assistance recipients to UI.

The Barrett *et al.* figures on the proportion of UI recipients receiving social assistance are likely to be a much more accurate indicator of the extent of overlap between the two programs than their figures on UI receipt by social assistance recipients. The former suggest a much more limited extent of overlap than the latter. Both suggest that the relationship between these two systems varies significantly across provinces.

### *Social Assistance Receipt by UI/EI Exhaustees*

In regards to the second point of connection between employment insurance and social assistance, Browning, Jones and Kuhn examine social assistance receipt by UI exhaustees — a subset of UI claimants they define as being comprised of individuals exhausting their benefits between the period 40 to 60 weeks after their job separation. Browning, Jones and Kuhn found that 11.2 percent of these exhaustees were receiving social assistance as of the survey interview conducted 60 weeks after the individual experienced the job separation.<sup>155</sup>

FIGURE G-1  
Social Assistance Receipt by UI Exhaustees by Province, 1993



Source: M. Browning, S. Jones and P. Kuhn, *Studies of the Interaction of UI and Welfare Using the COEP Dataset* (Ottawa: Human Resources Development Canada, 1997), p. 20.

The incidence of social assistance receipt by UI exhaustees within 60 months of initial job separation varies widely by province. The proportions of all exhaustees receiving social assistance benefits in Nova Scotia, Quebec, and Ontario are roughly proportional to the percentage of all UI exhaustees in these provinces (see Figure G-1). Social assistance receipt by UI exhaustees is disproportionately low in Newfoundland and Saskatchewan, however, not nearly as low as in New Brunswick, Manitoba, and Alberta. British Columbia stands out alone as having a disproportionately high level of social assistance receipt by exhaustees.

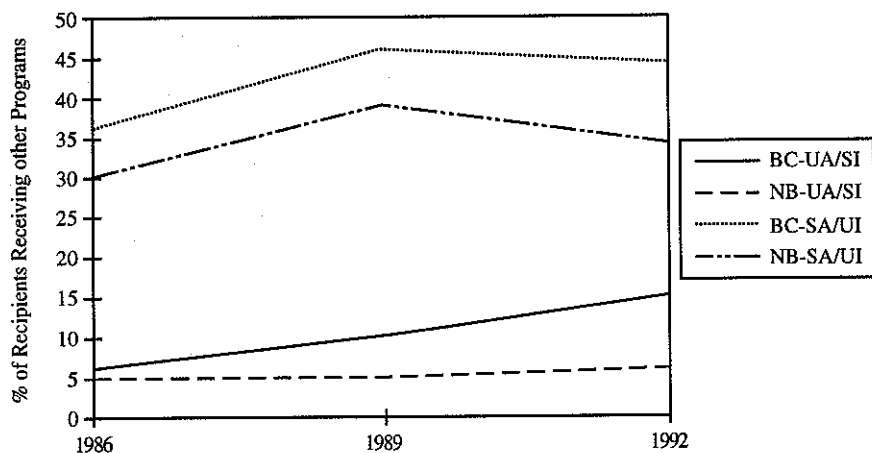
*Social Assistance and UI/EI Interaction over Time:  
Increasing Interaction Between the Two Programs?*

Regarding the *increasing* overlap between the two provinces, due to the limitations of much of the provincial data, the evidence offered by Barrett *et al.* is derived from data for New Brunswick and British Columbia. On the basis of this data, the authors conclude that there is "clear evidence of an upward trend," (p. 34). The most obvious objection regarding making generalizations on this basis is not just the small number of cases but the issue of the representativeness of the two provinces in question. BC has clearly demonstrated itself to be an atypical case as regards the relationship between social assistance and UI/EI. It must be remembered that now (1998), as much time has elapsed since the end point of the time period studied (1992) as was covered by the study (1986-92).

The examination of UI receipt by social assistance recipients undertaken by these authors suggests a cyclical trend rather than the upward trend which they describe. (See Figure G-2.) While receipt of UI by social assistance recipients increased over the period from 36 to 44 percent in British Columbia and from 30 to 34 percent in New Brunswick, it *decreased* from 46 percent to 44 percent in British Columbia from 1989 to 1992 and from 39 to 34 percent in New Brunswick in the same period. Examining the receipt of social assistance by UI recipients, the data reveal that from 1986 to 1992, the percentage of UI claimants receiving social assistance benefits concurrent with UI benefits or within a month of expiration of UI benefits increased from 6 to 15 percent in British Columbia and from 5 to 6 percent in New Brunswick. These data are hardly indicative of a significant upward trend. The evidence for an upward trend in overlap between social assistance and UI in Canada is limited to the

case of British Columbia. While this may be suggestive of the *possibility* that a broader trend exists, it is certainly not sufficient to draw any conclusions outside of those for British Columbia alone.

FIGURE G-2  
Overlap of UI and SA, 1986-1992  
British Columbia and New Brunswick



## NOTES

<sup>1</sup>Social assistance, with its origins in charity and the provision of aid to the "deserving poor," is subject to more scrutiny and scepticism on the part of the general public than is Employment Insurance. The latter, directly funded by employees and employers, is a benefit that individuals pay for during periods of employment and, thus, is something one is entitled to receive during periods of unemployment. Social assistance, on the other hand, transfers income from "taxpayers" to the most needy insofar as recipients can demonstrate not only need but that they deserve such assistance. There has often been some level of resentment toward perceived levels of UI/EI "abuse," especially in terms of frequency of use and the program's role in income maintenance in seasonal industries. But such concern has never resulted in the kind of social control and public scrutiny of private behaviour to which social assistance recipients are subjected. See, for example, Margaret Little, *No Car, No Radio, No Liquor Permit: The Moral Regulation of Single Mothers in Ontario, 1920-97* (Toronto: Oxford University Press, 1998).

<sup>2</sup>Unemployment Insurance was originally designed to be an actuarially sound form of public insurance for those workers employed in industries where there was, in a sense, "moderate" risk of unemployment. That is, workers facing either low or high risk of unemployment were deliberately excluded from the program's original terms. Yet the face of employment and unemployment have changed substantially since the creation of UI. The days of long-term, even lifetime, employment with a single firm have essentially passed. Each decade since the end of World War II has seen higher levels of unemployment than in the previous decade. At the same time that there are more unemployed persons than in previous decades, the length of time people are unemployed has also grown. Similarly, all western nations have seen important sociological and demographic changes that affect these programs. Two-earner families are now the norm and in those cases where households are headed by a single earner there is a much greater likelihood for that earner to be a single mother than a married father. The effects of these changes were, to some degree at least, offset by the expansion of the UI system in terms of both generosity and coverage in the period from 1950 through the 1980s.

<sup>3</sup>This assessment is based on a methodological framework set out in preliminary research undertaken by the Institute of Intergovernmental Relations at Queen's University. See Harvey Lazar and Tom McIntosh, *Federalism, Democracy and Social Policy: Towards a Sectoral Analysis of the Social Union* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1998). This manuscript was prepared by the IIGR as a methodological framework for the analysis carried out in the sectoral case studies for this research initiative.

<sup>4</sup>Organization for Economic Cooperation and Development, *The Battle Against Exclusion*, Vol. 3, *Social Assistance in Canada and Switzerland* (Paris: OECD, 1999), p. 138.

<sup>5</sup>Leslie Pal, *State, Class and Bureaucracy: Canadian Unemployment Insurance and Public Policy* (Montreal and Kingston: McGill-Queen's University Press, 1988), p. 12.

<sup>6</sup>From an interview with Tom Kent, November 1993 quoted in Gerard Boychuk, *Patchworks of Purpose: The Development of Provincial Social Assistance Regimes in Canada* (Kingston and Montreal: McGill-Queen's University Press, 1998), p. 46. The following two paragraphs draw on pp. 46-47.

<sup>7</sup>The conditions of CAP required that the provinces implement a set definition of need which was to be applied impartially to all applications for assistance, prohibited provincial residency requirements, and required an appeal procedure. The underlying thrust of CAP was that it was expected to professionalize the social assistance provision and increased reliance on trained social workers, which, in turn, would indirectly lead — or so it was expected — to convergence between provinces based on shared professional norms. However, outside of this, federal officials did not explicitly intend that CAP would directly lead to the homogenization of provincial social assistance provision.

<sup>8</sup>Keith G. Banting, *The Welfare State and Canadian Federalism*, 2d ed. (Montreal and Kingston: McGill-Queen's University Press, 1987), p. 93.

<sup>9</sup>Richard Simeon with E. Miller, "Regional Variations in Public Policy," in *Small Worlds: Provinces and Parties in Canadian Political Life*, ed. David Elkins and Richard Simeon (Toronto: Methuen, 1980), p. 275.

<sup>10</sup>While social assistance expenditures have increased in some provinces and decreased in others, the most recent available data suggest that overall they have increased considerably from 1990 to 1995. Expenditures now appear to be decreasing but have a long way to go to reach the levels of the early 1990s which are, in turn, considerably higher than earlier levels. Despite cuts, social assistance expenditures per recipient (across all provinces) have remained roughly constant from 1980 to 1995. However, social assistance expenditures increased by nearly 50 percent from 1990-95 largely due to the fact that the number of recipients increased by 50 percent from 1990 to 1995 alone.

<sup>11</sup>National Council of Welfare, *Another Look at Welfare Reform* (Ottawa: Minister of Public Works and Government Services, 1997), p. 7.

<sup>12</sup>Quebec provides an oft-noted example where it is reported that between 1971 and 1987 the proportion of employable recipients rose from 36.4 percent to 73.4 percent of all recipients. Eric Shragge and Marc-Andre Deniger, "Workfare in Quebec," in *Workfare: Ideology for a New Underclass*, ed. Eric Shragge (Toronto: Garamond, 1997), p. 61.

<sup>13</sup>Patricia M. Evans, "Linking Welfare to Jobs: Workfare, Canadian Style," in *Workfare: Does It Work? Is It Fair?* ed. Adil Sayeed (Montreal: Institute for Research on Public Policy, 1995), p. 82.

<sup>14</sup>*Ibid.*

<sup>15</sup>For example, until about the late 1970s, single mothers were considered unemployable and were expected to be able to stay home with their children at least



until they went to school or, in some cases, until the age of majority. However, this began to change (at varying rates across the provinces) and it is now the case that in some provinces — such as Alberta — single parents are considered employable when the child reaches the age of six months. This is in contrast to British Columbia, for example, where single parents are now considered employable when their children reach the age of 12: reduced from 19 in 1994. National Council of Welfare, *Another Look at Welfare Reform*, pp. 86, 94.

<sup>16</sup>For example, in 1992, single parents in Saskatchewan were reclassified as unemployable until their youngest child turned six rather than one. National Council of Welfare, *Another Look at Welfare Reform*, p. 78.

<sup>17</sup>Garry F. Barrett, Denise J. Doiron, David A. Green and W. Craig Riddell, *The Interaction of Unemployment Insurance and Social Assistance* (Ottawa: Human Resources Development Canada, 1996), p. 35.

<sup>18</sup>Barrett *et al.*, *The Interaction of Unemployment Insurance and Social Assistance*, esp. Tables A.1-A.6, pp. 37-42.

<sup>19</sup>National Council of Welfare, *Profiles of Welfare*, p. 28.

<sup>20</sup>Of these, slightly over half received social assistance while awaiting a UI claim, 22 percent received social assistance benefits while receiving UI benefits; 13 percent received social assistance benefits after their UI claim, and only 13 percent had no UI claim or benefits. Ging Wong, "Job Separation and the Passage to Unemployment and Welfare Benefits," (Ottawa: Insurance Programs Directorate, Evaluation Branch, Strategic Policy, Human Resources Development Canada, 1994), p. 8.

<sup>21</sup>For example, among those experiencing job separations, Wong interprets the linear regression results of his examination of social assistance receipt by the unemployed to suggest "a higher tendency for households to be on social assistance in Ontario than in other provinces [Newfoundland, Nova Scotia, New Brunswick, Quebec, Manitoba, and Alberta] except in Prince Edward Island, Saskatchewan and British Columbia." A logistic regression analysis which isolates the effects of various factors on social assistance receipt (total household income, expenditures, household size and structure, assets and debts, and province of residence) and uses Ontario as a control finds a statistically significant negative correlation between social assistance and province of residence for Nova Scotia, Manitoba, and Alberta. Coefficients are statistically significant for these three provinces at the 5 percent level. All other provincial coefficients are not significant. Wong, "Job Separation," p. 13.

<sup>22</sup>National Council of Welfare, *Another Look at Welfare Reform*, p. 116.

<sup>23</sup>We are not aware of work estimating the take-up rate among those eligible for social assistance in Canada or individual provinces much less across provinces or across time.

<sup>24</sup>OECD, *The Battle Against Exclusion*, p. 43.

<sup>25</sup>See Gerard Boychuk, "Reforming the Canadian Assistance Complex: The Provincial Welfare States of Canadian Federalism," in *Canada: The State of the Federation, 1995*, ed. D. Brown and J. Rose (Kingston: Institute of Intergovernmental

Relations, Queen's University, 1995); "Floor or Ceiling: National Standards in Social Assistance" *Policy Options* 17, 5 (1996):15-18; "Are Canadian and US Social Assistance Policies Converging?" *Canadian-American Public Policy* 30 (July 1997); *Patchwork of Purpose*; and "Resemblance and Relief: Social Assistance Provision in the American States and Canadian Provinces," *American Review of Canadian Studies* 29, 2 (1999):259-85.

<sup>26</sup>The logical extension of this model is the replacement of provincial social assistance and EI with an income-support/supplementation program along the lines suggested by the Newfoundland Economic Recovery Commission.

<sup>27</sup>Kenneth J. Boessenkool, *Back to Work: Learning from the Alberta Welfare Experience* (Toronto: C.D. Howe Institute, 1997), p. 18

<sup>28</sup>For an overview of these changes, see Boessenkool, *Back to Work*, esp. pp. 5-11; and National Council of Welfare, *Another Look at Welfare Reform*.

<sup>29</sup>National Council of Welfare, *Another Look at Welfare Reform*, p. 84.

<sup>30</sup>Boessenkool, *Back to Work*, p. 5

<sup>31</sup>*Ibid.*, pp. 11-12.

<sup>32</sup>National Council of Welfare, *Another Look at Welfare Reform*, pp. 59-60.

<sup>33</sup>*Ibid.*, pp. 59, 61.

<sup>34</sup>Ontario, Ministry of Community and Social Services, *News Release Backgrounder*, 2 February 1998.

<sup>35</sup>National Council of Welfare, *Another Look at Welfare Reform*, p. 26.

<sup>36</sup>Mullaly argues that the job placement allows recipients the 20 weeks required to be eligible for UI training allowances and thus moves them up to the EI program. Robert Mullaly, "The Politics of Workfare: NB Works," in *Workfare*, ed. Shragge, p. 41.

<sup>37</sup>However, it is crucial to note that social assistance rates in New Brunswick are among the lowest in the country. As well, requirements for recipients under 21 are very stringent: if they fail to attend school or participate in upgrading or development, they receive a monthly benefit of only \$50 rather than \$300. National Council of Welfare, *Another Look at Welfare Reform*, p. 26.

<sup>38</sup>For an excellent discussion of the emergence of income-tested targeted benefits, see John Myles and Paul Pierson, "Friedman's Revenge: The Reform of 'Liberal' Welfare States in Canada and the United States," *Politics and Society* 25, 4 (December 1997):443-72.

<sup>39</sup>*Ibid.*, esp. p. 465.

<sup>40</sup>However, as Myles and Pierson note, the real question is what happens when benefits of higher-income families have been eliminated such that "they are no longer available to finance future expenditure growth for low-income families," *ibid.*, p. 467. The prognosis thus far for children's benefits is good with the 1997 federal budget injecting significant new funding into this program.

<sup>41</sup>Monique Jerome-Forget, "Canada's Social Union: Staking Out the Future of Fiscal Federalism," *Policy Options/Options Politiques* 19, 9 (1998):3-4.

<sup>42</sup>Report, 1940, p. 13, quoted in Donald Smiley ed., *The Rowell-Sirois Report Book I* (Toronto: McClelland & Stewart, 1963), p. 2.

<sup>43</sup>Pal, *State, Class and Bureaucracy*, pp. 150-51.

<sup>44</sup>Ibid., p. 153.

<sup>45</sup>Canada, Human Resources Development Canada (HRDC), *From Unemployment Insurance to Employment Insurance: A Supplementary Paper* (Ottawa: Supply and Services Canada, 1994), p. 6.

<sup>46</sup>Ibid., p. 6.

<sup>47</sup>Canada. Department of Labour, *Unemployment Insurance in the 1970s* (Ottawa: Supply and Services Canada, 1970).

<sup>48</sup>Pal, *State, Class and Bureaucracy*, p. 42.

<sup>49</sup>Cy Gonick, *The Great Economic Debate* (Toronto: Lorimer, 1987).

<sup>50</sup>Ibid., p. 126.

<sup>51</sup>Ibid., pp. 125-29.

<sup>52</sup>Stephen McBride, *Not Working: Unemployment and Neo-Conservatism in Canada* (Toronto: University of Toronto Press, 1992), p. 167.

<sup>53</sup>Canada. Royal Commission on the Economic Union and Development Prospects for Canada, *Report, Volume III* (Ottawa: Supply and Services Canada, 1985).

<sup>54</sup>Canada. Commission of Inquiry on Unemployment Insurance, *Report* (Ottawa: Supply and Services Canada, 1986).

<sup>55</sup>There is, it seems, an ongoing confusion about the EI surplus that results from this. In effect there is no surplus because there is no official EI account, but the fact remains that billions of dollars are collected through contributions every year that are not paid out in benefits or which are not "left in the bank" and earmarked for EI in the event of an economic downturn. In effect, the surplus has been applied to other purposes, most notably deficit reduction.

<sup>56</sup>HRDC, *From Unemployment Insurance to Employment Insurance*, p. 15.

<sup>57</sup>Ibid., pp. 14-15.

<sup>58</sup>Pal, *State, Class and Bureaucracy*, p. 166.

<sup>59</sup>A recent monograph by economist Paul Boothe, following earlier work by Tom Courchene, argues that one of the failures of Canadian social policy generally has been its focus on regional redistribution which has, he argues, resulted in lower income Canadians in richer regions subsidizing services and benefits for high-income residents of poorer regions. Thus, low-income Ontarians subsidize higher income Atlantic Canadians. Paul Boothe, *Finding a Balance: Renewing Canadian Fiscal Federalism* (Ottawa: C.D. Howe Institute, 1998).

<sup>60</sup>Canada, Statistics Canada, *Annual Unemployment Insurance Statistics* (Ottawa: Statistics Canada, various years).

<sup>61</sup>cf. Canada, Statistics Canada, *Annual Unemployment Insurance Statistics* (Ottawa: Statistics Canada, 1995).

<sup>62</sup>*Montreal Gazette*, 8 October 1994, pp. B1-2.

<sup>63</sup>*Toronto Star*, 11 October 1994, p. D1.

<sup>64</sup>*Financial Post*, 7 February 1995, p. 7.

<sup>65</sup>Summarized from HRDC, *1997 Employment Insurance Monitoring and Assessment Report* (Ottawa: Supply and Services Canada, 1997), pp. 10-14.

<sup>66</sup>This is confirmed, somewhat, by the analysis presented in Geoffrey E. Hale, "Reforming Employment Insurance: Transcending the Politics of the Status Quo," *Canadian Public Policy/Analyse de Politiques*, 24, 4 (1998):429-51.

<sup>67</sup>*Financial Post*, 2 December 1995, p. 7.

<sup>68</sup>*Financial Post*, 4 December 1995; *CP Newswire*, 14 May 1996.

<sup>69</sup>For his part, Geoffrey Hale emphasizes the degree to which HRDC managed to withstand significant pressures to not restructure employment insurance and argues that this demonstrates a relatively high degree of autonomy from stakeholder and other political interests. See Hale, "Reforming Employment Insurance."

<sup>70</sup>It should be impossible for the ratio to be over 100 percent, as that would indicate that all the unemployed are in receipt of benefits. However, because the Labour Force Survey (LFS) is based on questionnaires that ask if someone is "actively seeking work," it tends to misrepresent unemployment somewhat. The exceptionally high B/U ratio in Newfoundland (and similar ratios in other parts of Atlantic Canada and Quebec during this time) is a result, for the most part, of seasonal workers answering the LFS by saying they were not actively seeking employment though they were in receipt of benefits. Thus, to some extent B/U ratios are inflated relative to the existence of large-scale seasonal employment in a particular part of the country. This means that they are particularly inflated east of Ontario.

<sup>71</sup>Canada, HRDC, *An Analysis of Employment Insurance Benefit Coverage* (Ottawa: Applied Research Branch, HRDC, 1998). This work builds on an earlier study critical of the B/U ratios: Marcel Bédard, *Methodology for Predicting the Beneficiary/Unemployed Ratio (B/U Ratio)*, Working Paper W-95-2E (Ottawa: Applied Research Branch, HRDC, 1995).

<sup>72</sup>Canada, Employment Insurance Commission, *1998 Employment Insurance Monitoring and Assessment Report* (Ottawa: Employment Insurance Commission, 1998), pp. 3-4.

<sup>73</sup>HRDC, *An Analysis of Employment Insurance Benefit Coverage*, p. 39.

<sup>74</sup>Canadian Labour Congress, *Left Out in the Cold: The End of UI for Canadian Workers* (Ottawa: CLC, 1998).

<sup>75</sup>Alice Nakamura, "New Directions for UI, Social Welfare, and Vocational Education and Training," *Canadian Journal of Economics* 28, 4a (1995):731-53.

<sup>76</sup>Wong, "Job Separation."

<sup>77</sup>Lars Osberg and Shelley Phipps, *Income Distributional Implications of UI and Social Assistance in the 1990s: A Micro-Simulation Approach* (Ottawa: Human Resources Development Canada, 1996); Martin Browning, Stephen Jones and Peter Kuhn, *Studies of the Interaction of UI and Welfare Using the COEP Dataset* (Ottawa: Human Resources Development Canada, 1997).

<sup>78</sup>Barrett et al., *The Interaction of Unemployment Insurance and Social Assistance*.

<sup>79</sup>This effect is mitigated by the rise of single-parent families as a proportion of all families. The position of the single-parent family is analogous to the position of the single-earner, two-parent family — a spell of unemployment is much more likely to lead to eligibility for social assistance than is the case for a two-earner family and thus, for this segment of the population, social assistance and UI/EI might be more highly substitutable. However, as Myles and Picot found regarding the issue of low-income families, while “it is well known that the proportion of children in single parent families has been increasing,” it is the case that “other changes in family structure have been taking place which tend to swamp the effect of rising numbers of single parent families.” G. Picot and J. Myles, *Social Transfers, Changing Family Structure, and Low-Income Amongst Children* (Ottawa: Analytic Studies Branch, Statistics Canada, 1995).

<sup>80</sup>It seems most useful to think of uploading and downloading not as referring to which level of government is left with responsibility for recipients, but in terms of where programs lie in the general order in which they become available to recipients. Other programs download recipients to social assistance because it is a program of last-resort and recipients generally must not qualify for or have exhausted their benefits for other programs.

<sup>81</sup>In 1994, the Auditor General noted the significance of provincial uploading of social assistance recipients to UI: “A 1992 departmental study looked at the possibility of provincial government measures moving welfare claimants onto the UI rolls. It calculated that the resulting cost to the UI program may have reached \$2.6 billion in 1991. This raises concerns that an ongoing “recycling” is under way between the social programs, rather than cost-effective action to enhance long-term employability.” Auditor General, *Report of the Auditor General of Canada*, Vol.3, pp. 6-47. However, there is no indication as to the extent of interprovincial differences in this regard which might be expected to be considerable.

<sup>82</sup>OECD, *Battle Against Exclusion*, Vol.3, pp. 54, 44.

<sup>83</sup>National Council of Welfare, *Another Look at Welfare Reform*, p. 1.

<sup>84</sup>Auditor General, *Report of the Auditor General of Canada*, Vol. 3, p. 6-59.

<sup>85</sup>Barrett et al., *The Interaction of Unemployment Insurance and Social Assistance*, p. 7. For an overview of these studies, see Appendix B.

<sup>86</sup>Philippe Arnau, Pierre-Yves Crémieux and Pierre Fortin, “The Determinants of Social Assistance Rates: Evidence from a Panel of Canadian Provinces, 1977-1996,” preliminary version presented to the annual meetings of the Société canadienne de science économique, Québec City, May 1998. Applying the estimated coefficient of correlation between changes in the UI wage subsidy and changes in social assistance caseloads over this 20-year period to UI changes in the 1990s, they suggest that UI restrictions may have increased social assistance caseloads by up to 24 percent.

<sup>87</sup>The highest level ever officially acknowledged as reported by Arnau, Crémieux and Fortin, “Determinants of Social Assistance Rates,” p. 10.

<sup>88</sup>HRDC as reported in OECD, *Battle Against Exclusion*, p.114, Footnote 53.

<sup>89</sup>Arnau, Crémieux and Fortin, "Determinants of Social Assistance Rates," p. 8.

<sup>90</sup>Saskatchewan government officials as reported in OECD, *Battle Against Exclusion*, p. 114.

<sup>91</sup>OECD, *The Battle Against Exclusion*, Vol.3, pp. 84-85, 112-15. The OECD statistical tests were undertaken for three of the four provinces in their study (Ontario, New Brunswick, and Saskatchewan) excluding Alberta.

<sup>92</sup>*Ibid.*, p. 112.

<sup>93</sup>Lazar and McIntosh, *Federalism, Democracy and Social Policy*. This work attempts to characterize different types of "intergovernmental regimes" as they reflect the interplay of federalism, democratic goals, and policy goals. Insofar as each regime type expresses a different mix of those principles, the methodology posits a means by which the trade-offs between these principles can be judged in relation to changing regime types.

<sup>94</sup>*Ibid.*, pp. 18-20.

<sup>95</sup>This argument has been pointed out to us by Alain Noël in several of his helpful comments on this paper and we would like to record our thanks to him.

<sup>96</sup>OECD, *Battle Against Exclusion*, Vol.3, p. 142.

<sup>97</sup>*Ibid.*, p. 138.

<sup>98</sup>See Boychuk, *Patchworks of Purpose*.

<sup>99</sup>*Ibid.*

<sup>100</sup>Certainly, the politics of maintaining or enriching such programs seem dismal, especially in contrast to enriching programs providing child benefits to the unemployed and working poor.

<sup>101</sup>Auditor General, *Report of the Auditor General 1994*, p. 6-39.

<sup>102</sup>*Ibid.*

<sup>103</sup>On the connection between fiscal restraint and the politics of blame avoidance versus credit claiming, see Paul Pierson, "The Deficit and the Politics of Domestic Reform," in *The Social Divide: Political Parties and the Future of Activist Government*, ed. Margaret Weir (Washington, DC: The Brookings Institution, 1998), pp. 126-88, esp. 127.

<sup>104</sup>The only way around this would be to increase equalization payments massively in order to continue to subsidize the program in the poor provinces. While there would be certain advantages to making the subsidy more transparent as outlined in the section above, such a move would present considerable political risk to those regions/provinces benefiting from such transfers. UI/EI has served an important political function in terms of effectively disguising the amounts being transferred to Atlantic Canada and it is likely that provincial governments from the beneficiary provinces would strongly resist initiatives that would make such transfers more visible.

<sup>105</sup>For example, the current Canadian Labour Congress study designed to highlight the stark divergence between contributions and benefits may have the result of undermining broad political support for employment insurance rather than its intended effect of forcing the federal government to re-expand coverage.

<sup>106</sup>According to Peter Sherer: "If most households have a single earner, then the risk to that household of the loss of income from interruption of employment is considerable ... Social insurance provides income security which cash-constrained households cannot obtain otherwise.... Two-earner families are better able to accumulate cash reserves and other resources which provide a cushion against income fluctuations. Hence, to the extent that social insurance is funded by specific levies (rather than from the general tax system), they will find themselves paying two premiums for a coverage neither of them really needs." Peter Sherer, "Welfare State and Welfare Mix in a New Labour Market," in *Challenges to the Welfare State*, ed. Henry Cavanna (Northampton, MA: Edward Elgar, 1998), pp. 96-97. Ironically, it may be that the rise of the two-earner family helps to explain the ease with which the federal government has been able to restrict coverage. Such severe restriction of benefits as is evident in the current period would have been much more politically challenging in earlier decades when a much higher proportion of the population relied on a single breadwinner and faced the severe risk that unemployment of that breadwinner posed. It is important to note that the risk posed by unemployment to single-parent (primarily female-headed) families is greater in the current period than it has been historically and that the number of these families is growing. It is likely that the National Child Benefit, at best, only partially offsets the impacts of restrictions on EI benefit coverage for this group.

<sup>107</sup>Sherer, "Welfare State and Welfare Mix," p. 96.

<sup>108</sup>Ibid.

<sup>109</sup>As noted by Vaillancourt, such a move would require, in all probability, a constitutional amendment. Social assistance has been a provincial responsibility since 1867 and one that the federal government has never challenged. It seems unlikely that the provinces would willingly cede one of their more important constitutional responsibilities for the sake of administrative efficiency. On the other hand, social assistance is a difficult policy area to manage, especially in periods of fiscal restraint. Political management of social assistance policy requires walking a tightrope between appearing to be serious about fiscal restraint in a policy area that is highly symbolically charged in this respect while avoiding the political costs of appearing to be callous and uncaring. (It is worthwhile to note that this generalization ignores the fact that some governments have made highly visible retrenchment in this area a central plank of their political platforms. Especially notable in this case is the current government of Ontario.) Because social assistance is not a very popular public program while presenting governments with such difficult policy choices and representing considerable political risks with few likely political benefits, provincial governments may well be willing to give up responsibility for this policy field in favour of other jurisdictional considerations. While this is a compelling argument, the primary logic underpinning this argument raises serious questions about why the federal government would want to assume responsibility for this policy field as it is currently constituted.

<sup>110</sup>See Myles and Pierson, "Friedman's Revenge."

<sup>111</sup>John Richards, *Retooling the Welfare State* (Toronto: C.D. Howe Institute, 1998).

<sup>112</sup>The administrative transfer of active labour market policies to the provincial governments under the Labour Market Agreements could be seen as a first step in this reorganization. The LMAs have devolved most of the administration and implementation of active labour market measures to the provinces (to varying degrees under each of the agreements) with a role for federal oversight. (See Tom Klassen, *Labour Market Development Agreements: Brave New Model of Cooperation or Step Toward Balkanization?* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1999).

<sup>113</sup>François Vaillancourt, "Alter the Federal-Provincial Powers Mix to Improve Social Policy," *Policy Options* 19, 9 (1998):52.

<sup>114</sup>Alain Noël, "The Federal Principle, Solidarity and Partnership," in *Beyond the Impasse, Toward Reconciliation*, ed. Roger Gibbins and Guy Laforest (Montreal: Institute for Research on Public Policy, 1998), pp. 241-72, esp. 262.

<sup>115</sup>On blame avoidance, see R. Kent Weaver, "The Politics of Blame Avoidance," *Journal of Public Policy* 6 (October/December 1986):371-98. On the role of centralizing political authority for programs as undermining the ability of governments to practise the politics of "blame avoidance" in social policy, see Paul Pierson, "The New Politics of the Welfare State," *World Politics* 48 (January 1996):143-79, esp. 153.

<sup>116</sup>Paul E. Peterson, *The Price of Federalism* (Washington, DC: The Brookings Institution, 1995).

<sup>117</sup>Both definitions are taken from Will Kymlicka, "Multinational Federalism in Canada: Rethinking the Partnership," in *Beyond the Impasse*, ed. Gibbins and Laforest, pp. 21-22.

<sup>118</sup>Noël, "The Federal Principle, Solidarity and Partnership," p. 242. Presumably, returning responsibility for unemployment insurance back to the provinces would not be argued in any circles to constitute a violation of the "logic of federalism."

<sup>119</sup>Barrett *et al.*, *The Interaction of Unemployment Insurance and Social Assistance*, p. 35.

<sup>120</sup>We are not aware of sources of data outlining family composition of social assistance caseloads across Canada in the early periods of the Canada Assistance Plan and the CAP annual reports in this period do not report such figures.

<sup>121</sup>Human Resources Development Canada, *Canada Assistance Plan: Annual Report* (Ottawa: Supply and Services Canada, various years).

<sup>122</sup>National Council of Welfare, *Profiles of Welfare: Myths and Realities* (Ottawa: Minister of Public Works and Government Services, 1998), p. 9.

<sup>123</sup>It is important to note that Table B-1 examines total numbers of recipients while Table B-2 examines total proportion of caseloads. Singles as a proportion of total recipients is much lower than as proportion of total caseloads.

<sup>124</sup>The reliability of the data for PEI is questionable due to the small number of respondents.



<sup>125</sup>National Council of Welfare, *Welfare Reform* (Ottawa: Supply and Services Canada, 1991), p. 3.

<sup>126</sup>The coefficient of correlation ranges from 0.41 to 0.55 depending on the value of asset exemptions assigned to Ontario. We focus on family asset exemptions as asset exemptions for single employables apply to lower numbers of recipients. However, even using single employable asset exemptions, the relationship is statistically significant albeit considerably weaker with a coefficient of correlation ranging from 0.23 to 0.30 depending on the value of asset exemptions assigned to Ontario.

<sup>127</sup>British Columbia drastically increased liquid asset exemption for both single individuals and families in 1991 (from \$160 to \$2,500 for single individuals and from \$1,500 to \$6,000 for a family of four). However, in 1995, asset exemptions for single employables were again reduced significantly although liquid asset exemptions for families remained at the higher level. New Brunswick was the only other province to increase significantly liquid asset exemptions in this period — doubling them for both single individuals and families in 1995.

<sup>128</sup>In addition to British Columbia's reduction in liquid asset exemptions for single individuals, Quebec significantly reduced liquid asset exemptions for both categories of employable recipients in 1996. At the same time, Quebec also adopted a new system of payment of first month benefits which "almost guaranteed that people would have to spend their last dollar before becoming eligible for welfare." National Council of Welfare, *Another Look at Welfare Reform*, p. 36. In Ontario, the tightening of liquid asset exemptions began in 1993 as "[t]he welfare system started considering previously exempted financial resources in calculating benefit entitlements." National Council of Welfare, *Another Look at Welfare Reform*, p. 56. Most recently, the *Social Assistance Reform Act*, which came into effect in January 1998, included "drastic reductions" in the allowable level of liquid assets. Brigitte Kitchen "Roundup: Ontario," *Canadian Review of Social Policy* 40 (1997):93.

<sup>129</sup>Federal/Provincial/Territorial Ministers Responsible for Social Services, *The National Child Benefit: Building a Better Future of Canadian Children*, Sept. 1997. [[http://www.intergov.gc.ca/docs/intergov/ncb/1\\_e.html](http://www.intergov.gc.ca/docs/intergov/ncb/1_e.html)]

<sup>130</sup>Anne McLellan, "Modernizing Canada's Social Union: A New Partnership among Governments and Citizens," *Policy Options/Options Politiques* 19, 9 (1998):7.

<sup>131</sup>Ibid.

<sup>132</sup>Federal/Provincial/Territorial Ministers Responsible for Social Services, *The National Child Benefit*.

<sup>133</sup>Ibid.

<sup>134</sup>Ibid.

<sup>135</sup>Ibid.

<sup>136</sup>Ibid.

<sup>137</sup>Government of Alberta, "Alberta Child Health Benefit Expands," *News Release*, 21 May 1998.

<sup>138</sup>Ontario, Ministry of Community and Social Services, "National Child Benefit and Social Assistance," 1998.

<sup>139</sup>Monique Jerome-Forget, "Canada's Social Union: Staking Out the Future of Fiscal Federalism," *Policy Options/Options Politiques* 19, 9 (1998):3-4.

<sup>140</sup>Osberg and Phipps, "Income Distributional Implications," p. 9.

<sup>141</sup>*Ibid.*, p. 14. Osberg and Phipps note the limitations of this approach. On the basis of this model, their micro-simulation finds that "adding 5 weeks to current conditions for eligibility reduces the number of UI claimants by about 6 percent, with a 16 percent decline in dollars paid out. In consequence, both social assistance claims and total dollars spent on social assistance increase by about 10 percent" (p. 31). These findings are important in their own right; however, the assumptions on which they are based are far from an accurate depiction of the real situation.

<sup>142</sup>Boessenkool, *Back to Work*, p. 5.

<sup>143</sup>Browning, Jones and Kuhn, *Studies of the Interaction of UI and Welfare*.

<sup>144</sup>Somewhat surprisingly, on the basis of these data, Browning, Jones and Kuhn argue based on their data that the social assistance and employment insurance are strongly linked. They conclude that "among the affected population, welfare take-up rises by about the same amount that UI take-up falls, thus mitigating both the incentive and income-distributional effects of the UI disentanglement. At least for the groups of workers affected by the April 1993 UI disentanglement, this suggests that UI and welfare may be fairly close substitutes, and that estimates of the effects of further cutting the UI program on provincial welfare expenditures need to take this into account" (p. 9). They draw these conclusions examining a very specific sub-category of voluntary quits (those not re-employed with 25 weeks of their job separation). It is unclear how they justify this focus rather than examining all voluntary quits. However, examining all voluntarily quitters, disentanglement of voluntary quitters has only led to marginal increases in social assistance.

<sup>145</sup>National Council of Welfare, *Profiles of Welfare*, p. 47. According to the National Council of Welfare, even this minuscule figure could also include people exhausting their EI benefits and transferring to social assistance or in receipt of social assistance while waiting for their first EI cheque.

<sup>146</sup>The data are derived from cross-matching UI usage (from federal UI administration files) and welfare receipt (from provincial social assistance files) using random social insurance numbers.

<sup>147</sup>Barrett *et al.*, *The Interaction of Unemployment Insurance and Social Assistance*, p. 34.

<sup>148</sup>*Ibid.*

<sup>149</sup>*Ibid.*, p. 16.

<sup>150</sup>The authors note several ways in which they believe that these calculations understate the interaction between social assistance and UI. *Ibid.*, p. 17.

<sup>151</sup>National Council of Welfare, *Profiles of Welfare*, p. 28.

<sup>152</sup>From the data the authors provide, it is possible to extrapolate the number of UI recipients receiving social assistance in the same year. This produces results that are largely in keeping with the figures presented in Table G-1: British Columbia, 13.5 percent; New Brunswick, 9.6 percent; Newfoundland, 11.1 percent; PEI, 5.4 percent; and Alberta, 11.2 percent.

<sup>153</sup>This is because short-term recipients make up a much higher proportion of all people receiving welfare *in a given period* than they do *at any given time* as many more short-term recipients cycle through the system than long-term recipients. Thus, an unweighted sample has the potential to grossly exaggerate UI usage by social assistance recipients. For example, in March 1992, almost 50 percent of the social assistance caseload in Canada had been in receipt of social assistance for over one year and were thus very unlikely to have a UI claim open in the preceding 12 months. This undermines the credibility of the claim that between 34 percent and 61 percent of social assistance recipients *sampled* in the various provinces had UI claims open in the same year is indicative of "a large overlap in the clientele of UI and SA" (p. 19). Similarly, Barrett *et al.* report average durations of social assistance benefit receipt that range from 5.1 months in Alberta to 9.6 months in New Brunswick when the median duration of benefit receipt across recipients in Canada was certainly more than one year. See National Council of Welfare, *Profiles of Welfare*.

<sup>154</sup>Barrett *et al.*, *The Interaction of Unemployment Insurance and Social Assistance*, p. 7.

<sup>155</sup>Browning, Jones and Kuhn, *Studies of the Interaction of UI and Welfare*, p. 19. Over half of the respondents had neither been re-employed nor begun to receive social assistance by the 60-week interview. A crucial question is what happened to these exhaustees *after* the 60-week period under investigation by Browning, Jones and Kuhn. It is also interesting to note that in this sample, UI exhaustees had lower rates of social assistance receipt than the broader sample of all individuals experiencing job separation as well as all UI claimants.

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## THE FEDERAL-PROVINCIAL LABOUR MARKET DEVELOPMENT AGREEMENTS: BRAVE NEW MODEL OF COLLABORATION?

*Thomas R. Klassen*

*"Would you tell me, please, which way I ought to go from here?  
That depends a good deal on where you want to get to."*

Lewis Carroll – *Alice in Wonderland*

### INTRODUCTION

Labour market adjustment in Canada has been a difficult field in which to establish long-term coherent policies. Consequently, successive federal governments have undertaken several policy shifts and innovations during the past several decades. The federal-provincial Labour Market Development Agreements (LMDAs) are the latest shift in this policy domain representing a fundamental transfer of responsibility from the federal to the provincial sphere. As such, they raise the three questions to be examined in this chapter: How did they arise? Will more efficient and effective policies now arise? And what trade-offs are inherent in the agreements?<sup>1</sup>

Labour market policy is an important aspect of Canada's social policy regime and hence of the new "social union." The LMDAs are a significant shift in the nature of federal-provincial relations, with implications that are not yet

fully understood. The level of devolution inherent in the agreements is untested in Canada, and the associated risks of failure are high. However, if successful, the new regime could point toward similar initiatives in other social policy areas. In short, the agreements raise important issues not only for federal and provincial decisionmakers and officials but also for employers and unemployed workers who are to be the ultimate beneficiaries of the new regime.

As with the other case studies in this volume, this chapter uses a framework developed by Harvey Lazar and Tom McIntosh,<sup>2</sup> and outlined in McIntosh's introductory chapter here, to assess the emerging intergovernmental regime. The assessment presented in this chapter builds on that framework in a number of ways. First, with regard to the policy criteria set out by Lazar and McIntosh, the devolution inherent in the agreements rests on the assumption that provinces are best suited to deliver active labour market services and this has implications relating to notions of effectiveness, efficiency, human development, and portability.<sup>3</sup>

Second, changes to other social policy areas — along with shifting economic conditions — mean that active labour market measures may gain higher public profile. This raises questions about democratic governance, specifically: the rule of electoral majorities, protection of electoral minorities, the role of legislators, citizen participation, and transparency and accountability. Third, the agreements involve administrative arrangements that *de facto*, although not *de jure*, re-order the responsibilities and relationships between the levels of government. Consequently, the assessment will examine how principles of federalism — respect for jurisdictional and political sovereignty, and conflict resolution — are likely to be affected by the new intergovernmental regime.

The shift in regime is currently underway (although there is yet no agreement for Ontario) leaving two routes for an analysis to take. The first is to classify and analyze the old system and compare it to the regime currently being implemented; the second is to classify and analyze the new regime and compare it to the previous one. Since the previous system has already received attention and analysis,<sup>4</sup> the second route will be pursued as it allows a focus on the emerging federal-provincial regime. The drawback of this approach is that it is as yet difficult to fully evaluate and analyze the trade-offs inherent in moving to the new regime.

The chapter begins with a review of labour market adjustment policy highlighting the difficulties inherent in designing and coordinating policies in this field. Next, the federal-provincial context over the past several decades is surveyed to highlight the tensions in this policy domain. This is followed by a

review of federal and provincial programs and services as they existed before the shift in intergovernmental regimes leading to a focus on the genesis and nature of the LMDAs. The two sections that follow analyze the policy implications and trade-offs of the new regime, and their impact on democratic values and federalism. The conclusion recapitulates the results of the assessments and discusses the implications of the LMDA regime for active labour market policy in Canada.

## LABOUR MARKET ADJUSTMENT POLICY

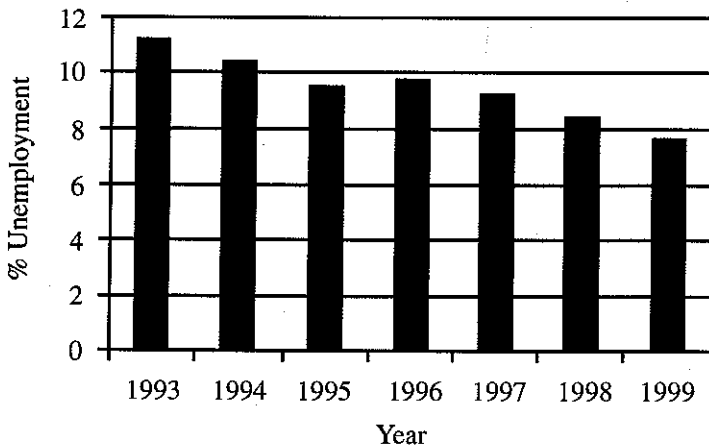
Effective active labour market policies improve the access of individuals to jobs and ensure the efficient functioning of the labour market. The more effective the active labour market policies of a jurisdiction, the lower should be its unemployment rate, especially the structural component, and the more productive its workforce. Active labour market policies can have three components: (a) information provision; (b) job training; and (c) subsidized or created employment.<sup>5</sup>

Canada's annual unemployment rate historically has been high in comparison to other industrialized economies, suggesting that active labour market policies should be an important component of labour market policy, as broadly conceived. From 1960 to 1994 the unemployment rate in Canada has consistently been higher than the average unemployment rate of other Organization for Economic Cooperation and Development (OECD) nations. Specifically, Canada's unemployment rate for this time period was 7.4 percent while the average for all OECD nations was 5.2 percent.<sup>6</sup> This trend has continued through the 1990s with Canada's unemployment rate remaining significantly higher than the OECD average.

Canada's unemployment rate since the recession of the early 1990s, as shown in Figure 1, acts as one backdrop for the events to be discussed and specifically for the emergence of the LMDAs.

Canadian active labour market policies, especially training, reside within an environment historically characterized by five conditions: (i) insufficient investment by the state and private sector; (ii) insufficient spending on active measures; (iii) reliance on institutional training; (iv) fragmentation of business and labour organizations; and (v) intergovernmental conflict. The first four are briefly reviewed below while the last one is the focus of the more detailed examination later in the chapter. These conditions will then be examined later in analyzing the extent to which the LMDAs can be expected to alter

FIGURE 1  
Canadian Unemployment Rate (annual percent): 1993-1999



Source: Organization for Economic Cooperation and Development, *Historical Statistics, 1960-1994* (Paris: OECD, 1996).

these long-standing circumstances. In addition, as outlined by Tom McIntosh in the introductory chapter, the broader economic and political contexts of labour market policy, along with the nature of work, have also experienced substantial transformations.

Historically, Canadian immigration policy has been utilized to address skills shortages and inadequacies in the labour force.<sup>7</sup> In other words, immigration policies allowed Canadian governments to carefully control the number and qualifications of immigrants in response to economic conditions and the demands of employers.<sup>8</sup> Thus, it is not surprising that immigration responsibility rested for decades within the Department of Manpower and Immigration, and later within Employment and Immigration. However, in the past two decades, interest groups such as churches and ethnic organizations have become more influential in shaping immigration policies.

Furthermore, the *Immigration Act* of 1976 placed a greater onus on the demographic implications of immigration in view of the declining Canadian fertility rate.<sup>9</sup> Also, the number of highly skilled immigrants willing to settle in Canada is likely less today than in the years immediately following the Second World War. As such, immigration policy is now lodged in the Department

of Citizenship and Immigration, rather than in departments charged with either economic or labour market policy. The past reliance on immigration, however, created a legacy of insufficient investment in training by both the state and private sector.

Second, the state in Canada "has always relied more heavily on the coercive force of unemployment as an 'adjustment' mechanism than have European countries."<sup>10</sup> Notwithstanding that Canadian unemployment rates have historically been higher than those in other OECD countries, expenditures on active labour market measures have been small vis-à-vis passive measures.<sup>11</sup> In 1990, just over 20 percent of total Canadian labour market expenditures were on active programs, a figure exceeded by 18 of the 21 OECD countries.<sup>12</sup> By 1995, Canada ranked twelfth among the 24 OECD countries on public expenditures on labour market training programs as a percentage of GDP.<sup>13</sup> Table 1 illustrates that not only have expenditures on active measures been decreasing in the 1990s, so have passive expenditures. The decrease in expenditures is due in part to the government-wide reduction in program expenditures, as well as the declining unemployment rate for most of the past decade.

TABLE 1  
Total Federal Expenditures on Active and Passive Labour Market Programs as a Percentage of Canada's GDP, 1991-1997

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Active	0.61	0.64	0.66	0.61	0.57	0.48
Passive	2.28	2.24	1.94	1.52	1.30	1.18
Total	2.89	2.88	2.60	2.13	1.87	1.65

Source: *OECD Employment Outlook, 1996*, p. 206, Table T; *OECD Employment Outlook, 1998*, p. 212, Table J.

Decreases in spending on active measures were not restricted to the 1990s. Between 1985 and 1991 the percentage of GDP spent on active measures declined by 0.01 percent, while during the same period passive spending increased by 0.37 percent of GDP.<sup>14</sup>

Third, Canadian training policy has suffered from an over-emphasis on institutional training, in part because there is little incentive for many firms to



pay for on-the-job training since they cannot be sure of retaining the skilled workers. Thus, in North America generally, "on-the-job training is little used, not because it is technically inefficient (it apparently is very efficient technically) but because it does not pay."<sup>15</sup> This is particularly true for small and medium-sized firms and for workers employed in contract or part-time positions. Supported by provincial government policies, community colleges have dominated in several provinces in providing training. In contrast, in Germany, between two-thirds and three-quarters of all workers receive an average of two to three years of vocational training, of which three or four days are on the job and only one or two days are in the classroom.<sup>16</sup> The reliance on institutional training in Canada "is radically at variance with the pattern in most other countries."<sup>17</sup> Additionally, public sector unions (who represent teachers and instructors) are generally opposed to on-the-job training since it threatens the employment of their members.

The fourth characteristic of Canadian training policy is found in the decentralization and fragmentation of Canadian labour and business.<sup>18</sup> There are hundreds of business associations that are not organized under a single umbrella and pursue different objectives. For example, in 1989 the federal advisory council on labour market adjustment recommended that as "an incentive to stimulate private sector training ... the government establishes a tax liability" on those firms that fail to invest sufficiently in training.<sup>19</sup> Some business groups and larger corporations supported the recommendation, yet it was rejected by most others. A similar decentralization of power is generally found within organized labour. Although the Canadian Labour Congress and some provincial labour federations can exercise significant political power, decision-making ultimately rests with individual unions and no single organization represents all unionized workers. Furthermore, since labour law is primarily a provincial concern, the labour movement has typically focused on provincial politics. Finally, most Canadian workers are not members of unions.

## THE FEDERAL-PROVINCIAL CONTEXT

Under Canada's constitution, provinces have sole responsibility for education. Conceptually education and many aspects of labour market adjustment, especially training, are little different, other than training being generally viewed as being more job-focused and directly preparing individuals for a specific job. Both education and training are investments in human capital in that "both denote the acquisition of skills that enable people to enhance their stream of

future earnings by acquiring the ability to perform a wider range of occupations, including more highly paid occupations."<sup>20</sup> The lack of a federal (or national) department of education could also be perceived as a weakness of Canada's federal structure, when contrasted to nations with a more centralized education policy structure, that hinders not only economic and social policy but also culture and citizenship policies.

The close connection between training and the labour market has allowed for training to be interpreted as a joint federal-provincial jurisdiction since the federal government has constitutional responsibility for macroeconomic policy. The provision of information, subsidized employment, and training for those in receipt of federal income support — primarily Employment Insurance (EI) — as well as for the disabled and recent immigrants has been the responsibility of the federal government. Provinces have provided some of the same services primarily for social assistance recipients and the long-term unemployed who are not eligible for EI. Both levels of government have also tended to provide services for youth. As a result, there has been "no single coherent framework for shaping training objectives in response to the needs of both our economy and our workers. This ... problem largely derives from the almost total absence of coordination in policy formulation and implementation between different levels and branches of government."<sup>21</sup>

During the 1960s the federal government's role in active labour market policy was two-fold. First, to contribute 75 percent of the capital costs for provincial training and vocational institutes<sup>22</sup>; and, second, to subsidize the costs for the unemployed and those in need of upgrading to attend the new institutes. Historically, the bulk of federal expenditures on training have been allocated for the purchase of training from provincial educational institutions, largely the community or technical colleges. With the creation of the federal Department of Manpower and Immigration and the enactment of the *Adult Occupational Training Act* in 1966, the federal government began moving from a passive to a more active role in flowing training funds to the provinces. Rather than participating in cost-shared programs that responded to provincial desires to expand the colleges, the federal government began to purchase specific types of training from colleges.<sup>23</sup> The change in policy gave the federal government some control over its expenditures and allowed — in theory, at least — better targeting of its funds. This began to generate federal-provincial friction as changes to federal training policies began to have a direct impact on the viability of the provincial training institutions.

In the 1970s the federal government placed increased emphasis on job-creation programs, such as Local Initiatives Program (LIP), Local Employment Assistance Program (LEAP), and Opportunities for Youth (OFY), in response to increasing unemployment rates. For a variety of reasons policymakers became increasingly concerned about labour market adjustment policy by the beginning of the 1980s: rising unemployment rates (especially among youth); the increasing globalization of the economy (resulting in the US-Canada Free Trade Agreement later that decade); and pressures to better target spending due to decreases on government budgets. A general consensus among key stakeholders began to emerge that "the training system at the present time is not fully capable of meeting the demands that will be placed upon it during the 1980's."<sup>24</sup> By the mid-1980s the federal government had begun to largely eliminate job-creation programs in favour of combined work experience/training programs delivered by a range of organizations, not only provincial training institutes.

With the 1982 *National Training Act*, the federal government began to encourage industrial (on-the-job) rather than institutional (classroom) training. Federal officials saw industrial training as more effective, and less costly, for training workers. The legislation also sought to encourage more private sector involvement in training and to augment training for more advanced skills. However, the 1982 reforms were only marginally successful in changing the status quo — partly because of provincial resistance — causing the new federal Progressive Conservative government in 1985 to introduce a "more interventionist supply side management approach to human resource development."<sup>25</sup>

The 1985 Canadian Jobs Strategy reinforced the earlier policy by attempting to direct more funding to third parties (e.g., community-based groups and private trainers) rather than to the provincial institutions. Furthermore, it attempted to increase the role of business in directing federal training expenditures. Private sector committees were established in some provinces to provide advice on local training needs and they were given some funds with which to purchase training. Overall, the policy was "more selective in client programming, more decentralized in decision making [and] more privatized in delivery" than previous initiatives in this area.<sup>26</sup>

After the 1981-82 recession, federal and provincial ministers began negotiations on agreements to enhance the employability of social assistance recipients. The accords were also known as the "four-cornered agreement" as they involved the federal Department of Employment and Immigration and the Department of National Health along with the provincial counterparts

responsible for social services and labour market policy. The purpose of these agreements was to assist social assistance recipients to obtain training services, since not all provinces had employability programs for this group and Unemployment Insurance (UI) funds could not be allocated for this purpose. The agreements called for each order of government to spend an equal amount, \$200 million, on its own programming for social assistance recipients. The first set of agreements was signed in 1986; while in the early 1990s a new generation of agreements between the federal government and the provinces were signed (these expired in 1996). Quebec did not sign an agreement then but continued to receive services under administrative arrangements.<sup>27</sup>

These agreements were important because they allowed for federal and provincial officials to have formal and informal contact on a regular basis to work on issues like information-sharing and evaluation. In some cases, such as with New Brunswick and British Columbia, the discussions around the agreements resulted in major multi-year, federal-provincial experiments to determine the effectiveness of earnings supplements and educational upgrading.<sup>28</sup> Finally, the agreements meant that federal programs began to provide services to small numbers of social assistance recipients, thus breaching the federal-provincial divide of client groups.

During the mid-1980s, federal policymakers, along with some unions and employer groups, cast wistful glances toward the European models of active labour market adjustment policies that relied on the corporatist model of decision-making. Corporatism refers to institutionalized involvement and the cooperation of a small number of societal interest groups in the making and sustaining of state policies.<sup>29</sup> In Germany, Austria, Sweden, and some other countries, corporatism allowed business and labour to be partners in designing labour market policies. As a result, in countries such as Germany, nearly two-thirds (63 percent) of the workforce has some type of formal vocational qualification.<sup>30</sup> Beginning with the 1989 Labour Force Development Strategy, the federal government redirected further funds from passive to active measures and made a commitment to involve business and labour in decision-making around training.

A major innovation occurred in early 1991 with the establishment of a national organization focused on training issues modelled after corporatist arrangements in Europe: the Canadian Labour Force Development Board (CLFDB). The board was composed of 22 representatives: eight from each of business and labour, four from the designated (equity) groups under federal employment equity policy (women, the disabled, visible minorities, and

Aboriginals), and two from education and training providers. The board's function was to advise the federal government on training expenditures with the expectation that over time it would take on a larger role in developing policy. The new entity represented an ambitious attempt to privatize active labour market policy by transferring responsibility for it to business, labour, and other groups.<sup>31</sup>

In late 1991 the CLFDB, along with the federal government, proposed that the provinces create provincial training boards and that a system of local training boards be established jointly by the federal and provincial governments to complement the national and provincial bodies.<sup>32</sup> Many provinces — British Columbia, Saskatchewan, Ontario, New Brunswick, Nova Scotia, and Newfoundland and Labrador — did establish provincial boards. The boards generally mirrored the CLFDB composition, although some provinces added one or two seats for specific groups. In Quebec, a somewhat different body, the Société québécoise de développement de la main d'oeuvre, was established in 1993 to direct provincial training programs. The Ontario and Quebec agencies were by far the largest and the only ones with policy design and implementation, rather than merely advisory, powers. However, the corporatist boards failed to perform as expected, at least in terms of providing policy advice to governments and serving their constituents, and most have now been dismantled.

The federal government's actions in the 1980s (enhancing active labour market policy, establishing the CLFDB, and facilitating the establishment of some provincial boards) exemplify unilateral federalism in which the federal government forced provinces to react to its initiatives. For example, in Ontario the Ministry of Skills Development was largely created to respond to the federal policy shifts in the mid-1980s while in the early 1990s aspects of the provincial training board followed the CLFDB model.<sup>33</sup> The unilateralism inherent in federal policies increasingly became an irritant for some provinces, notably Quebec.

In 1990, spurred by federal actions, the Liberal government of Robert Bourassa in Quebec obtained unanimous support in the National Assembly for a motion that the province assume sole responsibility for labour market adjustment policy. Furthermore, the Quebec government placed the cost of federal-provincial duplication and overlap in the province in this policy domain at \$250 million per year. Quebec had, since the 1960s, contended that social and economic development are closely linked and that adequate integration and coordination is impossible if the federal government controlled labour

market policy.<sup>34</sup> Quebec's demands were acceded to in the 1992 Charlottetown Accord which offered to transfer all training activities and labour market development activities, except Unemployment Insurance to any interested province (see Chapter 2 in this volume by Rodney Haddow). The failure of the accord resulted in discussions between outgoing Prime Minister Kim Campbell and the Bourassa government for a proposal to allow the province to administer federal programs. The defeat of both governments left matters unresolved until the Quebec referendum on sovereignty in 1995 when Prime Minister Jean Chrétien committed to withdraw from "training" (the scope of which was undefined). In January 1996, Quebec sent a proposal to the Human Resources Development Canada (HRDC) minister, which sparked further work by federal officials to deal with this file.

On 30 May 1996 the federal government made public its offer: the transfer to the provinces of approximately \$1.5 billion of expenditures on active employment measures as "an important step towards a more flexible federalism."<sup>35</sup> The offer was broader than many provinces had been expecting since not only was the federal government withdrawing from the purchase of training from institutions, but also from other federal program areas (described below) allowing provinces to deliver these, within some prescribed limits, and receive federal funding for them.

The need to accommodate Quebec at a time when public support for separatism was at an all-time high was the trigger for the emergence of the new regime.<sup>36</sup> However, other longer term factors had been operating to make active labour market policy ripe for fundamental change. The first was a process that had begun in the 1970s; namely the movement away from the traditional Keynesian demand-driven policies to reduce unemployment. This resulted in the federal government downgrading job-creation schemes and stressing training instead.<sup>37</sup> Concomitant with the federal retrenchment from job creation was the commitment to smaller government.<sup>38</sup> As a result, active labour market policy began to be less and less important to the federal government, making it a suitable candidate for devolution to the provinces.<sup>39</sup>

Second, a major reform of Unemployment Insurance was proceeding independently in 1995 and 1996 (see Chapter 3 by Tom McIntosh and Gerard Boychuk) providing the opportunity for the legislative changes needed to allow the transfer of UI — soon to be EI — funds assigned for active policies to the provinces. Finally, it should be noted that the EI reforms transpired at the time when the Finance Department was dominant in shaping the federal policy agenda. As such, the EI reforms, and the active labour market component

thereof, were conceived primarily as a means to reduce expenditures rather than to increase the employability of individuals.

## PROGRAMS AND SERVICES

The description of the programs and services below applies to the mid-1990s, prior to the transfer changes inherent in the implementation of the LMDAs. The federal government provided a wide range of training-related services to UI/EI recipients, including employment counselling; supplementary benefits or allowances (for child care, travel, equipment, etc.); and the purchase of training programs from provincial colleges and other public and private institutions. As well, HRDC contracted with various community and local agencies to deliver specific services to eligible clients: job-search clubs, resumé writing, self-employment assistance, etc. The funding for these services was provided from EI revenues made available through the Part II Employment Benefits and Support Measures Fund of the EI account (previously called the Development Uses Fund of the UI account).

Table 2 illustrates the expenditure patterns of funds allocated from the EI account. The figure demonstrates that the bulk of expenditures was for monies paid to individuals engaged in training and related activities (in addition to EI benefits) and for the purchase of training, while work-sharing, job creation, and self-employment related expenditures were comparatively small.

TABLE 2  
UI/EI Funds Used for Active Labour Market Services (\$ millions), 1992-1996

	1992	1993	1994	1995	1996*
Work sharing	112.7	51.7	21.5	14.4	N/A
Job creation	112.0	104.8	117.0	147.6	143.6
Training benefits	978.3	926.6	939.0	920.1	N/A
Training courses	520.1	489.4	536.0	554.1	N/A
Training allowances	93.6	81.7	83.3	86.1	N/A
Self-employment	20.6	98.7	144.7	194.5	227.5
Total**	1,837.5	1,752.9	1,842.4	1,916.7	1,543.9

Notes: \*Reporting categories changed after 1995.

\*\*Totals may not match due to rounding.

Source: *Public Accounts of Canada* (Consolidated accounts, volume 1), 1996 and 1997; and HRDC, *Annual Report 1993-94* (Ottawa: Supply and Services Canada, 1995).

In addition to services for EI eligible clients, the federal government provided a largely similar set of services to non-EI clients using funding from the Consolidated Revenue Fund (CRF). The allocation of funds from the EI and CRF sources is illustrated in Table 3, highlighting the decreasing expenditures from the CRF and the stagnant — declining in real terms — total active labour market expenditures.

TABLE 3  
Federal Active Labour Market Expenditures (\$ millions), 1993-2000

	<i>CRF</i> \$	<i>UI/EI</i> \$	<i>Total</i> \$	<i>Total</i> (1986 \$)
1993/94	1,576	1,853	3,429	2,630
1994/95	1,646	1,862	3,508	2,628
1997/98	1,437	2,280	3,717	2,711
1999/00*	613	2,600	3,213	2,344

Note: \*Planned expenditure.

The client groups served by CRF expenditures were the four designated groups — women, persons with disabilities, Aboriginal peoples, and visible minorities — in addition to youth, a small number of social assistance recipients (because of the federal-provincial employability agreements discussed earlier), and older workers who had exhausted their EI benefits. The federal government also provided some training and related services to recent immigrants and refugees, the funding for which was shifted from HRDC to Citizenship and Immigration Canada in 1996. The number of clients served by CRF programs is presented in Table 4, reinforcing the trend of reduced expenditures by the federal government on active measures dating to at least the early 1990s, along with a shift to serving youth.

The local Human Resources Canada centres across the nation have, until the implementation of the LMDAs, been the prime delivery points for individuals and employers of the federal services described above (serving both EI and CRF funded clients) as well as delivering the Employment Insurance program. The number of centres was reduced to just over 300 (with about 100 providing full-scale services) in the mid-1990s in response to fiscal pressures by consolidation, contracting-out services to third parties, and the creation



TABLE 4  
 Number of Participants in Consolidated Revenue Funded Programs  
 1991/92-1998/99

<i>Participants (new starts)</i>	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Women	80,909	104,222	124,567	113,146	71,115	2,165	5,136	8,315
Persons with disabilities	2,522	3,704	4,450	3,929	2,503	236	1,004	7,177
Aboriginal peoples	14,573	14,613	15,248	15,475	13,096	N/A	10,575	19,298
Visible minorities	17,288	12,617	15,782	13,029	6,285	131	518	955
Social assistance recipients	12,031	22,130	24,842	25,490	15,765	N/A	N/A	N/A
Youth	52,290	70,449	64,397	52,646	14,095	84,237	91,128	91,675
Older workers	36,070	42,957	55,641	42,670	11,618	609	469	1,411
Total	215,683	270,692	304,927	266,385	134,477	87,378	108,830	128,831

Source: HRDC.

of a system of electronic kiosks.<sup>40</sup> Over the past decade the centres have been granted increasing autonomy in deciding the program mix for their areas. The centres managed a variety of contracts with local agencies including training institutions (colleges, private vocational institutions, school boards, non-profit agencies, etc.) and other community groups. The trend toward increasing the decentralization of HRDC begun in the early 1990s has, in fact, caused the LMDAs regime to be a less dramatic change than would otherwise have been the case.

The federal government also had a few services aimed at employers such as the industrial adjustment service, work-sharing initiatives, human resources planning, and sectoral initiatives. Moreover, the government provided labour market information for both employers and individuals. A national system of kiosks had been established that listed job opportunities and other labour market information. The job-information function has decreased in the past decade

as fewer employers have decided to list job vacancies with local Human Resources Canada centres.

The large number of services delivered directly by the centres and purchased for third-party delivery for both EI and non-EI clients created a particular problem for the centres. Namely, that funding was allocated from both the EI and CRF accounts and typically by client group. As a result, notwithstanding the decentralization of HRDC — at least with regard to policy implementation in the past decade — local managers faced significant constraints since EI clients could not be served with CRF funds and vice versa.

As outlined in Chapter 3 in this volume historically, provincial responsibilities have been focused on providing social assistance for people deemed unemployable (the disabled, single parents with young children, etc.), though there is evidence that current social assistance rolls are increasingly made up of the longer and long-term unemployed who are now or no longer eligible for EI. At the same time, in the past decade, increasing emphasis has been placed by provincial governments to provide training and related services to social assistance recipients to help them to (re)enter the labour market. This has resulted in social assistance offices and counsellors taking on some of the same functions as those of the centres: purchasing courses, managing contracts with local agencies for training services, providing additional income support to clients in training courses, dealing with potential employers, etc. In fact, Quebec established a separate system of employment offices for social assistance recipients, while in other provinces, such as Ontario, some social assistance offices gained a strong active labour market orientation.

Provincial governments also established programs for youth, in addition to their responsibilities for the apprenticeship program. The larger provinces, such as Ontario, have a broad range of programs for youth delivered by community colleges and community agencies. Some of the larger provinces also have training programs for groups other than social assistance recipients and youth. For instance, Ontario has had programs aimed at: upgrading the skill levels of particular occupations; encouraging women to enter apprenticeships; assisting employers in human resources planning; etc. During the early 1990s Ontario spent in excess of \$400 million on a range of training and labour market adjustment programs.<sup>41</sup> In Ontario, along with other provinces such as Saskatchewan and British Columbia, the community colleges were the prime delivery agent for training and related employment preparation programs.

There is a debate about the amount spent by provinces on labour market adjustment vis-à-vis the federal government. Most estimates suggest that

provinces account for about one-quarter to one-third of state expenditures on active labour market measures in Canada.<sup>42</sup> However, if training costs associated with the colleges — where, after all, most training still takes place — are included, provincial expenditures probably exceed that of the federal level. Of course, a significant portion of these funds have historically been offset by Established Programs Financing and the Canada Assistance Plan, and now by the Canada Health and Social Transfer. It is difficult to estimate provincial expenditures on active labour market measures because: (a) they are often spread out across more than one ministry, (b) there is not a clear distinction between program spending and capital/operational spending for colleges, and (c) because of differences across provinces in reporting expenditures.

### THE LABOUR MARKET DEVELOPMENT AGREEMENTS (LMDAs)

The objective of this section is not a detailed dissection of the content of the LMDAs or the manner in which each was negotiated, but an overview of the nature of the agreements to allow for analysis of the new intergovernmental regime they represent. The agreements arose out of a complex set of conditions, including the failure of corporatist business-labour boards and concerns about the perceived (and sometimes real) failures of active labour market policies, the general retrenchment of government due to fiscal constraints, and pressure from provinces (especially Quebec). The catalyst that prodded the federal government to act was the 1995 Quebec sovereignty referendum. The LMDAs agreements responded to the wishes of the Quebec government without the need for constitutional discussions, while reducing the federal role in a policy field that had often been a difficult one in which to achieve encouraging results.

The LMDAs allow for the transfer of most of the funding allocated for active labour market measures within the EI account to the provinces.<sup>43</sup> Specifically, funds for five types of measures can be transferred under the agreements: (i) wage subsidies to employers, (ii) earnings supplements to EI recipients, (iii) income subsidies for EI recipients starting their own businesses, (iv) projects undertaken by community organizations that hire EI recipients, and (v) loans and grants to individuals for institutional (both public and private) training. The LMDAs also grant provinces responsibility for the counselling and placement services for EI clients. As such, the LMDAs permit provinces to utilize monies for most purposes other than the direct purchase of training services (this is discussed later). That is, the five types of measures

essentially place few restrictions as to types of programs that provinces might wish to design. The magnitude of the offer is illustrated in Table 5.

TABLE 5  
Resources Available for Transfer under the LMDAs, 1997-1998\*

<i>Province/Territory</i>	<i>Funds (\$ Million)</i>	<i>Staff (full-time equivalents)</i>
Newfoundland and Labrador	85.8	177
Nova Scotia	62.6	196
New Brunswick	66.4	170
Prince Edward Island	17.8	49
Quebec	457.3	1,084
Ontario	450.5	1,007
Manitoba	46.3	118
Saskatchewan	33.5	114
Alberta	97.6	204
British Columbia	205.9	470
Yukon Territory	2.7	7
Northwest Territories**	3.6	24
Total	1,530.0	3,620

Notes: \*Excluding administrative costs which are approximately \$190 million.

\*\*Effective 1 April 1999, the allocation was apportioned between the Territory of Nunavut and the Northwest Territories.

Source: HRDC.

The federal government reserved the following areas for its domain: national labour market information, pan-Canadian activities to be funded from the EI fund at about \$250 million annually, and active labour market measures for non-EI clients such as youth, the disabled, Aboriginals, and immigrants. Returning to the definition of active labour market policy presented earlier, the federal government partly retained one component of the policy — the provision of labour market information — but transferred the other two: subsidized or created employment and job training. This, then, is a major transfer of responsibilities resulting in a shift of the intergovernmental regime.

In order to entice Alberta to be the first province to sign an agreement, an “equality of treatment clause” was inserted to the effect that if another province negotiated more favourable provisions, these would apply to Alberta

as well. All agreements have this clause, which, for example, allowed provinces that had already signed three-year agreements to change these to five years after Quebec became the first to sign a five-year agreement.

Each agreement, in addition to outlining the monies to be transferred to the province annually, also contains numeral targets for clients served and savings generated from the EI account. The savings are the difference between an individual client's total entitlement to (Part I) EI benefits and the actual pay out to that individual. For example, for British Columbia, the 1997-98 targets were for 25,008 EI clients to return to work generating \$117.4 million in savings to the EI account. For the same time period PEI was to generate savings of \$7.8 million while Alberta's savings were to be at least \$99.8 million.

Three types of agreements, and hence intergovernmental regimes, have arisen: co-management, full-transfer, and strategic partnership. Table 6 lists the dates the agreements were signed, implemented (the co-management agreements were implemented upon signing), and the type of intergovernmental regime.

TABLE 6  
LMDA Chronology and Type of Agreement

<i>Province/Territory</i>	<i>Date of Agreement</i>	<i>Implementation Date</i>	<i>Agreement Type</i>
Newfoundland and Labrador	24 March 1997	24 March 1997	Co-Management
Nova Scotia	24 April 1997	24 April 1997	Strategic Partnership
New Brunswick	13 December 1996	1 October 1997	Full Transfer
Prince Edward Island	26 April 1997	26 April 1997	Co-Management
Quebec	21 April 1997	1 April 1998	Full Transfer
Ontario	No agreement to date, negotiations ongoing		
Manitoba	17 April 1997	27 November 1998	Full Transfer
Saskatchewan	6 February 1998	1 January 1999	Full Transfer
Alberta	6 December 1996	1 November 1997	Full Transfer
British Columbia	25 April 1997	25 April 1997	Co-Management*
Yukon Territory	24 January 1998	24 January 1998	Co-Management
Northwest Territories	27 February 1998	1 October 1998	Full Transfer
Nunavut	11 May 2000	1 April 2000	Full Transfer

Note: \*Negotiations are underway for a full transfer agreement.

Source: HRDC.

Under the co-management model, there is no transfer of resources (either dollars or staff) to the provinces, but a joint management of program design and implementation. In other words, under this model the provinces play a significant role in planning and policy development, but the responsibility for actual delivery of programs is left to the existing HRDC centres and the local organizations with whom they have signed contracts. Generally the provinces that have chosen the co-management model are the smaller ones that have historically been the net beneficiaries of federalism. These provinces believe it is advantageous to have HRDC staff in their jurisdictions who understand local labour market conditions. The joint-management model is currently in effect in PEI, Newfoundland and Labrador, the Yukon, and British Columbia, albeit British Columbia is currently negotiating a full transfer agreement.

One province, Nova Scotia, has negotiated an agreement that appears to be co-management but is sufficiently different to warrant classification as strategic partnership. The Nova Scotia agreement runs to a mere seven pages in contrast to the hundreds of pages for several of the other agreements and excludes references to financial expenditures or client figures. The agreement calls for two levels of government to collaborate and coordinate efforts to improve their respective labour market programs and services. The only requirement of the agreement is that a joint-management committee be established to examine areas of joint cooperation and collaboration. In short, the LMDA in the province leaves matters essentially unchanged.

The full-transfer model, on the other hand, involves provinces assuming responsibility for labour market policy and program delivery within the federal funding and client eligibility constraints. The federal government retains responsibility for the delivery of EI benefits and pan-Canadian initiatives such as national labour market information and exchange, as well as responding to economic emergencies. The provinces of New Brunswick, Quebec, Manitoba, Saskatchewan, and Alberta, as well as the Northwest Territories have signed full-transfer agreements. Table 7 shows the resources, both EI funds and staff, that have been transferred to-date.

Ontario is the only province that does not yet have an agreement. In Ontario the period from 1985 to 1996 represented a period of significant innovation with regard to labour market adjustment programming and associated organizational structures. For the most part these innovations — such as the Ministry of Skills Development (1985-93) and the ambitious Ontario Training and Adjustment Board (1993-96) — failed to survive. Thus, by the time of the federal offer in 1996 a sense of exhaustion, if not paralysis, had arisen with this field in the province.<sup>44</sup>

TABLE 7  
Funds and Staff Transferred to the Provinces, 1997-2001

<i>Province/Territory</i>	<i>Funds Transferred (\$ Millions)</i>				<i>Staff Positions Transferred</i>	
	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>Projected</i>	<i>Actual</i>
Newfoundland	—	—	—	—	177	—
Nova Scotia	—	—	—	—	196	—
New Brunswick	66.4	78.0	84.0	90.0	170	124
Prince Edward Island	—	—	—	—	49	—
Quebec	457.3	527.6	561.1	594.4	1,084	1,022
Ontario	No agreement					
Manitoba	46.3	48.7	49.4	49.9	120	118
Saskatchewan	33.5	36.1	37.1	38.5	114	97
Alberta	97.5	106.5	109.2	112.7	204	156
British Columbia*	—	—	—	—	470	—
Yukon	—	—	—	—	7	—
Northwest Territories	3.5	4.4	4.8	3.3	24	24
Nunavut				2.0		
Total	704.5	801.3	845.6	890.8	3,627	1,541

Note: \*Negotiations are underway for a transfer of funds and staff.

Source: HRDC.

In Ontario, unlike Quebec and some western provinces, the government was less interested in obtaining federal powers but rather was focused on trying to increase federal expenditures on active measures within the province. Furthermore, the Conservative government of Mike Harris elected in 1995 was engaged in reducing the size of government which was incongruous with accepting an additional 1,000 civil servants. From the federal perspective, the fact that nearly all MPs in Ontario are Liberals has caused difficulties. The Ontario caucus has been very cautious about a potential LMDA because such an agreement would entail a loss of federal visibility spurring caucus members to be more active in expressing its views to federal Cabinet than was the case

with other provinces. The long delay in reaching an agreement in Ontario has been dysfunctional in that the HRDC field delivery network has lacked strategic leadership and staff have faced a long period of uncertainty.

## ASSESSING LABOUR MARKET ADJUSTMENT POLICY

The remainder of this chapter comprises the assessment of the emerging inter-governmental regime utilizing the evaluation framework outlined in Chapter 1. The assessment involves comparing the regime being forged by the LMDAs to what existed previously specifically vis-à-vis impacts on policy goals and outcomes, democratic values, and federalism principles. This section deals with policy issues while the next one with federalism and democracy.

The assessment criteria for policy goals and outcomes focus on the implications of the LMDAs with regard to: effectiveness, efficiency, human development, and portability. Effectiveness refers to the degree to which the outcomes provide benefits to the labour market (essentially unemployed workers and potential employers). Efficiency is the degree to which duplication, and other waste, is avoided in the allocation of resources. In other words, the degree to which more outputs could be produced with the same budget.<sup>45</sup> Human development refers to the extent to which opportunities are provided to allow individuals to develop their potential. Associated with human development goals is the manner in which these are measured and evaluated as well as the extent to which outcomes are distributed equitably so that there is equal opportunity for all clients to benefit. Portability or mobility is the degree to which the LMDAs hinder or aid geographic mobility including the existence, and adherence to, "national standards" for services and more generally nationwide policy.

Effectiveness and efficiency are assessed first, followed by human development (including evaluation and equity), and concluding with portability. Generally the assessments commence with an analysis of how the LMDAs attempt to meet specific policy goals and objectives, and then shift to a discussion of implications and possible pitfalls. The conclusion of the chapter uses the assessments to determine whether the new regime has the potential to fundamentally alter the five broad historical characteristics of active labor market policy.

### *Effectiveness and Efficiency*

The new regime holds the potential to be more effective than its predecessor as provinces gain the ability to allocate resources and decide on the mix of services,



within the limitations of the LMDAs, required by local labour market conditions. In the first instance, it is unlikely that the LMDAs will be less in this regard since even in the full-transfer provinces, many of the local and regional decisionmakers remain the same. Furthermore, as discussed below, the elimination of the block purchase of training from colleges has the potential to ensure that clients are provided with services that meet their needs, rather than institutional ones. However, an increase in effectiveness is not guaranteed in the new regime. For the potential to be achieved numerous pitfalls need to be avoided.

The agreements will not alter the distribution of federal resources in that, for example, HRDC field staff in Quebec were not transferred to New Brunswick nor was the allocation of federal funds among provinces altered. Under the new regime there is no modification to the formula by which HRDC allocates funds across the provinces. The formula which was used previously for the UIDU with its 17 variables including average provincial EI claims loads, unemployment rates, projected GDP, and so forth continues to be in force. Provinces, such as Ontario, that believe the formula is disadvantageous to their jurisdictions have pressed for revisions and indeed a committee chaired by Ontario and HRDC has been established to review the current formula. The agreements allow for a redistribution of program resources within provinces as they decide on the relative emphasis they wish to place on wages, earnings, and income subsidies; community projects; loans/grants to individuals; and experiments with other forms of active labour market policies and programs.

The *Employment Insurance Act* of 1996 eliminated the use of the block purchase of training courses effective 30 June 1999 representing the final example of the unilateralism inherent in the previous intergovernmental regime. The federal policy shift was not negotiable under the LMDAs forcing provinces to accept it. Under block-funding, HRDC entered into contracts with educational and training institutions, often community colleges, to create or reserve spaces in an existing or new training program for EI recipients who have an approved return-to-work plan. This system has been replaced by grants and loans provided directly to individuals, who will then purchase training courses from institutions such as colleges, private vocational schools, school boards, etc. The federal rationale for the policy shift is that it will increase the effectiveness of programs by requiring institutions to become more responsive to actual needs; that is, to provide courses based on market demand. As such, the stories (often, but not always, apocryphal) of groups of unemployed workers being trained to be welders should be eradicated. Many provinces initially

opposed this change for a variety of reasons, not the least of which was its coercive nature. It is difficult for colleges and community-based trainers to shift courses quickly, thus impacting on their viability.

Some observers have raised the concern that in some provinces the community colleges will come to play an unduly influential role in the distribution of funding, notwithstanding the prohibition against block purchases.<sup>46</sup> In other words, the colleges will successfully argue to provincial policymakers that LMDAs' monies should be spent in provincial institutions, rather than on private trainers or industrial training. This is a particular danger in provinces where colleges dominate the provision of training. The undue reliance on institutional training within the new policy regime, such as by allowing clients to only purchase training from public institutions, may prove counterproductive to effective policies.

In order for the individual purchase of training to be an improvement over the bulk purchase, individual clients will need to be provided with up-to-date labour market information and will need to understand the implications of their training choices. Unfortunately, the weak accountability framework with its focus on solely obtaining a job means that clients may be steered toward courses that are inexpensive to offer and quickly expanded, such as law enforcement, but which typically result in low paying and precarious employment. In other words, unproductive outcomes may arise if policymakers ignore the fact that training programs are *usually* most effective in the long term when expenditures per participant are relatively high. The task for provincial policymakers will be to remain vigilant for possible dysfunctions — inappropriate choices by clients, emphasis on short-term training, and an undue influence by some training providers — in the new grants and loans program.

Although linking economic development and training policy is a worthwhile objective for the provinces under the new regime, and one that should increase the effectiveness of active measures, is difficult to accomplish and it remains uncertain the extent to which it will be attained. Indeed, the provinces that chose co-management or strategic partnership regimes seem to have concluded that they are unable to improve the effectiveness of these policies by acting on their own. Furthermore, they wish to retain close linkages to the federal government with respect to the EI policies that can be attained through co-management.

The greater control by provincial governments in program design will prove effective in most cases. For example, HRDC policies tended to view the Northwest Territories' economy as largely a component of the Alberta economy

and had only two HRDC employment offices in the Territory. The LMDA will allow the territorial governments to offer more services in rural communities and to deal with greater sensitivity with the vastly different labour market conditions in the eastern Nunavut territory (high unemployment) and western territory (low unemployment). However, provinces will have to guard against centralizing decision-making and leaving field offices unable to react to local conditions. In contrast to other provinces, Quebec has chosen to fashion a highly centralized delivery system and this experiment bears watching.

The new regime means that the federal government may be less inclined to expand funding for active labour market policies since it reaps less public benefit from additional services provided by provincial officials. Because the federal government retains sole control of providing (national) labour market information it should logically expand this service, although initial signs point to the opposite. Without a field delivery system in the larger provinces, HRDC will be under less pressure to provide labour market information to individuals, training providers, employers, and others. Labour market information should be intrinsically linked to labour market policies and program design decisions for these to be effective and efficient. In fact, timely and accurate information about the labour market is an essential tool for the provinces to plan and design effective programs.

Furthermore, the loss of the federal infrastructure in labour market programming may result in the federal government becoming less willing to consider macro level interventions and innovations to encourage training and labour market adjustment. Such measures might include a general payroll subsidy for firms in high unemployment areas, access to RRSP or RESP funds for (re)training purposes and others.<sup>47</sup> Without federal interest in macro policies, labour market training activities undertaken by firms and individuals may suffer. In any case, the loss of the federal infrastructure in some provinces can be expected to have an impact on HRDC's ability to serve groups using CRF funds. The scope and nature of the post-LMDA federal role in labour market information and skills development, as broadly defined, will take some time to emerge.

Turning now to an assessment of efficiency, duplication has existed in the past in the active labour market policy domain. For the most part, the duplication involved not so much as the same clients being served by different levels of government, but the existence of two delivery systems. This duplication will be reduced by the creation of a single delivery structure, especially in the provinces that have opted for a full transfer of resources. In fact, the initial

evaluations of the agreements found that in most jurisdictions greater efficiencies and economies were achieved after the implementation of the LMDAs.<sup>48</sup> The new regime also entails some small cost savings in overhead and the number of senior administrators. The single, less fragmented, structure should also allow for more finely-tuned responses to local labour market conditions since its geographic boundaries will be smaller than the entire nation. In the end, there should come to exist fewer, more integrated, and targeted programs with strong linkages to local social and economic conditions.

In order for such a positive outcome to be realized provinces will need to avoid the extremes of centralization and decentralization. If provinces devolve insufficient authority to local offices — a danger in some provinces which have tended to be highly centralized — then they re-create the federal structure as it existed in the 1970s and 1980s. On the other hand, whole-scale decentralization of authority will impede labour mobility since each office will fail to consider the conditions outside its borders. At this time it seems unlikely that provinces (other than Quebec) will unduly centralize, in large measure because they are absorbing the decentralized HRDC staff and programs.

An issue of concern, however, is the limited policy capacity of provinces in view of the expanded mandates they have acquired. For example, in Manitoba, 116 HRDC staff positions were absorbed by a department of 70; while in British Columbia approximately 470 HRDC positions are expected to be absorbed by a department of 350. Even in a large province such as Ontario, the transfer of 1,000 HRDC positions will exceed the less than 500 provincial staff employed in active labour market-related functions. To prepare for such a reassignment, a new provincial ministry has had to be fashioned. In other provinces major reorganizations of the machinery of government were also required because of the fragmentation of active labour market policies across several departments or portfolios. In some provinces, such as New Brunswick, the sorting out of responsibilities within the provincial public service has proven to be a thorny problem. The policy deficit of the provinces is not with operational or delivery policy (since the HRDC local capacity is being transferred) but with strategic policy including forecasting, policy design, and evaluation. Since no staff from HRDC headquarters are included in the transfers under the LMDAs, those provinces opting for full transfer have experienced, at least initially, a deficit in strategic policy capacity.

One consequence of the new regime which could generate greater efficiency is the co-location of federal (EI) offices and provincial offices so as to provide a range of services to clients. This has been difficult to achieve under

the previous regime partly because of legislative and regulatory barriers but also because each level of government wanted to retain a high degree of visibility for its services. Integrated client service has been given a boost by the LMDAs with several provinces and territories, including Alberta, New Brunswick, Saskatchewan, and the Northwest Territories, deploying or investigating models of co-location. Co-location also allows federal and provincial officials to have ongoing contact fostering an informal cooperative culture at the local level.

There are a variety of co-location models that may emerge, although initially the co-location of federal income support (EI) and provincial employment services for EI clients appears most common. Over time, provinces will rationalize their delivery structures and more ambitious models can be expected to arise such as co-locations to serve all the needs of EI and social assistance clients: both income support and employment services. From the perspective of clients, co-location may be the most visible example of collaborative federalism. In the short term, co-location will be hindered by logistic factors, such as long-term leases held by both orders of government, different unions and pay scales, and incompatible information systems.

Defining efficiency in terms of numerical targets of clients served, as is the case in the LMDAs, is problematic. By imposing numerical targets in the new regime for: EI clients served, returns to work of EI claimants, and savings to the EI account, provinces will target programs at the clients most ready to enter the workforce. Doing so will entail a misallocation of resources since many of these clients (who will be nearly job ready) are capable of obtaining work without assistance. The implications of the focus on employment rather than employability, along with the numerical targets, are examined in detail later in this section.

In summary, the magnitude of the transfers — and the necessary reorientation and amalgamation of programs and staff — means that no firm judgement of the efficiency of the new regime can be made for several years. Alberta and Quebec are the two provinces most advanced in implementing the agreements and they will act as bellwethers for the degree to which gains in both effectiveness and efficiency can be realized. As with effectiveness, there are grounds to believe that some gains in efficiency will be realized under the LMDA regime. In particular, a more integrated and streamlined delivery system, including co-location, is inherent in the emerging regime.

### *Human Development and Evaluation*

As indicated in the above discussion of effectiveness and efficiency, the emphasis of the LMDAs is on ensuring that EI recipients enter the workforce (or exit EI) as soon as possible. There is no weight in the accountability framework on ensuring the long-term employability of unemployed workers by increasing their human capital. Essentially the agreements force provinces to target clients most ready to enter the workforce. In other words, clients will be "creamed" and those programs that most quickly cause clients to stop receiving EI will be deemed "successful."<sup>49</sup> The issue is not so much that creaming will occur, but rather that it is now imposed and deemed acceptable by the LMDAs.

A central objective of active labour market policy is to develop the skills and expertise of the labour force. The agreements, however, posit simplistic and inadequate accountability measures in this regard that will prove to be detrimental to many clients. As noted by the OECD:

When national ... management objectives are expressed mainly in terms of quantitative targets for regional or local offices, distortions may arise. Objectives that are omitted from the list of formal targets, perhaps simply because performance is difficult to quantify accurately — *e.g.* help to the most disadvantaged... may increasingly be disregarded. Conversely, regions may direct resources towards measures that maximise measured performance ... while adding relatively little.<sup>50</sup>

The selection of a more sophisticated accountability framework would have included measuring the extent to which the "employability" of clients, especially those with multiple labour market barriers, had been increased along with tracking clients once they re-entered the workplace. A worker laid off from an assembly line where he or she had been earning \$21 per hour who, after re-training, is hired on contract at \$8.50 is not differentiated in the accountability framework from an unemployed worker whose earnings double in a permanent employment position obtained due to a program intervention.

There is already evidence that the average cost and number of long-term interventions have been declining under the new regime. This is to be expected since the accountability framework of the new regime is focused on getting clients into jobs rather than boosting the medium and long-term employability of clients. Long-term interventions last more than a few weeks and involve

financial assistance to either employers, third parties, or individuals and are typically directed at clients who face severe labour market barriers. In 1995-96 the average cost for long-term interventions was \$8,500 but by 1997-98 this had declined to \$7,200 with a further reduction to \$6,300 in 1998-99.<sup>51</sup>

The LMDAs have only three performance measures: (i) the number of clients to be served by employment benefits and support measures, (ii) the number of EI clients to return to work, and (iii) savings generated to the EI account. As already indicated these fail to adequately account for the human capital dimension inherent in active labour market measures. A prerequisite for effective and efficient policy is a robust feedback system including targets to be met, operational monitoring, and formal evaluation. In this regard the LMDAs are deficient and it remains to be seen whether this shortcoming can be corrected or whether it will continue to haunt the policy field, resulting not only in the misallocation of funds and federal-provincial tension, but also in ill-trained workers who are unable to escape EI dependency for more than short periods of time.

Effective monitoring of activities and longer term evaluation could compensate for some of the weaknesses and incompleteness of the performance measures under the new regime. In other words, the performance measures could remain as they are if complemented by a thorough set of monitoring and evaluation criteria. For example, the EI Commission is required to prepare an annual report to the HRDC minister which is then tabled in Parliament. There are, however, significant time lags in the process and the utility of the monitoring function remains unclear. Thus, the annual report to Parliament on the agreements for the fiscal year April 1998-March 1999 was not to be tabled until early 2000, which is nearly two years after events that transpired in 1999.<sup>52</sup>

Moreover, the evaluation component of the LMDAs is inadequate and it is unclear that it will be of much value unless revised. The agreements call for joint evaluations (paid for by HRDC) but there is an uneven commitment to evaluation by the provinces, because historically their labour market programs have been much smaller than those of HRDC. The history of weak evaluations, especially by provinces, has been highlighted by the OECD which called for more evaluations of policies and programs by the provinces.<sup>53</sup> Furthermore, evaluation will become more difficult as policies and programs begin to vary, perhaps dramatically, from province to province. In any case, it may well be that conducting comprehensive joint evaluations may prove to be a thorny process in some cases since the two levels of governments may have quite different objectives and agendas.

The establishment of an accountability framework that is weak arose from several sources. First, the more onerous the conditions placed by the federal government on the provinces in 1996, the less likely they might have been to enter into LMDAs. This concern now seems unfounded as the provinces that sought the devolution would not have balked at more sophisticated measures, and would have pulled the others along. Second, the EI reforms and LMDAs were conceived at the height of the battle against the deficit which called for measures that stressed immediate savings rather than human capital development which would generate savings in the longer term. Third, the historical absence of a public accountability framework for active labour market measures by the federal government meant that one was required for the new intergovernmental regime. In this sense, the accountability framework, even if weak, is an improvement over what existed before.

A final result of the inadequacies of the accountability framework is the measurement of expenditures by provinces.<sup>54</sup> Since the federal government has no figures on provincial expenditures on training (which is why OECD statistics capture only federal, active labour market spending) it will be impossible to determine if the LMDAs precipitate a financial substitution effect with provinces reducing their own spending on active measures. Should this occur, the LMDAs will have amplified inequalities between different sets of clients and further impeded the enhancement of human capital. Alternatively, it will also be difficult to determine if provinces increase spending on active labour market measures for social assistance recipients and other non-EI clients. This may come about if provinces come under pressure to provide similar levels of services to both EI and non-EI clients. The lack of comparable expenditure figures is a well-known problem in this field and might have been addressed in the LMDAs.

The framework decided upon did have the virtues of being simple, easy to understand, and agreeable to all parties. Many provinces did not wish to be seen as being held "accountable" to another level of government, that is to receive program dollars with conditions attached to them. The framework, by focusing on outcomes-based management and accountability, provided a solution acceptable to all and served to focus the efforts of both levels of government on the same end or result.<sup>55</sup>

The question now remains how to ensure that a better accountability framework emerges. One province, Saskatchewan, has included in its LMDA a more comprehensive evaluation framework than the others. It includes additional indicators to measure program effectiveness, including client



characteristics and long-term savings to both the social assistance program and EI account. Other provinces may find it helpful to utilize Saskatchewan's framework, and HRDC may wish to promote it with other provinces. However, HRDC will need to be more proactive and systematic in strengthening the accountability features of the intergovernmental regime. A short-term solution is to fund extensive national evaluations, rather than relying on province-specific evaluations. The use of a third-party consultant such as the Social Research Demonstration Corporation, which is evaluating the British Columbia and New Brunswick demonstration projects, might mean less provincial opposition than HRDC-run evaluations. In the longer term, enhancements to the accountability framework should be a key element on the agenda of both federal and provincial officials.

The fact that these officials have noted inadequacy of the accountability framework and the inattention to evaluation issues in the LMDA regime affords some optimism that improvements might be undertaken.<sup>56</sup> As such, it may be that accountability can be strengthened by federal and provincial officials as time proceeds perhaps by adding more indicators at the operational level to supplement the broad ones stipulated in the agreements. The annual planning process stipulated under the agreements may be another route to more extensive accountability measures. However, doubt remains whether there will be sufficient political and bureaucratic incentives to act or whether, like a couple in a new marriage, the matter will remain unattended with the hope that it will not confound the newly consummated relationship.

### *Portability*

There is little immediate impact on the mobility of workers under the new regime. The issue remains a concern, but no more than under the previous regime. In the negotiation process for the LMDAs there was little focus on national issues, which is not surprising given the bilateral nature of the agreements. Moreover, provinces have shown scant willingness to take the lead in discussing, or designing, processes to ensure the interprovincial mobility of workers. The pressures are clearly for each province to "look after its own" since as a group they have little incentive to develop a system of national skills accreditation or certification. Since federal policies in this area had been minimal, it seems that the status quo remains without the previous ability, which was itself never utilized, of the federal level to act.

Having gained responsibility for active labour market policy it seems doubtful that the provinces, especially Quebec, will now move to dilute those powers. In negotiating the LMDAs, a more effective federal approach might have been, for example, to link the transfer of resources to provinces to an expansion of national standards so that more occupations could be certified under the Red Seal program (which means acceptance by all provinces) and an update of apprenticeship. Such an opportunity to entice provinces to work on national standards is unlikely to arise again soon.

Related to national standards is the issue of pan-Canadian labour market policy. The relative lack of national standards suggests that no national policy has ever existed. A national labour market policy, one assumes, would have created a more impressive set of countrywide standards than currently exists. Over the past decades the federal government has responded to local conditions (e.g., the lay-off of fishery workers) and to the fiscal situation it found itself in. Provincial governments are likely to act in the same manner. As a result, any loss of a "national policy" is in theory only. In any case, the federal government has reserved the right to act in, yet undefined, pan-Canadian activities either in response to special labour market problems or situations that affect the country as whole or a significant area of the country.

The question then becomes one of whether the loss of the potential to forge a nationwide policy is a positive or negative development. From the vantage point of an age of globalization, in a geographically immense but sparsely populated country, it probably is not a detrimental change. In other words, active labour market policy does not need to be made at a federal level when global market forces operate in a largely unfettered manner with the ability to affect local communities, which themselves are quite distinct with regard to economic and labour market characteristics.

In summary, the impact of the new regime on policy effectiveness and efficiency can be expected to be generally positive as fragmentation decreases and provinces learn to integrate policies and programs. However, the focus on employment rather than employability as well, unless addressed, will fail to enhance the development of human capital as well as causing a decrease in redistributive equity. The weak accountability framework further damages the potential for the new regime to not only foster human capital but also to fashion effective and efficient policies. With regard to mobility the new regime is essentially neutral while marginally reducing the option for a pan-Canadian labour market adjustment policy.

## ASSESSING DEMOCRATIC VALUES AND FEDERALISM

This section assesses both the democratic values and federalism dimensions of the LMDA system. With respect to democratic values the focus is on how the emerging intergovernmental regime compares to the previous one with respect to the protection of majorities and minorities, the role of legislators and citizens, and transparency and accountability. The second part of this section assesses the LMDA regime with regard to the federalism principles: jurisdictional and political sovereignty and intergovernmental processes for conflict resolution.

### *Democratic Values*

With respect to democratic principles, there is little, if any, impact in the short and medium term on majority or minority protections. The agreements maintain the requirements that services be made available to official language minorities under specific conditions. Although in some cases, such as with Quebec, the negotiations over the language of service were extensive, the results are that there are no changes to clients. Over time, provinces may design programs that favour one ethnic or linguistic group over another but any such discrimination, should it come to pass, is some years in the future. The reduction in federal CRF spending for training means fewer services for designated groups (women, Native peoples, visible minorities, and people with disabilities), however, the decrease is not a direct function of the new intergovernmental regime. Nevertheless, the LMDAs contain no provisions that would allow services to be provided to individuals who are not EI eligible. This, along with the reduction of federal spending on training from the CRF, means that groups who do not qualify for EI are excluded from training funded through the LMDAs.

The role of both federal and provincial legislators will be reduced under the LMDAs, as is to be expected under a regime of collaborative federalism. It is likely that bilateral discussions between federal and provincial officials will deal with many of the issues and problems that may arise under the new regime. The weak evaluation provisions of the agreements mean that the annual reports to Parliament or provincial legislatures will contain little useful information to make fundamental, hence political, decisions. For federal politicians, their visibility has been reduced significantly in those provinces in which a full transfer has occurred.

Opportunities for citizen participation will decrease in some regards but increase in others under the new regime. Prior to the LMDAs, stakeholders wishing to influence policy, or just access operational staff, could do so relatively simply via HRDC and its single delivery structure for EI clients. Under the new regime, interest groups organized on a national basis need to navigate a complex environment in which they must make contact with a variety of provincial government agencies and sometimes HRDC as well. Furthermore, the joint-management committees under the agreements will make decisions and are unlikely to seek formal input from key groups. The Canadian Labour Force Development Board (CLFDB) might have evolved into a forum for stakeholders to provide input on a national level but the corporatist board has now been dismantled. Without the CLFDB there will be less, indeed little, opportunity for Canadians to have a non-government perspective on labour market issues. The lack of interest of many provincial governments (with Quebec an exception) in corporatist boards further suggests that citizen involvement at the level of strategic policy is not likely to be a priority under the new regime.

Under the previous regime the federal government and many provinces sought — however lukewarm the commitment might have been — to involve some stakeholders in developing policy. Under the new regime, the federal government has little incentive to seek advice since its role in policy-making is much reduced, and in any case is focused primarily on ensuring savings to the EI account. From the viewpoint of a democracy the new regime implies less involvement from politicians, and less participation by stakeholders and the general public in setting strategic policy.

It is not an easy task in collaborative or executive federalism to increase the role of citizens in decision-making around key policy issues. A role for the CLFDB might have been enshrined in the EI Act or in the LMDAs but this opportunity is now lost, as is the board itself. It may be possible to constitute an annual gathering — hosted by one or more provinces in conjunction with the federal government — to hear from non-government stakeholders: labour, business, training providers, and equity and community groups. Such a regular gathering might also be utilized to address some of the weaknesses in the accountability framework by becoming a forum for evaluation studies and other reports to be presented and discussed. The drawback of such gatherings, especially from the perspective of government officials, is that they might result in expectations by stakeholders that their concerns will be dealt with or that the focus will only be on problems to the exclusion of successes. Nevertheless, with careful planning and support from the Forum of Labour Market Ministers

combined with financial aid from HRDC, the benefits of bringing together governments and key groups will outweigh the difficulties. Without such mechanisms, Canadians will have no organized forum to converse with politicians and officials on broad labour market policy matters.

At the same time as citizen involvement has decreased with regard to strategic policy, it has the potential for increased involvement of stakeholders with regard to operational policies. Many interest groups, including business and labour, are organized on a province-wide basis, especially in Quebec, and these now find it easier to deal with their provincial government on training-related issues. The single delivery structure that has arisen in the full-transfer provinces is, after an initial period of confusion, providing citizens with a clearer understanding of which level of government has operational responsibility.

As discussed in more detail below, the negative aspects of the new regime will become clearer during a period of economic stagnation. If programs fail to operate effectively in times of high unemployment, then political strife may arise, especially since the accountability framework is weak. The inability of both elected representatives and citizens to become fully engaged under collaborative models of federalism may make it particularly difficult for new policies to arise, for example, to address changes to labour market conditions. Political fights, including charges of incompetence and blame shifting, may become particularly intense if a province is unable to meet its numerical targets for clients served and EI savings. There are no provisions in agreements for provinces to easily obtain additional funds, especially at short notice. Given the slow and inadequate reporting process, policy failures may not become apparent (especially to citizens and politicians) until these are acute. The result may be political rhetoric based on relatively little concrete data making it a complex, if not impossible, task to refute accusations and allegations.

### *Federalism*

With respect to the principles of federalism — respect for jurisdictional and political sovereignty and conflict resolution — a number of questions loom large under the new regime. The agreements do not represent a formal constitutional shift since they are only administrative in nature. As such, the 1940 constitutional amendment that transferred responsibility for (un)employment insurance to the federal level remains intact. In the LMDA regime the federal government retains control over funding levels, eligibility criteria for clients on whom funds can be spent, and the central aspects of the accountability and evaluation criteria. From a constitutional

perspective it is not at all clear why the training of adults is a provincial responsibility, but not the training of youth. Indeed, given the constitutional powers granted to provinces in education, a stronger argument could be made that youth policy is in the provincial domain, rather than the training of EI recipients (see the chapter by McBride and Stoyko in this volume).

The LMDAs have generated little, if any, political tension between the two levels of government. There have been no pitched battles over the negotiations or implementation. Any heated debates about political sovereignty will be postponed until the negotiations start for the next set of agreements (the current agreements have five-year terms). Indeed, so far the LMDAs have been negotiated and implemented with a high degree of good will since neither the provinces nor the federal government wishes to be seen as scuttling the transfer. Many provinces have sought this policy field and thus have a vested interest in demonstrating they can effectively design and coordinate active labour market policy. On the other hand, the federal government made the offer to transfer and does not wish to appear to be impeding the process it initiated. Finally, the steadily decreasing unemployment rates have made this an ideal time in which to decrease spending, refocus programs, and transfer responsibilities.

The LMDA negotiations involved not only crafting the agreements, but also resolving the multitude of operational issues around the transfer of resources, including information-sharing, co-location, ongoing reporting relationships, etc. Doing so has generated, among federal and provincial civil servants, a positive working relationship, good will and a growth of partnerships.<sup>57</sup> In the provinces with co-management, federal-provincial relationships have improved (although in these provinces they were generally good to begin with) as officials from both orders of government work side-by-side. In most full-transfer provinces the interaction of federal and provincial staff at the local level has also become more cooperative than in the past. One cost of increased collaboration has been the time and energy devoted by officials from both orders of government to meetings and committees, joint planning, and related activities. Collaboration has been greatest and easiest to achieve on operational issues around delivering services to clients.

However, the limits of cooperative federalism must eventually be reached. The current surplus in the EI account has already caused some friction insofar as provinces want some of the surplus allocated for training and related programs. When the larger provinces have fully digested the federal resources, they will make a case for the transfer of additional policies and resources, or for representation on the EI Commission. In the view of some provinces, overlap

and duplication continue to exist with respect to programs for non-EI clients, especially for youth and the disabled which can only be eliminated by further transfers to the provinces. In some ways the LMDAs could be the "thin edge of the wedge" in generating pressure for further transfers of responsibility to the provinces. In provinces, such as Alberta, where federal and provincial offices are co-locating, there will be long-run pressures for the province to also administer some aspects of EI. Although there is no evidence of increased collaboration among provinces, it is possible that this may occur over time as provinces seek to "gang up" on the federal government. Regardless of future developments, the option of the federal government taking back responsibilities is extremely unlikely for both political and administrative reasons.

The true test of conflict resolution will arise when unemployment rates increase and the savings targets in the agreements are not attainable. The restrictions in the eligibility for EI stemming from the 1996 reforms will result in provincial social assistance rolls growing dramatically during the next recession.<sup>58</sup> This points to the danger of the new regime for the provinces in that they provide services but ultimately the federal government, along with macro-economic conditions, determine the size of the caseload.

In summary, the new regime will be neutral with regard to the protection of minorities and majorities. However, the role of citizens and legislators in strategic planning will be significantly reduced under the LMDAs as more decisions are made by officials and less information is made available to citizens and politicians. Turning to federalism, there has not been substantial change to jurisdictional or political sovereignty, although the federal government has lost some ability to determine the mix of services provided to citizens. As such, the concern of federal bureaucrats and politicians is to determine the remaining federal role in active labour market policy. To date, conflicts have been resolved relatively easily (in comparison to past decades) as is to be expected under collaborative federalism. However, this will not remain the case when unemployment increases and some provinces press for changes that the federal government may not wish to accede to. As discussed, in the concluding section of this chapter, the ability of the new regime to foster a more equal intergovernmental partnership will be severely tested during the next recession.

## CONCLUSIONS

Active labour market policy in Canada has historically faced five conditions that have made it a formidable policy domain. These, as described at the

beginning of the chapter, are: insufficient investment by state and private sectors; emphasis on passive rather than active measures; overemphasis on institutional training; insufficient involvement of business and labour in decision-making; and lack of federal-provincial coordination along with the associated friction. To address these conditions, federal and provincial governments have sought to implement a number of reforms during the past several decades including the corporatist structures created during the early 1990s to engage business and labour groups.

A new intergovernmental regime, representing the latest shift in this policy domain, has now been fashioned by the LMDAs. This regime involves a significantly expanded role for the provinces in setting policy and delivering services to Canadians, while concomitantly curtailing the scope of federal activities. Such a shift is untested in the Canadian context and the transfer of several thousand federal civil servants to the provinces is an extraordinary — albeit little noticed by the public and media — event. The LMDAs arose from a complex interaction of conditions including the failures of past innovations, demands for greater powers on the part of some provinces, and the fiscal pressures facing the state.

The intergovernmental regime is generally collaborative although to describe it solely so would be misleading. The fact that some provinces have full-transfer agreements and others do not imparts a degree of asymmetry to the current state of affairs in that the degree of collaboration is generally higher in the co-management provinces but less so in the full-transfer provinces. Finally, the degree of collaboration on strategic issues, such as eligibility and funding, remains generally low since the federal level retains sole command of these levers.

To understand the implications of the new regime the three broad assessment criteria described in the opening chapter in this volume have been utilized: policy goals and outcomes, democratic values, and federalism principles. The results of the assessment indicate that under the new regime the policy effectiveness and efficiency can be expected to increase compared to the past. This is not an automatic outcome but requires provinces to avoid policy centralization, minimize the influence of the colleges, and foster co-location. Human development, however, may decrease as programs focus on “quick exits” from EI and the inadequate accountability framework makes it impossible to determine policy alterations that might be required. The new regime can be expected to generate little gains with regard to national standards and portability, or more generally pan-Canadian policy, which in any case subsisted at only low levels in the previous regime.



Democratic values appear as one area in which the LMDAs will have a sizeable impact. Majority and minority protection remains unchanged in the new regime; however, the role of legislators and citizens is significantly curtailed as more power flows to officials. The lack of mechanisms for stakeholders to provide advice, and have input, into strategic labour market policy is problematic. On the other hand, stakeholder groups have more opportunities for participation on operational policy in the full-transfer provinces, especially given the establishment of a single delivery structure in these jurisdictions. Jurisdictional and political sovereignty are not affected to any extent by the agreements and to date, conflict resolution between the levels of government has been easier than in the past.

The new regime will have a mixed impact on the five historical conditions under which an active labour market has operated. Some conditions will be alleviated while others will deteriorate further under the LMDAs. Specifically, the new regime does not increase state expenditures nor provide incentives for the private sector to augment its investments in human capital. In fact, the opposite is likely to occur since the federal government is unlikely to place a priority on increasing funds for services from which it gains little public recognition.

Second, although the new regime itself did not shift the relative emphasis of active and passive training, the new EI Act does so somewhat by effectively curtailing income-support benefits to some groups of unemployed workers. The shift could, of course, have been more pronounced if accompanied by a boost in spending on active measures. Third, the new regime diminishes the overemphasis on institutional training by eliminating direct purchases, although the magnitude of the benefits to be realized has yet to be determined since the policy shift was only implemented in mid-1999. Fourth, the new regime provides fewer opportunities for business and labour groups to become involved in policy and program design at the national level, although at the provincial levels these have increased. Fifth, the new regime has reduced tension in the federation and this should allow the provinces the opportunity to develop more coordinated labour market adjustment policies in response to specific conditions. The removal of a major irritant from federal-provincial relations should allow decisionmakers to focus more intensely on policy matters, and less on interjurisdictional relations, thereby generating more effective labour market adjustment and training programs.

The implementation of the LMDAs is at a very early stage. Alberta, which signed the first full-transfer agreement, began its implementation in

November 1997, while Quebec began in April 1998. As such, the conclusions from any assessment must be tentative, especially since the asymmetrical nature of the new regime means that outcomes will vary from province to province. Nevertheless, it can be concluded that some provinces, such as Nova Scotia, will continue to work closely with the federal government, while others, such as Quebec, will continue their historic stand. The meetings of the labour market ministers and their deputies (after a lapse of several years) suggest that somewhat greater cooperation among the provinces and between the provinces and the federal government has begun, although it remains unclear how long it may persist. At the operational level the degree of collaboration in most provinces has also increased, in part because many former federal officials are now provincial officials.

The new collaborative regime is a creature of a particular set of political and economic conditions: the growth of Quebec nationalism in the wake of the failure of constitutional agreements; stringent cuts in government expenditures; and nine years of generally declining unemployment rates. If the economy remains strong, the emphasis in the new regime on employment rather than employability of EI recipients may prove to be effective, especially if both levels of government invest further in active labour market programs. Policymakers have been exceedingly propitious in the timing of the inter-governmental shift in that it occurred in the midst of an unusually long economic expansion.

However, when the next economic downturn arrives the new regime will be severely tested because not only will the demand for services increase as there are more unemployed workers, but the ability of governments to increase expenditures will be constrained by decreasing revenue flows.<sup>59</sup> Provinces will carry more of the risk because they will probably fail to meet the targets of clients returned to work in the LMDAs and at the same time face expanding social assistance expenditures. The current policies which are focused on creaming and on a quick exit from programs for clients, rather than intensive (re)training, will prove inappropriate as there will be fewer employment opportunities in the economy.

As EI and social assistance rolls balloon, significant strains will surface on the collaborative model. Provinces will demand more funding for existing services and perhaps job-creation programs to absorb the unemployed. The weak accountability and evaluation framework will make it difficult to obtain sufficient information and intelligence to adjust policies and foster innovations. Provinces that fail to meet the numerical targets may have their funds

reduced and thus be forced to further emphasize low-cost programs. Such programs will likely lead to short-term and low-pay employment, rather than focusing on more intensive (re)training required for the post-industrial economy.<sup>60</sup> In other words, the LMDAs have the potential to generate a vicious self-sustaining cycle if targets are not met.

As the opening quote from Lewis Carroll suggests, a challenge of policy shifts is to attain a sufficiently broad consensus on the direction in which to proceed. Federal and provincial policymakers have successfully completed a major shift in intergovernmental regimes with minimal upheaval and disruption. However, now they must focus their attention on preparing active labour market policies for more difficult economic times. A failure to do so will result in dysfunctional programs and a renewal of provincial-federal disputes in this policy domain.

At the federal level there needs to be a recognition that increasing unemployment rates will require more funds to flow at relatively short notice to the provinces under the LMDAs. As for the provinces, they will need to remain nimble to quickly reorient and expand programs and services during an economic recession, including seeking advice from stakeholders. The degree to which the collaboration and interdependence of the current regime has penetrated each level of government will determine how these issues are resolved and the extent to which they might threaten the social union.

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#### NOTES

<sup>1</sup>Current and former officials in the federal and provincial governments were interviewed for this chapter. Specifically, officials with Human Resources Development Canada (in Ottawa and in the Ontario and Quebec regional offices), and with the governments of British Columbia, Saskatchewan, Ontario, New Brunswick, and Nova Scotia. Staff at the library of the Ontario Ministry of Training, Colleges and Universities, as well as the Canadian Labour Force Development Board, made their resources available for research. My colleagues on the Queen's University Institute of Intergovernmental Relations *Governance of the Social Union: A Sectoral Approach* project — Harvey Lazar, Tom McIntosh, Stephen McBride, Gerard Boychuk and Peter Stoyko — provided helpful advice and guidance on earlier drafts of this paper. Ursule Critoph of the Canadian Labour Congress and Daniel Buchanan of Sigma-3 Policy Research also read drafts and supplied valuable commentary. A special note of thanks is due to the October 1999 Ottawa labour market roundtable participants for their observations and suggestions, especially to those who contributed written comments.

<sup>2</sup>Harvey Lazar and Tom McIntosh, *Federalism, Democracy and Social Policy: Towards a Sectoral Analysis of the Social Union* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1998).

<sup>3</sup>I have replaced the "redistributive equity" objective proposed by Lazar and McIntosh with "effectiveness." To me effectiveness better captures the sense that active labour market policy must allocate resources so as to bring about a variety of effective outcomes. As well, I have incorporated the "social equity" criterion in the discussion of human development since for active labour market policy questions about human (capital) development are intimately tied to equality of access and of opportunity.

<sup>4</sup>See, among others, Stefan Dupré *et al.*, *Federalism and Policy Development: The Case Study of Adult Occupational Training in Ontario* (Toronto: University of Toronto Press, 1973); Craig McFadyen, "State, Society and the Development of Active Labour Market Policy in Canada: The Case of the Canadian Jobs Strategy," unpublished PhD dissertation, Department of Political Science, University of Toronto, 1994; Stephen McBride, "The Political Economy of Ontario's Labour Market Policy," in *Continuities and Discontinuities: The Political Economy of Social Welfare and Labour Market Policy in Canada*, ed. Andrew Johnson, Stephen McBride and Patrick Smith (Toronto: University of Toronto Press, 1994), pp. 268-90; Rodney Haddow, "Federalism and Training Policy in Canada: Institutional Barriers to Economic Adjustment," in *New Trends in Canadian Federalism*, ed. Francois Rocher and Miriam Smith (Peterborough, ON: Broadview Press, 1995), pp. 338-68; Rodney Haddow, "Canada's Experiment with Labour Market Neocorporatism" in *Labour Market Polarization and Social Policy Reform*, ed. Keith G. Banting and Charles M. Beach (Kingston: School of Policy Studies, Queen's University and McGill-Queen's University Press, 1995), pp. 205-32.

<sup>5</sup>Andrew Bernstein and Michael J. Trebilcock, *Labour Market Training and Retraining* (Toronto: Centre for the Study of State and Market, Faculty of Law, University of Toronto, 1996).

Tax policies could also be included in the definition. However, in Canada there are no significant tax policies aimed at mobilizing the labour supply.

<sup>6</sup>Organization for Economic Cooperation and Development, *Historical Statistics, 1960-1994* (Paris: OECD, 1996).

<sup>7</sup>Noah M. Meltz, "The Evolution of Worker Training: The Canadian Experience," in *New Developments in Worker Training: A Legacy for the 1990's*, Industrial Relations Research Association Series (Madison, WI: Industrial Relations Research Association 1990), pp. 283-307; and Roderic Beaujot, *Population Change in Canada: The Challenges of Policy Adaptation* (Toronto: McClelland & Stewart, 1991).

<sup>8</sup>J.W.P. Veugelers and Thomas R. Klassen "Continuity and Change in Canada's Unemployment-Immigration Linkage," *Canadian Journal of Sociology* 19,3(1994):351-69.

<sup>9</sup>Freda Hawkins, *Canada and Immigration: Public Policy and Public Concern*, 2d ed. (Kingston and Montreal: McGill-Queen's University Press, 1988).

<sup>10</sup>Anthony Giles, "Canadian Labour Market Policy and Flexible Employment Systems," in *Flexibility and Labour Markets in Canada and the United States*, ed. G. Laflamme et al. (Geneva: International Institute for Labour Studies, International Labour Organisation, 1989), p. 241.

<sup>11</sup>G. Schmid and K. Schomann, "Institutional Choice and Flexible Coordination: A Socioeconomic Evaluation of Labor Market Policy in Europe," in *Labor Market Institutions in Europe: A Socioeconomic Evaluation of Performance*, ed. G. Schmid (Armonk, NY: M.E. Sharpe, 1994), p. 30, Figure 1.8; Robert M. Campbell, "The Conservatives and the Unemployed," in *How Ottawa Spends 1992-93: The Politics of Competitiveness*, ed. Frances Abele (Ottawa: Carleton University Press, 1992), p. 27, Table 2.1.

<sup>12</sup>Organization for Economic Cooperation and Development, *Employment Outlook, July 1993* (Paris: OECD, 1993), p. 42, Chart 2.2; John Richards, *Retooling the Welfare State: What's Right, What's Wrong, What's to be Done* (Toronto: C.D. Howe Institute, 1997) suggests that Canada's ranking on spending on active measures might have been even lower than indicated by OECD figures since the OECD compilation omits social assistance programs (which are comparatively generous in Canada).

<sup>13</sup>Organization for Economic Cooperation and Development, *Human Capital Investment: An International Comparison* (Paris: OECD, 1998), Table 3.1. It should be noted that OECD figures for Canada exclude provincial expenditures.

<sup>14</sup>Organization for Economic Cooperation and Development, *Employment Outlook, 1992* (Paris: OECD, 1992), p. 81, Table 2.14.

<sup>15</sup>James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), p. 112.

<sup>16</sup>Kirsten S. Wever, *Negotiating Competitiveness: Employment Relations and Organizational Innovation in Germany and the United States* (Boston: Harvard Business School Press, 1995), p. 101.

<sup>17</sup>Rodney Haddow, "Federalism and Training Policy in Canada: Institutional Barriers to Economic Adjustment," in *New Trends in Canadian Federalism*, ed. François Rocher and Miriam Smith (Peterborough, ON: Broadview Press, 1995), p. 340.

<sup>18</sup>Craig W. Riddell, "Labour-Management Cooperation in Canada: An Overview," in *Labour-Management in Canada*, ed. C.W. Riddell (Toronto: University of Toronto Press, 1986), pp. 1-56.

<sup>19</sup>Advisory Council on Adjustment (Jean de Grandpré, chair), *Adjusting to Win* (Ottawa: Supply and Services Canada, 1989), p. xviii.

<sup>20</sup>Noah M. Meltz, "The Evolution of Worker Training: The Canadian Experience," in *New Developments in Worker Training: A Legacy for the 1990's*, p. 284.

<sup>21</sup>David A. Wolfe and Armine Yalnizyan, *Target on Training: Meeting Worker's Needs in a Changing Economy* (Toronto: Social Planning Council of Metropolitan Toronto, 1989), p. iii.

<sup>22</sup>For example, in 1967, Ontario Minister of Education Bill Davis, in announcing the creation of the community colleges, remarked in the Ontario Legislature:

"Further, we have over the years developed reasonably satisfactory financial working arrangements with the federal government authorities in the field of technical education and trade training, and we plan to take full advantage of these financial arrangements for our new Colleges of Applied Arts and Technology (Ontario Department of Education." *Colleges of Applied Arts and Technology: Basic Documents*, statement in the Legislature by William Davis introducing the colleges of applied arts and technology, 21 May 1965, Toronto: Queen's Printer, 1967), p. 15.

<sup>23</sup>W.R. Dymond, *Training for Ontario's Future: Report of the Task Force on Industrial Training* (W.R. Dymond, chair), (Toronto: Ministry of Colleges and Universities, 1973), pp. 100-08.

<sup>24</sup>Canada. Employment and Immigration, *Canada Labour Market Development in the 1980's: Report of the Task Force on Labour Market Development* (Ottawa: Supply and Services Canada, 1981), p. 205.

<sup>25</sup>Michael J. Prince and James J. Rice, "The Canadian Jobs Strategy: Supply Side Social Policy," in *How Ottawa Spends 1989-90: The Buck Stops Where?* ed. Katherine A. Graham (Ottawa: Carleton University Press, 1989), p. 273.

<sup>26</sup>*Ibid.*

<sup>27</sup>Human Resources Development Canada (HRDC), *Federal-Provincial Agreement to Enhance the Employability of Social Assistance Recipients* (Ottawa: Supply and Services Canada, 1994).

<sup>28</sup>Winston Li *et al.* *When Financial Incentives Encourage Work* (Ottawa: Social Research and Demonstration Corporation, 1998); and Howard Bloom *et al.*, *Implementing the Earnings Supplement Project: A Test of a Re-employment Incentive* (Ottawa: Social Research and Demonstration Corporation, 1997).

<sup>29</sup>Phillipe Schmitter, "Still the Century of Corporatism?" in *The New Corporatism: Social-Political Structures in the Iberian World*, ed. Frederick B. Pike and Thomas Stritch (Notre Dame: University of Notre Dame Press, 1974), pp. 85-131.

<sup>30</sup>S.J. Prais, *Productivity, Education and Training: An International Perspective* (London: Cambridge University Press, 1995), p. 41, Table 2.5.

<sup>31</sup>Thomas J. Courchene, *Social Canada in the Millennium: Reform Imperatives and Restructuring Principles* (Toronto: C.D. Howe Institute, 1994).

<sup>32</sup>In Ontario, discussions about establishing such a board had been underway since 1989. See Thomas R. Klassen, *Precarious Values: Organizations, Politics and Labour Market Policy in Ontario* (Kingston: School of Policy Studies, Queen's University and McGill-Queen's University Press, 2000).

<sup>33</sup>See Klassen, *Precarious Values*; and McFadyen, "State, Society and the Development of Active Labour Market Policy in Canada."

<sup>34</sup>House of Commons Standing Committee on Human Resources Development, *Security, Opportunities and Fairness: Canadians Renewing their Social Programs* (Minutes of Proceeding and Evidence of the Standing Committee, First Session of the Thirty-fifth Parliament, 1994), pp. 286-92.

<sup>35</sup>Human Resource Development Canada (HRDC), "Government of Canada Offers Provinces and Territories Responsibility for Active Employment Measures," *Press Release* Ottawa, 30 May 1996.

<sup>36</sup>During 1990 the percentage of Quebec voters expressing support for Quebec independence exceeded 50 percent for the first time since pollsters began the question in the 1960s. See Marc V. Levine, "Canada and the Challenge of the Quebec Independence Movement," in *Global Convulsions: Race, Ethnicity, and Nationalism at the End of the Twentieth Century*, ed. Winston A. van Horne (Albany: State University of New York Press, 1997), p. 325, Table 16.1.

<sup>37</sup>Stephen McBride, *Not Working: State, Unemployment, and Neo-Conservatism in Canada* (Toronto: University of Toronto Press, 1992).

<sup>38</sup>John Shields and B. Mitchell Evans, *Shrinking the State: Globalization and Public Administration "Reform"* (Halifax: Fernwood Publishing, 1998).

<sup>39</sup>For a more detailed review of the decreases in federal expenditures on active policies see Rodney Haddow, "How Ottawa Shrivels: Ottawa's Declining Role in Active Labour Market Policy," in *How Ottawa Spends 1998-99 - Balancing Act: The Post-Deficit Mandate*, ed. Leslie A. Pal (Toronto: Oxford University Press, 1998), pp. 99-126.

<sup>40</sup>Herman Bakvis, "Shrinking the House of HRIF: Program Review and the Department of Human Resources Development," in *How Ottawa Spends 1996-97: Life Under the Knife*, ed. Gene Swimmer (Ottawa: Carleton University Press, 1996), pp. 133-70.

<sup>41</sup>Klassen, *Precarious Values*.

<sup>42</sup>Courchene, *Social Canada in the Millennium*, p. 234, Table 2.

<sup>43</sup>The term "province" is used to refer to both provinces and territories. The more easily understood term "transfer," rather than the more technically accurate term "contribution," is used to describe the flow of funds from the federal government to provincial governments.

<sup>44</sup>Klassen, *Precarious Values*.

<sup>45</sup>Aaron Wildavsky, *Speaking Truth to Power: The Art and Craft of Policy Analysis* (Boston: Little, Brown and Company, 1979), pp. 367-70.

<sup>46</sup>Herman Bakvis, "Federalism, New Public Management, and Labour-Market Development," in *Canada: The State of the Federation 1996*, ed. D. Brown and P. Fafard (Kingston: Institute of Intergovernmental Relations, Queen's University, 1996), pp. 135-65.

<sup>47</sup>Mark J. Harcourt, "Unemployment Reduction in Canada: Lessons from Japan and Sweden," *Relations Industrielles/Industrial Relations* 51,1(1996):177-201.

<sup>48</sup>Human Resources Development Canada (HRDC), *1999 Employment Insurance Monitoring and Assessment Report* (Ottawa: Supply and Services Canada, 2000), pp. 31-32.

<sup>49</sup>"Creaming" involves the selection only of clients who are most prepared to obtain a job. Creaming is inefficient in that many of those clients would have obtained work without any intervention.

<sup>50</sup>Organization for Economic Cooperation and Development, *Employment Outlook, July 1995* (Paris: OECD, 1995), p. 112.

<sup>51</sup>Human Resources Development Canada (HRDC), *1998 Employment Insurance Monitoring and Assessment Report* (Ottawa: Supply and Services Canada, 1999).

<sup>52</sup>*Ibid.*

<sup>53</sup>Organization for Economic Cooperation and Development, *Implementing the OECD Jobs Strategy: Member Countries' Experience* (Paris: OECD, 1997), p. 88, Table 26.

<sup>54</sup>I am indebted to Peter Stoyko for raising this matter.

<sup>55</sup>Jim Armstrong and Donald G. Lenihan, *From Controlling to Collaborating: When Governments Want to be Partners*, Report on the Collaborative Partnerships Project, New Directions No. 3 (Toronto: Institute of Public Administration of Canada, 1998).

<sup>56</sup>*Ibid.*, p. 43.

<sup>57</sup>HRDC, *1999 Employment Insurance Monitoring*, p. 32.

<sup>58</sup>In Ontario, during the recession of the early 1990s, the number of individuals classified as "employable" who were on social assistance increased nearly five-fold over two years to 240,000 cases. See Thomas R. Klassen and Daniel Buchanan, "Getting it Backward?: Economy and Welfare from 1985-95," *Canadian Public Policy/Analyse de Politiques* 23, 3(1997):333-38.

<sup>59</sup>This characteristic makes labour market adjustment different from policy fields such as health care where an economic recession does not result in concomitant increases in the demand or cost of services.

<sup>60</sup>Gordon Betcherman, Kathryn McMullin and Katie Davidman, *Training for the New Economy: A Synthesis Report* (Ottawa: Canadian Policy Research Networks, 1998).



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## YOUTH AND THE SOCIAL UNION: INTERGOVERNMENTAL RELATIONS, YOUTH UNEMPLOYMENT AND SCHOOL-TO-WORK TRANSITIONS

*Stephen McBride and Peter Stoyko*

### INTRODUCTION

One of the standard texts in Canadian public policy analysis suggests that policy is the outcome of a complex interplay amongst ideas, structures, and processes.<sup>1</sup> This approach is clearly reflected in the methodology developed for this project (see Chapter 1) and has informed our study, which is focused on institutional structures governing youth employment policies — an area that is somewhat neglected in the academic literature.

In particular, we have drawn the conclusion that durable structures or institutions must be capable of permitting different policy paradigms to find expression in different time periods. Institutions should facilitate, rather than determine social and political choices. Consequently, we are hesitant to suggest that institutions be shaped in ways conducive to implementing the presently prevailing policy paradigm, but that might serve as an obstacle to the implementation of an alternative paradigm, should one emerge in the future. There is virtue in a flexible federalism in which an important role obtains for both orders of government and in which cooperative engagement is seen as more beneficial than divorce or disentanglement.

We begin by highlighting the evolution of policy thinking about subjects like unemployment, particularly youth unemployment. We then assess the difficult labour market conditions that young people face today, and move on to a description and analysis of current initiatives that address these problems. Existing programs are evaluated in terms of a number of criteria suggested by the project methodology. We conclude that while performance is less than optimum, this is not primarily attributable to the intergovernmental regime. As a result, radical changes in that regime are unnecessary and may be counter-productive in the long term. A number of principles are advanced for incremental improvement of the intergovernmental regime.

## CONTEXT

Until quite recently in democratic capitalist societies, the conventional wisdom of economic policy and economic analysis included the perception that high or full-employment should be the top priority of governments. It was held that this could be achieved without unacceptable levels of state intervention by an activist government acting on the demand side of the economy. Monetary and fiscal policy were the chief instruments of this economic policy blueprint. The construction of an adequately funded welfare state system, and automatic stabilizers like unemployment insurance, in the event the economy underwent a recession, were other components of the public policy system that emerged to pursue the full-employment goal.<sup>2</sup>

From the 1960s, concerns began to mount that some of Canada's unemployment was attributable to supply-side factors, rather than inadequate demand, the standard Keynesian interpretation. The new view of unemployment led to the supplementary use of instruments like regional and labour market policy. Although Keynesian economics concentrated on demand deficiency as the overriding explanation for unemployment, there was also openness to experimenting with other types of government intervention to eliminate structural unemployment. In those days, discussions of labour market policy, including issues of youth unemployment and school-to-work transitions, took place in a discursive environment that contemplated a greater degree of state involvement than now. Moreover, both demand- and supply-side intervention were seen as part of the solution to labour market problems.

Mere mention of that Keynesian era, which conclusively ended in Canada sometime in the early 1980s, serves to highlight what a difference 15 years can make.<sup>3</sup> Today, the economics profession has an entirely different conventional

wisdom; and public policy uses different instruments to achieve different goals. The revolution in economic and policy thinking, from Keynesianism to neo-liberalism, has been accompanied by policies designed to shrink and/or redefine the role of the state, to liberate market forces from political interference, and to free people from dependency on state-provided social policies.<sup>4</sup> The changed orientation has included a focus on balanced budgets, anti-inflationary measures, deregulation and privatization, and, as far as labour markets are concerned, on various supply-side initiatives intended to encourage the operation of the market and accept its distributive outcomes rather than, as formerly, to modify its results.

These transitions have been accompanied by a new set of intergovernmental tensions. Scarcity of financial resources has led jurisdictions to off-load the burden of program financing from the federal to provincial governments and from provincial governments down to the local level. The complexities of fiscal federalism make it difficult for citizens to locate where responsibility lies. This creates an accountability vacuum that encourages blame-avoidance and credit claiming. It also increases the potential for a politics of *sauve qui peut*, in which each jurisdiction attempts to defend existing positions of advantage combined with a politics of jealousy in which officials harbour suspicions that others are receiving better deals.<sup>5</sup>

Moreover, the administrative boundaries between the state and the market are becoming blurred as governments make extensive use of serial short-term contracts and inducements with a diffuse network of private subcontractors: a situation some label the "contract state."<sup>6</sup> These networks are less likely to be confined to neat jurisdictional boundaries and thus increase the potential for intergovernmental disputes over turf.

Whether this great transformation in the conduct of public policy was the product of changed circumstances that dictated a different role for the state, or was the choice of particular social forces that fought an intensely ideological battle to displace the old policy paradigm and install a new one, need not detain us at this point. We might note, however, that the data summarized in Table 1 indicates that the new approach has not been overly successful in labour market terms.

The institutional context of labour market policy-making is characterized by executive dominance and repeated failure to establish neo-corporatist policy structures that would integrate business, labour, and other social actors into labour market policy-making.<sup>7</sup> Active labour market policy under the Liberals has been depicted as a tale in which "the financial and constitutional

TABLE 1  
Labour Market Conditions, 1978-1998

<i>Year</i>	<i>Unemployment Rate</i>	<i>Participation Rate</i>	<i>Employment Rate</i>	<i>Part-Time Employment</i>
1978	8.4	63.1	57.9	13.3
1979	7.5	64.0	59.2	13.8
1980	7.5	64.6	59.7	14.4
1981	7.6	65.3	60.4	14.9
1982	11.0	64.7	57.5	15.9
1983	11.9	64.9	57.1	16.8
1984	11.3	65.3	57.9	16.8
1985	10.5	65.8	58.9	17.0
1986	9.6	66.3	59.9	16.9
1987	8.9	66.7	60.8	16.6
1988	7.8	67.2	62.0	16.8
1989	7.5	67.5	62.4	16.6
1990	8.1	67.3	61.9	17.0
1991	10.4	66.7	59.8	18.1
1992	11.3	65.9	58.4	18.5
1993	11.2	65.5	58.2	19.1
1994	10.4	65.3	58.5	18.8
1995	9.5	64.8	58.6	18.6
1996	9.7	64.9	58.6	18.9
1997	9.2	64.8	58.9	19.0
1998	8.3	65.1	59.7	18.7

Source: Statistics Canada, *Historical Labour Force Statistics*, Cat. No. 71-201 (Ottawa: Supply and Services Canada, 1998).

conjuncture faced during its first term led to the effective emasculation of federal capacity in this field."<sup>8</sup> The Quebec issue in particular pushed labour market policy in a devolutionary direction. From a federal vantage point, labour market policy was a logical candidate for devolution given the strategy of devolving powers to assuage the threat of Quebec separatism.<sup>9</sup> It has been argued that neo-liberalism has had a decentralizing thrust in the North American context.<sup>10</sup> More generally, it has been observed that those who prefer market mechanisms to those of the state will see decentralization as likely in most cases to mean "less government in general and less redistributive activity in particular."<sup>11</sup> In this sense the constitutional strategy currently being applied and the broader neo-liberal agenda fit together quite well.<sup>12</sup>

The evolution of Canadian labour market policy falls into four broad periods: a period of rather limited activity which lasted until the mid-1960s; a period of increased state intervention, in which programs multiplied, that lasted through the late 1980s; an attempt at creating neo-corporatist training in the name of achieving a high value-added competitive economy from the late 1980s to the mid-1990s; and labour market deregulation which is the current approach. The role for the state and the intergovernmental relations involved in each of these stages were different. What is important for present purposes is that broader institutional structures were sufficiently flexible to permit the implementation of different policy paradigms.

In discussing alternative regime types, therefore, an historical view of the policy area suggests that sufficient flexibility in federal arrangements should remain to ensure that the policy implications of future paradigms or approaches should not be foreclosed institutionally. This is especially important because the current paradigm has not been notably successful and its longevity is uncertain.

Until recently the active components of labour market policy were underpinned by a relatively generous system of unemployment insurance — one that was often criticized for its generosity and passivity.<sup>13</sup> The 1990s have seen federal withdrawal from the training sphere and a radical restructuring of the Unemployment Insurance system. In terms of cushioning individuals from the effects of unemployment it is now a pale image of its predecessor.<sup>14</sup> At the same time responsibility for active employment measures was transferred to the provinces.

The term “active labour market policy” has been redefined in recent years to reflect the assumptions of the dominant neo-liberal paradigm. Initially, active labour market policy was associated with the emergence of late Keynesian views of the economy which were still committed to the goal of high and stable levels of employment, the Canadian formulation that was functionally equivalent to full-employment pledges elsewhere. Late Keynesianism began to emphasize structural unemployment, as opposed to cyclical fluctuations in the demand for labour, and the undesirable inflationary consequences of running the economy at very high levels of demand. Both concerns led toward “active labour market policy.” Such a policy would contribute to the containment of inflation by enabling aggregate demand to be held at less than full-employment levels while mopping up the resultant unemployment with training programs to equip unemployed workers with useful and marketable skills. Ideally, a rotating portion of the labour force would always be undergoing

training, thus achieving the goal of continuous skill upgrading, that would contribute to efficiency and competitiveness. The skilled workers produced would ensure that "bottlenecks" in the supply of certain types of labour did not develop. This would reduce inflationary pressures. The existence of a pool of trainees would similarly reduce pressures on demand. The increased productivity of a highly trained workforce meant, theoretically, that the context could be one of a high wage but low inflation economy. The belief was widespread that structural unemployment increased in the 1960s and 1970s and that it was not susceptible to demand-side solutions of the Keynesians. Supply-side policies such as training and relocation could, however, contribute to a full-employment solution.<sup>15</sup>

The current market-oriented paradigm has promoted a different type of active labour market policy, stripping away the supports or, in the parlance of neo-liberals, work disincentives that protected individuals from the vagaries of the labour market, or enabled subsistence outside it. The aim is to make labour markets function more like markets for commodities. Broad framework policies were targeted at inflation control. With inflation under control, unemployment was expected to gravitate to its "natural" level. Later, the inflation goal was displaced by deficit reduction and the need to enhance competitiveness.

Full-employment is not an objective of neo-liberal framework policies unless it is defined arbitrarily as being equal to the natural rate of unemployment.<sup>16</sup> Some role exists for labour market policy in encouraging the labour market to function efficiently, thus producing an actual unemployment rate that is at or close to the natural level or perhaps even lowering the natural rate itself.<sup>17</sup> Examples of such market-enhancing measures might include providing information, assisting the geographical mobility of the workforce, providing assistance to specific groups who find it difficult to participate in the labour market and, possibly, providing training and retraining for workers affected by structural economic changes. Information, mobility, and providing work-experience are all hallmarks of the current approach to youth employment programming.

The neo-liberal approach to the labour market favours a restrictive approach to trade unions and collective bargaining, and to the provision of unemployment benefits.<sup>18</sup> These are seen as impediments to the efficient functioning of the labour market and as driving the actual unemployment rate above its natural level. Policies designed to eliminate or restrict these and other market-challenging institutions, and to enhance the attachment of individuals to the labour market and their dependency upon it have served to redefine the

term "active labour market policy." Nowadays the term describes the integration of social policy with labour market policy, including various training and workfare and work experience programs. The stated aim is to decrease individuals' dependence upon the state. In practice this means an increased dependence upon the market.

The Organization for Economic Cooperation and Development (OECD) is a leading advocate of neo-liberal labour market policies. In its *Jobs Study*,<sup>19</sup> it outlined a wide-ranging set of policy recommendations that it claimed would reduce unemployment, raise employment, and increase productivity. Subsequently,<sup>20</sup> it has sought to track member states' implementation of the Jobs Study recommendations. Canada is a Jobs Study complier,<sup>21</sup> indicating adherence to the neo-liberal paradigm. This has influenced policy design in all facets of the labour market portfolio.

The OECD Jobs Study had two complementary components: one that is focused on skills development and investment in human capital as a route to high wages, and high value-added production; and a second component designed to encourage low-wage employment.<sup>22</sup> Far from being competing strategies these were, in fact, complementary.<sup>23</sup> Policies associated with human capital development include educational reforms designed to make the system more responsive to the needs of a competitive economy such as a greater access to education — including postsecondary education — improving school-to-work transitions through co-op education, supplying internships and youth apprenticeships, providing more effective counselling, and distributing essential information.

Encouragement of low-wage employment is achieved by policies such as reducing payroll taxes; reducing the minimum wage, either in nominal or real terms; reducing Unemployment Insurance coverage and benefits in order to increase incentives to find work; creating welfare-to-work schemes involving low-end training and work experience; encouraging self-employment and entrepreneurship among young people; and providing work-experience programs for those not going on to postsecondary education. In most provinces there has been an attempt create an integrated strategy between labour market, education, and social welfare policy, generally in ways consistent with the prevalent neo-liberal paradigm.

For example, there has been a change in education policy toward cultivating skill-sets that cater to helping young people become more "job ready." This approach stresses applied studies and training, scientific and technological fields, and, at the primary and secondary levels, core skills (the "3 Rs"). In

many provinces, formal attempts to reform education policy have created policy agendas that list these as the new priorities. It remains to be seen whether these fields do, in fact, provide such advantages, particularly since many segments of the workplace management community have stated that they prefer workers with sophisticated problem-solving abilities, with creativity, and who are socially well-rounded. These are a set of attributes one normally associates with a more comprehensive approach to education. Nonetheless, this has implications for human and citizen development and, as a policy program, a superficial political appeal.

Likewise, social welfare policy has made a shift toward what is widely referred to as a "welfare-to-work" approach to those deemed unduly dependent on government transfers and social services. Participation is increasingly mandatory: part carrot, part stick. The carrot is improved access to supply-side active labour market measures (the so-called integration of passive and active labour market measures). The stick is a reduction in the generosity of benefits.

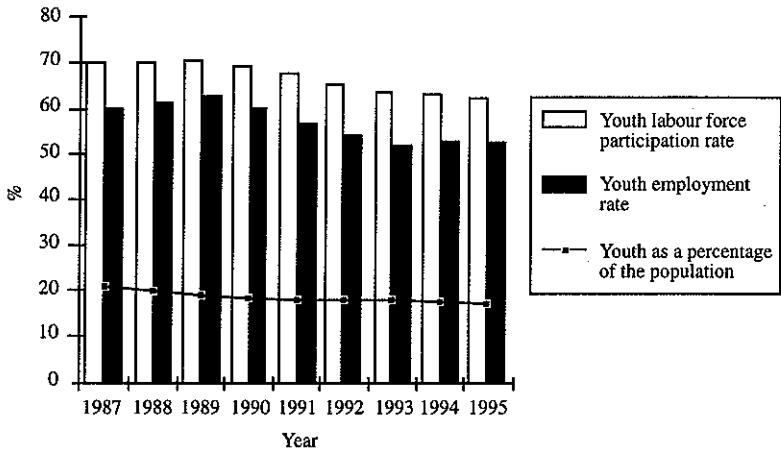
Measures taken to develop human capital have run afoul of other governmental imperatives — federal expenditure reduction has adversely affected funding for postsecondary education with the result that tuition fees, except in British Columbia and Quebec have risen significantly.<sup>24</sup> Similarly, enlarging the pool of low-skilled labour to encourage low-waged employment seems predicated on acceptance of growing inequality in Canadian society.<sup>25</sup>

Within this context, there is a shift in policy discourse surrounding the welfare state toward focusing state support on individuals early in their life-cycle (children or youth) instead of supporting prime-age individuals who are increasingly considered responsible for their plight and better able to exercise self-sufficiency. Part of the rationale for this is, given fiscal restraint, it is more desirable to target benefits toward those considered most in need but least responsible for their condition. For example, in popular discourse, there is relatively less attention paid to helping poor individuals or families (it has actually become politically popular to campaign against them in recent years), but a great deal of attention has been paid to helping poor children, as if they are separable from their family unit. Youth generally fall within this framework, which is another explanation of why youth unemployment has come to enjoy a high profile.

Figure 1 shows that youth as a percentage of total population has been shrinking. Whatever the reasons for the decline in labour force participation of young people after 1989, or their declining employment rate, also shown in Figure 1, demography is not one of them. It is noteworthy that a lower percent-

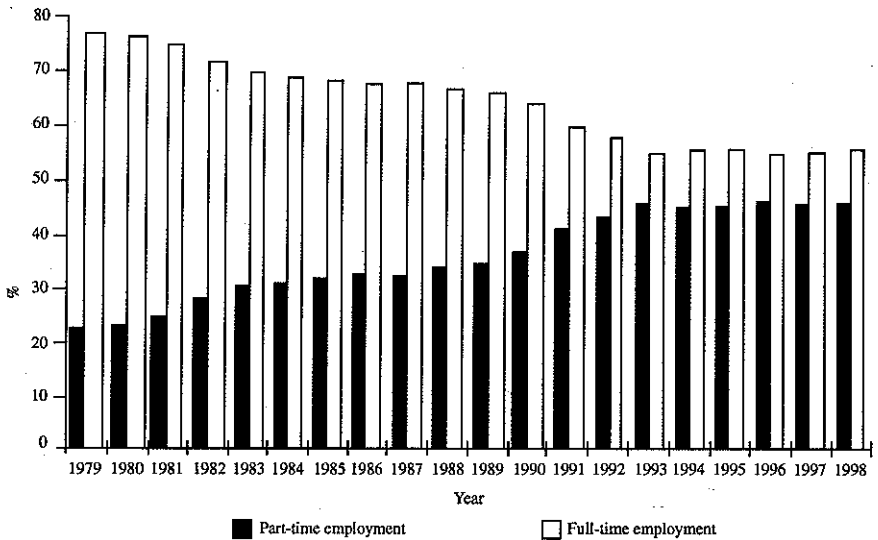


**FIGURE 1**  
Youth Population, Employment and Labour Force Participation Rates



Source: Statistics Canada, *Historical Labour Force Statistics*, Cat. No. 71-201 (Ottawa: Supply and Services Canada, 1998).

**FIGURE 2**  
Full and Part-Time Employment



Source: Statistics Canada, *Historical Labour Force Statistics*, Cat. No. 71-201 (Ottawa: Supply and Services Canada, 1998).

age of young people were working in 1997 than at any time in the previous 20 years. Intuitively, shortage of jobs rather than an excess of young people would seem to be the reason. Figure 2 shows that of the decreased percentage of young people who are working, fewer are working full-time. The labour force participation of young people was generally above the national average until, in the recession of the 1990s, it plummeted by about ten percentage points, before recovering somewhat in 1997. If we assume that the 1989 labour force participation rate represents the high point of the number of young people wanting work if labour market conditions were good, it follows that 6 to 10 percent of the youth population dropped out in the 1990s, depending on the

TABLE 2  
Youth Unemployment Rate (%), 1978-1998

<i>Year</i>	<i>National Rate</i>	<i>Youth Rate*</i>
1978	8.4	14.4
1979	7.5	12.8
1980	7.5	13.1
1981	7.6	13.1
1982	11.0	18.6
1983	11.9	19.7
1984	11.3	17.7
1985	10.5	16.3
1986	9.6	15.0
1987	8.9	13.5
1988	7.8	11.9
1989	7.5	11.2
1990	8.1	12.7
1991	10.4	16.2
1992	11.3	17.8
1993	11.2	17.7
1994	10.4	16.5
1995	9.5	15.6
1996	9.7	16.1
1997	9.2	16.7
1998	8.3	15.2

Note: \*Youths defined as those aged 15-24.

Source: Statistics Canada, *Historical Labour Force Statistics*, Cat. No. 71-201 (Ottawa: Supply and Services Canada, 1998).

year. This group is not counted as being unemployed since they are no longer in the labour market.

The youth unemployment rate (see Table 2) underrepresents youth unemployment by at least this margin of "discouraged" young workers — the ones who dropped out of the labour market because they believed that there was no work to be had. Youth unemployment is consistently above the national average rate, and while the size of the gap fluctuates, it was about as large in the late 1990s' "recovery" as it was in the middle of the 1980s' recession.

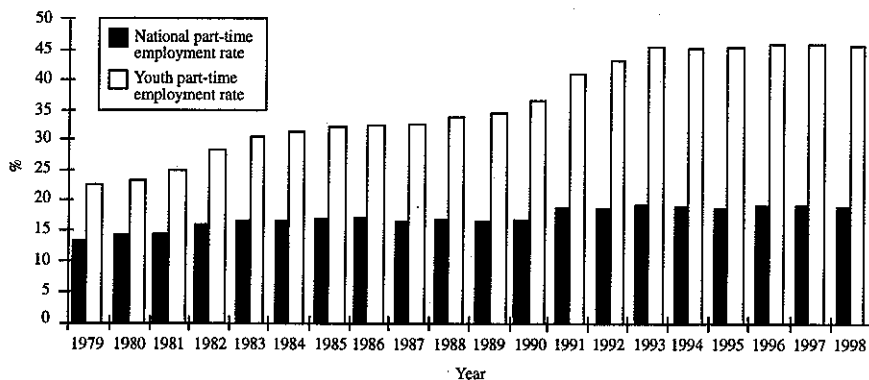
The real unemployment rate is higher in the case of both national and youth rates though arguably the volatility of youth labour force attachment is greater. Hence, in depressed labour market conditions, a higher proportion of young people leave the labour market. Based on the peak of youth labour force participation in 1989-90 an official youth unemployment rate of 16 to 17 percent in 1997 translates into a much higher real rate today.

Nor does this figure include young part-time workers who are working part-time involuntarily because they cannot find full-time work. About 26 percent of young workers work part-time "involuntarily." That number, of underemployed youth, is about 10 percent of the youth labour force. That figure itself understates the extent of underemployment since it does not include those voluntary part-time workers who would like more hours even though they prefer to work part-time, or what might be termed "discouraged involuntary part-time workers" — part-timers who no longer identify themselves as wanting full-time work because they believe it is unattainable.<sup>26</sup> Figure 3 indicates that part-time work is much more common, and growing more common, among young people than the population as a whole.

These indicators demonstrate the very difficult labour market conditions under which young people operate. Associated with these labour market conditions are a variety of social ills.<sup>27</sup> The major economic effect of depressed labour market conditions for young people is poorer earnings than those of similar age cohorts in earlier times. For males in particular, recent evidence suggests that each successive cohort has experienced decreased average earnings<sup>28</sup> and, between the mid-1980s and mid-1990s the real median income for youth fell by about 23 percent.<sup>29</sup>

In summary, this section highlights a number of themes that will recur throughout the chapter. First, a unique set of challenges prevent youth from participating to their full potential in labour markets and democratic decision-making to their full potential. The simple fact that youth face daunting challenges is a necessary, but not sufficient, condition to cause policymakers

FIGURE 3  
Part-Time Employment Rates, 1979-1998



Source: Statistics Canada, *Historical Labour Force Statistics*, Cat. No. 71-201 (Ottawa: Supply and Services Canada, 1998).

to take special notice. Thus, the second theme is the recognition that youth have become a policy priority for a variety of reasons — reasons that are not altogether consistent, leading to policies that sometimes operate at cross-purposes. Third, not all approaches to policy enjoy the spotlight, nor do all segments of the youth cohort. Certain assumptions and types of policy, those of neo-liberalism in particular, have come to dominate conventional wisdom and policy formation, despite their often disappointing track record. The last theme is the way in which these characteristics of youth employment policy conspire to make intergovernmental relations a highly complex and contentious process.

### TYPES OF YOUTH PROGRAMS

There are boundary problems in discussing “youth employment policy.” Any labour market policy designed to generate employment opportunities for youth and graduating students, or lay the foundations for their long-term human and career development, could fall within this policy area. In addition to being a

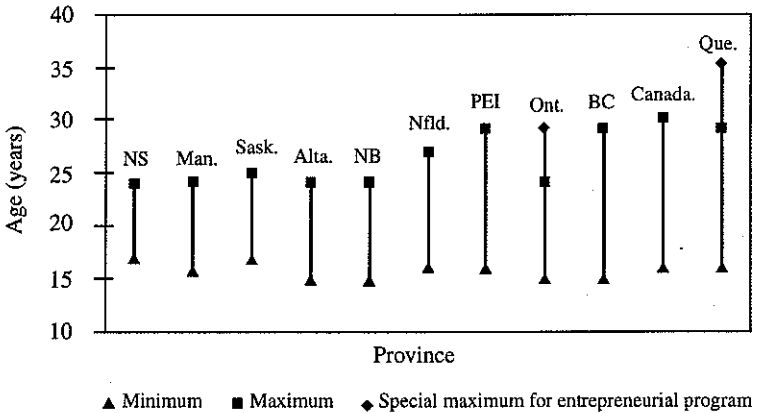
large and diverse set of policies, the focus on youth and graduating students as a priority target of labour market policy is a fairly recent event in Canada. It is a policy area that often transcends traditional ways of categorizing policy, existing departmental structures, and long-standing jurisdictional boundaries within federations.

If combined with other policy goals, youth programming may fall within the mandate of other departments, such as one devoted to industrial development or environmental renewal. Youth policies can be simply re-targeting or re-packaging of existing policies designed for the general labour force. But they could be an entirely new set of cohort-specific policies. Overlap and variation can create trade-offs and goal conflicts that are not easily resolved, as well as increasing the complexity of policy coordination.

"Youth" is not a clear-cut category. The age range covered by "youth" is essentially arbitrary. In federal programming, for example, the definition of "youth" has evolved in keeping with cultural norms and understandings of the policy challenge, shifting from an upper limit of 17 years of age in the mid-1960s to 30 years by the end of the 1980s.<sup>30</sup> Figure 4 shows considerable variation in the range of ages considered youth by different Canadian jurisdictions. Some provinces target individuals in their late-teens and early twenties, while others extend eligibility to the late twenties. Quebec even has a set of subsidies for "young farmers," with those up to the age of 40 being considered eligible.

It is also important to recognize that young people and graduating students are not homogeneous groups, but may be further subdivided into more finely grained target groups so that policymakers can better tailor policies to specific labour market needs. In Canada, youth are most commonly subdivided into: (i) "disadvantaged" or "marginalized youth" — those who face systematic labour market and workplace barriers such as members of Aboriginal communities or those who are physically and mentally disabled; (ii) "at risk" or "vulnerable youth," who have less favourable employment and career prospects, or are susceptible to long spells of unemployment due to low skill levels such as high school dropouts and truant teenagers; (iii) "young achievers" or "advanced youth," those who have demonstrated high levels of aptitude and have above-average career prospects; and (iv) "young offenders," those who have committed criminal offences. Differences exist in the segments of the youth cohort that are targeted, together with differences in the way they are targeted.

FIGURE 4  
Minimum and Maximum Ages of "Youth" by Canadian Jurisdiction in 1998



Note: Figures presented are minimum and maximum ages for eligibility for programs targeted toward "youth" as of November 1998. Some programs in each province may be targeted to a narrower range of ages. These do not include non-age-specific programs targeted toward students. Quebec figures do not include programming for "young farmers."

Source: Compiled by authors based on Government of Manitoba, *Inventory of Canada's Youth Employment Programs and Services* (Winnipeg: Manitoba Education and Training, 1998).

The changing nature of school-to-work transitions provides part of the explanation for the evolving definition of youth. School-to-work transitions no longer follow the traditional sequence: from secondary schooling, to postsecondary schooling, to full-time employment, followed by retirement. Only 32.9 percent of employment in 1995 involved holding a single, permanent, full-time, day-time job in a workplace separate from the home and involving a workweek of less than 48 hours.<sup>31</sup> There is nothing standard about traditional forms of full-time employment. Faced with an absence of full-time jobs, young people follow a greater variety of school-to-work transition paths which involve new combinations of school, work, and geographical relocation. Moreover, labour market participants are increasingly compelled to upgrade skills periodically outside the workplace so that school-to-work transitions are

more likely to take place repeatedly and at different stages of the lifecycle. This has led to longer school-to-work transitions, a wide variety of more circuitous school-to-work transition paths, and new difficulties in making a "clean break" into the world of work.<sup>32</sup>

Thus, youth employment policies do not lend themselves to a simple and discrete policy taxonomy that can be listed in a shorthand fashion. In order to draw some parameters around the subset of policies addressed in this study, we have focused our analysis on two criteria. First, the emphasis is on policies that target youth employment and school-to-work transition objectives explicitly. Policies, such as apprenticeships, which are used overwhelmingly by youth but are accessible to a broader public as well, are addressed from time to time, but do not provide the focus of the analysis. The same can be said for provincial attempts to develop formal strategies attempting to give coherence to a wide variety of targeted and non-targeted policies potentially to help youth, and for related policies that can cause controversy such as that surrounding federal grants and loans to postsecondary students and institutions. However, the core of this analysis will be focused on targeted policies.

Second, our analysis will de-emphasize youth policies that are not designed to promote youth employment and school-to-work transitions directly. For example, policies that involve upgrading of education or occupational skills may be viewed as promoting employment indirectly by enhancing an individual's "employability." However, these are not measures that create employment directly and, as such, are not the focus of this analysis.

Youth policies are divided into three broad categories: (re)employment services designed to match individuals to available jobs; direct employment creation schemes designed to create new jobs for available youth; and work experience programs designed to provide short-term employment experience to unemployed youth. A number of characteristics of this list should be underscored. First, these are stylized characterizations of youth policy. They are written in a somewhat passive, technocratic voice.<sup>33</sup> Second, this list is not entirely discrete, for many existing youth programs involve a combination of these types, such as public sector internships. Third, in addition to being combined in novel ways, they may also be targeted to different segments of the youth cohort. As a result, the potential permutations and combinations of youth programs that follow from this list are extensive.

It is also necessary to contextualize these policies within the broader array of possible state policy interventions and identify underlying assumptions.

TABLE 3

## Types of School-to-Work Transition Policies in Canada Targeted Exclusively Toward Youth

1. (Re)Employment services	1.1 Recruitment services	• Active matching of youth to available jobs.
	1.2 Counselling services	• Job acquisition counselling, career development counselling, peer group meetings, and government-sponsored job fairs.
	1.3 Information services	• Collection and distribution of information — including job data, awareness campaigns, and labour market information.
2. Direct employment creation schemes	2.1 Public sector employment	• Internships and summer employment within government departments and Crown corporations.
	2.2 Employment subsidies	• Grants, wage-subsidies, and tax credits to encourage business and non-profit organizations to hire youth.
	2.3 Self-employment support	• Start-up grants, loan guarantees, and counselling to encourage self-employment.
3. Work experience programs	3.1 Internship programs	• Temporary work assignment related to career path.
	3.2 Mentorship programs	• Assignment of role models.
	3.3 Work study programs	• Programs that combine in-class study and temporary work assignments.
	3.4 Work exposure programs	• Visits to workplaces for first-hand observation of work processes.
	3.5 Volunteer programs	• Unpaid work.

Note: Does not include programs that are not specifically targeted toward youth and school-to-work transitions.

Source: Compiled by authors based on various federal and provincial government documents.



Existing policies are heavily weighted toward short-term and low-cost interventions that rely on the proliferation of information and the promotion of occupations widely believed to be the most lucrative in the future. This orientation is entirely consistent with the deficit-cutting agenda that is a characteristic of the prevailing economic orthodoxy.

The content of policies directed toward youth fits a country that views the state's role as one of "navigation," in which individuals are given some guidance in charting their future, but are expected to fend for themselves. This is very different from the stewardship role found within many Continental European countries whereby individuals are streamed within schools and more actively "channelled" in their transition from school-to-work by an elaborate infrastructure of counselling, certification, job-matching, and apprenticeship — even in relatively low-skilled service sector jobs.

The Canadian policy infrastructure, consistent with the dominant neo-liberal paradigm, is premised largely on the proliferation of information. With the information at hand, individuals are to participate in the labour market. There is considerable faith that the market will then produce socially satisfactory outcomes. The emphasis on providing information suggests that the problem facing youth in the labour market is inadequate information. According to this logic, governments can play a "non-distorting" role in private markets by disseminating information. This helps cultivate a market environment that is closer to the conventional economic textbook model, with assumptions of perfect or near-perfect information. This emphasis reflects the relatively recent preoccupation with the strategic policy importance of information and knowledge, as in policies that make constructive use of new information and communications technology to create opportunities in the much bandied "information society." Information-based policies of this sort, almost by definition, are high profile policies. This makes them profitable ventures politically.

The emphasis on information also has a number of direct implications for intergovernmentalism. Many policies based on information dissemination and the new information technologies are relatively recent. Intergovernmental haggling over the Internet has revealed uncertainties over intergovernmental allocation of responsibilities. Many pundits ask whether it is even meaningful to speak in such terms with technologies that pay little heed to political boundaries. As well, interjurisdictional systems of information collection often require strict methodological rules and assessment mechanisms to ensure high standards of quality. Likewise, systems of collection and distribution need to organize information in a standardized way that allows for better comparability across

jurisdictions. Information is often not very useful if it is simply "pooled" without some element of coordination. This has important implications for rationalizing the federal government's role in youth programming and for inter-governmental arrangements generally.

Most of the policies on this list are also of a recent vintage and, as one would expect in a policy environment characterized by frugality, are fairly low-cost initiatives. Programs that do involve an outlay of funds also tend to place heavy emphasis on conditionality and a matching "investment" by clients. Services, particularly those involving a distribution of information, tend to be self-directed and assume a level of capacity and motivation among users. Responsibility for corrective action is individualized, as neo-liberalism favours.

Many of the policies on the list assume the problem is one of providing youth with the opportunity to obtain initial job credentials and work skills. Federal Human Resources Development Canada (HRDC) Minister Pierre Pettigrew has argued that there is a circular dilemma at play: without work experience, youth are not able to obtain jobs; without jobs, youth are not able to obtain work experience.<sup>34</sup> In other words, the fundamental need is to provide youth with start-up support. Once that is done, progression up a job ladder to more lucrative and fulfilling forms of employment will follow. For some young people there may be some merit in this view. However, a stronger case can be made that youth are experiencing more chronic problems. The route to stable employment is a more circuitous route than in the past.

In addition, many of the programs emphasize the potential of lucrative professional careers, particularly those involving the sciences and technology. This is based on the belief that these areas will be the ones dominating the economy of the future. Such a belief ignores current trends which suggest that a large portion of the future job market will include relatively low-skilled forms of service work, such as cashiers, sales clerks, and secretaries.<sup>35</sup> This also lends itself to the "chauffeur problem."<sup>36</sup> Earlier in the century, with the growing use of automobiles, many pundits suggested that, since few people knew how to operate cars, the high-growth career of the future would be chauffeuring. Today there is no shortage of opinion about what careers will likely prevail in the future,<sup>37</sup> but such predictions do not have a high degree of plausibility.

## YOUTH PROGRAMS AND INTERGOVERNMENTALISM

Intergovernmental relations in the area of youth are in a state of flux. The current state of intergovernmentalism is also highly complex, consisting of

three distinct tracks, each of them proceeding separately, although they are expected to converge sometime in the future.

The first track consists of a few cases of long-standing bilateral cooperation and intermittent bilateral consultations. In a few provinces, the federal government has struck formal cooperation agreements or implemented joint pilot projects. The Canada-New Brunswick Federal/Provincial Youth Services Partnership Initiative was forged within this set of relations. Consultations most often involve the federal government providing advance notice of new activities to the provinces, or vice versa. Occasionally, the federal government launches a set of proactive consultations with the provinces in order to identify gaps in youth programming. The principal shortcoming of this track is that it is highly sensitive to the level of federal-provincial goodwill. As a result there is a lack of consistency in the consultation relationships and few opportunities occur to make broader use of bilateral success stories.

The second track arose out of a First Ministers' Meeting (December 1997) where the Forum of Labour Market Ministers, an intergovernmental body composed of labour market ministers, was delegated the task of establishing a process to create a national youth employment strategy. The Quebec government refused to participate in the development of this kind of pan-Canadian strategy, opting instead to lobby for a youth policy agreement modelled on the Labour Market Development Agreements (LMDA). The process is intended to accomplish four strategic objectives:

1. creating opportunities for all youth to develop the skills and knowledge needed for work by addressing the issue of student debt, creating opportunities in trade, technology and apprenticeship occupations, and creating new career pathways;
2. increasing work opportunities for youth by providing entrepreneurial support and encouraging employers to participate in the transition to the workplace;
3. helping young people respond to the changing nature of work by improving career and labour market services; and
4. addressing the cultural and social barriers that may prevent youth from working by developing ways to assist at-risk youth, improving labour market participation for Aboriginal youth and connecting at-risk youth to existing services.<sup>38</sup>

In line with the dominant neo-liberal paradigm, this package reveals considerable consensus about solutions to the policy problems of the youth portfolio.

As a result, one potential source of intergovernmental discord, ideology, is largely absent.

The Federal/Provincial/Territorial Partnership on Youth Employment is the framework of cooperation designed to fulfil the objectives of the second track. It contains both a multilateral component and a bilateral component. The multilateral component involves developing an Agenda for Action containing specific multilateral policy proposals and implementation plans, as well as an ongoing process of planning, priority setting, and review. An early result of this process is the decision to create a new program to provide formal recognition of employers who have made a contribution to youth employment objectives. Those policy areas not well suited to multilateral action are handed-off to a bilateral process wherein officials will "continue/initiate delivery of joint or co-ordinated program/service responses."<sup>39</sup>

Several aspects of this second track are noteworthy. First, the criteria to assess what policy areas should be best dealt with at the multilateral versus the bilateral level remain poorly articulated. The intergovernmental status of a policy is largely decided according to either a vague and informal assessment of functionality or lobbying on the part of provinces for asymmetrical bilateralism. Second, the multilateral component has achieved a measure of success in building intergovernmental consensus around the diagnosis of the problem. This is no small achievement given the high levels of intergovernmental animosity throughout the late 1980s and 1990s. However, there is a great deal of scepticism among provincial officials about whether multilateralism can go beyond the creation of a shared *diagnostique*. Multilateral agreements that directly affect actual programming do not seem to be on the horizon in the near term.

Third, although the multilateral component is well underway at the time of writing, progress on the bilateral component has not yet gained momentum. As a result, the first track of pre-existing, bilateral intergovernmental relations has yet to be subsumed within this second pan-Canadian track. Fourth, there has been little attempt to articulate clearly the respective roles of the federal and provincial governments with respect to youth policy. Until an articulation of roles takes place, this second track will likely remain muddled in modest incrementalism.

The third track involves the actual social union negotiations run by the respective governments' intergovernmental affairs apparatus. The decisions made within, beginning with *A Framework to Improve the Social Union for Canadians* (1999), create new rules of intergovernmental engagement and new

parameters on social policy of both orders of government. Although not directed specifically toward youth policy, this framework agreement has potentially profound implications for the rapidly evolving area of youth policy because of its emphasis on placing procedural limitations on the establishment of new programming. These procedural limitations include: (i) commitments to prior notice and consultation in advance of significant policy changes; (ii) joint planning, information-sharing, and dispute resolution; and (iii) a federal government commitment to wield its spending power in a cooperative manner, obtaining consent from a majority of provinces when leveraging federal transfers to establish new Canada-wide initiatives.

One can only speculate about the probable operationalization of the broad commitments contained in the Framework Agreement. Officials currently have no guidance about how to interpret the agreement with respect to youth. At the moment, only a few aspects of this third track are apparent. Given the federal government's resolve to retain a presence in youth policy-making, a thoroughly disentangled intergovernmental regime in which the provinces obtain sole jurisdiction is highly unlikely, at least outside Quebec. Second, the scope of federal unilateralism in areas of disputed jurisdiction has been reduced by this agreement. It is unclear how this will affect youth policy because the federal government has already reorganized much of its programming to avoid the most egregious intrusions into provincial turf. Third, many provincial officials claim that the federal government has announced new policies under the rubric of "modifications to pre-existing initiatives" in order to avoid obvious conflict with the agreement's procedural limits. In other words, the claim is that the federal government is exploiting the vagueness of the agreement (particularly its lack of clear decision rules) to surreptitiously expand its role in the youth field. Whether this is true depends on what one considers a "significant" policy change.

Overall, it is clear that this three-track process is an exception to the devolutionary trend in active labour market policy. Indeed, it is the only area where Ottawa retains a role in which it plans to be "dynamic."<sup>40</sup> There are various reasons for the federal desire to retain a role in youth employment.<sup>41</sup> The Liberals discern considerable public support for enhancing education opportunities as an antidote to economic insecurity. In contrast to shared-cost programs this presents an occasion for high federal visibility and to receive political credit for its youth initiatives. Within federal government circles there is also a nagging anxiety about the adverse effects that deficit reduction and public sector reforms are having on younger generations. Youth programming

is seen as a way of partially compensating those who would not have the opportunity to enjoy the same public supports that other generations did.

Several reasons may be advanced to explain why youth policy-making is a growing intergovernmental challenge. Deficit reduction efforts on the part of the federal government, including reductions in transfers to the provinces, have led to provincial demands for more control over policy in this area. Correspondingly, provincial deficit-reduction efforts, such as Quebec's imposition of separate tuition fees for out-of-province students, have placed pressures on the federal government to exert more control over national standards. Interprovincialism is undermined as "have" provinces are increasingly reluctant to concede revenues to "have-not" provinces in a situation of scarce resources.

As part of its attempts to placate nationalist sentiment in Quebec as expressed in the 1995 referendum, the federal government has given into long-standing demands to give Quebec sole authority over Employment Insurance (EI) labour market development spending. Since asymmetrical federalism is not considered legitimate by other provincial leaders, similar offers to devolve labour market policy were made to all provinces. These agreements do not include youth labour market policies. Since youth play a strategically important role in Quebec's nationalist debate, another round of demands for federal reallocation of responsibilities in this area were made.

Policies related to youth employment transcend traditional departmental structures and, thus, the federal division of labour as articulated within the constitution. This lack of discrete, watertight jurisdictions in the face of mounting pressure for new policy initiatives is a source of "turf wars," accountability vacuums (including credit claiming and blame avoidance tactics), and calls for a more coordinated policy.

## YOUTH POLICY AMONG CANADIAN JURISDICTIONS

Youth policy varies considerably across Canadian jurisdictions in terms of the youth who are targeted, the types of programs offered, and the organization of the youth policy. A thumbnail sketch of youth policy across jurisdictions provides some crucial context to the discussion that follows.

Table 4 provides an overview of the different "flagship initiatives" within each province and a description of each. Prince Edward Island sits on one end of the continuum, with no grand design given to youth policy. Programs fall within a departmental program envelope. Manitoba and Newfoundland have

**TABLE 4**  
**Youth Employment Flagship Initiatives by Jurisdiction in 1998**

<i>Jurisdiction</i>	<i>Flagship Initiative</i>	<i>Description</i>	<i>Lead Department</i>
Alberta	People and Prosperity	<ul style="list-style-type: none"> <li>• Interdepartmental strategic labour market and human development plan, not targeted exclusively to youth</li> </ul>	<ul style="list-style-type: none"> <li>• Advanced education and career development</li> </ul>
British Columbia	Youth Options BC	<ul style="list-style-type: none"> <li>• Interdepartmental coordination initiative</li> </ul>	<ul style="list-style-type: none"> <li>• Premier's Youth Office</li> </ul>
Canada	Youth Employment Strategy	<ul style="list-style-type: none"> <li>• Interdepartmental coordination initiative</li> </ul>	<ul style="list-style-type: none"> <li>• Human Resources Development Canada</li> </ul>
Manitoba	Youth Programs	<ul style="list-style-type: none"> <li>• Departmental program envelope</li> </ul>	<ul style="list-style-type: none"> <li>• Manitoba Education Training</li> </ul>
New Brunswick	Youth Futures and Federal/Provincial Youth Services Partnership Initiative	<ul style="list-style-type: none"> <li>• Interdepartmental coordination initiative</li> <li>• Federal-provincial coordination initiative</li> </ul>	<ul style="list-style-type: none"> <li>• Human Resources Development – New Brunswick</li> <li>• Human Resources Development Canada</li> <li>• Human Resources Development – New Brunswick</li> </ul>
Newfoundland	Youth Labour Market Programs	<ul style="list-style-type: none"> <li>• Departmental program envelope</li> </ul>	<ul style="list-style-type: none"> <li>• Department of Human Resources and Employment</li> </ul>
Nova Scotia	Youth Employment & Development Strategy	<ul style="list-style-type: none"> <li>• Strategic plan under development</li> </ul>	<ul style="list-style-type: none"> <li>• Nova Scotia Youth Secretariat</li> </ul>
Ontario	Youth Opportunities Ontario	<ul style="list-style-type: none"> <li>• Interdepartmental coordination initiative</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Education and Training</li> </ul>
Prince Edward Island	Not Applicable	<ul style="list-style-type: none"> <li>• Departmental programs</li> </ul>	<ul style="list-style-type: none"> <li>• Department of Development</li> </ul>
Quebec	Jeunesse Québec and Plan d'action jeunesse	<ul style="list-style-type: none"> <li>• Interdepartmental coordination initiative</li> <li>• Strategic plan</li> </ul>	<ul style="list-style-type: none"> <li>• Secrétariat aux relations avec les jeunes et les aînés</li> </ul>
Saskatchewan	Youth Futures and Saskatchewan Training Strategy	<ul style="list-style-type: none"> <li>• Interdepartmental pilot project</li> <li>• Interdepartmental strategic labour market and human development plan, not targeted exclusively to youth</li> </ul>	<ul style="list-style-type: none"> <li>• Saskatchewan Post-secondary Education and Skills Training</li> </ul>

Source: Compiled by authors based on various federal and provincial government documents.

also contained their programs within a single departmental envelope, with a few minor interdepartmental coordination efforts on the side. Quebec resides on the other end of the continuum, with a well-developed interdepartmental coordination scheme that spans a wide variety of government structures while being guided by a well-articulated strategic plan. This approach is comprehensive, integrating everything from cultural issues to farming policy into its youth package.

The most typical youth structure is the umbrella initiative designed to give youth policy coherence and facilitate coordination across multiple departments. Cabinet structures often include a youth minister or minister of state to champion the cause within the upper echelons of government, with British Columbia providing the unique example of a premier as youth minister during the tenure of Glen Clark. A large portion of provincial youth programming is implemented through the secondary school and social welfare systems. In contrast, a large portion of federal youth programming is implemented across a wide variety of departments.

As youth policies become more comprehensive, the demands on interdepartmental coordination increase and the need for well-developed interdepartmental relations networks increase considerably. Most of these systems follow a hub-and-spoke model where a lead department takes responsibility for the lion's share of youth policy and coordinates one or two initiatives with partner organizations. The intergovernmental relations implications of this thumbnail sketch are twofold. First, there is some unevenness in the priority given to youth across the federation. Second, this wide variety of structures poses complications for interjurisdictional coordination. Since provinces organize their youth policy very differently, there would seem little chance of a single multilateral coordination regime succeeding without considerable reform on the part of the provinces.

Table 5 provides another dimension to this broad overview of provincial youth policy. Here we get a glimpse of the difference in programs offered within each jurisdiction. There is considerable unevenness, with almost all jurisdictions offering some form of wage subsidy (or tax credit that operates according to similar principles), summer jobs, and career counselling and planning. Self-employment programs are widespread, showing the extent to which individuals are increasingly encouraged to create their own employment in the absence of suitable jobs with an employer. This is an example of the transfer of responsibility to the individual that is inherent in neo-liberal labour market programming. Other than these patterns, there is relatively little consistency



TABLE 5  
General Categories of Youth Program by Jurisdiction in 1998

<i>Initiative</i>	<i>Canada</i>	<i>Alta.</i>	<i>BC</i>	<i>Man.</i>	<i>NB</i>	<i>Nfld.</i>	<i>NS</i>	<i>Ont.</i>	<i>PEI</i>	<i>Que.</i>	<i>Sask.</i>
Career planning and counselling	y	y	y	y	y	y		y		y	y
Entrepreneurial self-employment	y		y	y			y	y	y	y	
Job placement service		y	y	y	y						
Internships	y		y		y					y	
Make-work scheme	y						y				
Summer jobs program	y	y	y	y	y			y	y	y	y
Volunteer work experience				y	y	y	y			y	
Wage subsidy/tax credit	y	y		y	y	y	y	y	y	y	y
Work exposure and mentorship			y		y			y			

Source: Compiled by authors based on Government of Manitoba, *Inventory of Canada's Youth Employment Programs and Services* (Winnipeg: Manitoba Education and Training, 1998).

across the provinces. Less affluent provinces tend to offer a less extensive array of youth programs, with the notable exception of New Brunswick. This exception is partly because of its extensive participation in pilot projects funded by the federal government. This would suggest the need for some measure of interprovincial equalization if roughly similar levels of programming are to remain a policy goal.

According to the inventory of Canadian youth employment programs and services, spending on such activities by all jurisdictions amounted to some \$940 million in 1997-98 (\$417 million of which is from the federal government).<sup>42</sup> The figure is based on information supplied by the provinces,

territories, and federal government. Since there are differences in how jurisdictions choose to describe programs and activities, with some including generally available programs that youth might access, and others only the programs specifically targeted at young people, the figure should be treated with some caution. It represents the maximum spent on youth-related programs.<sup>43</sup> With all the limitations of the data the inventory still provides a useful snapshot of youth-related programming.

A number of trends are identified in youth programming:

- the most common type of program involves wage subsidies and summer jobs;
- there is a strong emphasis on partnerships between government, business, industry, community, and educational institutions in program delivery;
- there is an even greater focus on meeting the needs of employers, business, and industry;
- most programs are year-round rather than seasonal;
- a number of jurisdictions offer labour market information, including Websites, career planning, and employment counselling;
- there is increased emphasis on youth entrepreneurship;
- several jurisdictions offer programs for designated groups like Aboriginal youth and social assistance recipients;
- programs for postsecondary and high school graduates are common, although programs for returning students are more plentiful;
- five provinces and two territories offer apprenticeship programs and services for youth;
- specialized programs focusing on science, technology, computing, and the environment are common; and
- there is increased emphasis on opportunities for youth to participate in volunteer, community service, and leadership development activities.

Table 6 attempts to break down expenditures by target group within the youth cohort. For most of the targets, funding is available from both orders of government though in the case of First Nations' youth there is a massive imbalance in favour of federal spending. Similarly, the federal authorities heavily outspend the provinces in support of postsecondary graduates. In other areas — youth in general, unemployed young people, students — the situation is more even. With respect to at-risk youth, provincial/territorial spending exceeds that of the federal government by more than 10:1.

TABLE 6  
 Spending on Youth Employment Programs by Jurisdiction and Target Group

	Students	Postsecondary Education Graduates	All Youth	Unemployed Youth	Other	First Nations	At-Risk (Low Income and Social Assistance)
Nfld.	3.1	1.5	0.22	0.13	1.2**		
PEI	1.1						
NS	3.1		0.27				
NB	7.7	5.0					10
Que.	17.2		12.7		13***		13.3
Ont.	35.5		8.47				99
Man.	3.3		4.54			0.3	1.68
Sask.*	0.9		2.9	12.2			1.65
Alta.*	1.5		28.6	72.1			23
BC	9.2	2.0	21.6	11.35	0.25	0.7	69.3
Yukon	0.4						
NWT	2.1						17
<b>Total (Prov/Terr)</b>	<b>85.2</b>	<b>8.5</b>	<b>79.3</b>	<b>95.78</b>	<b>14.45</b>	<b>1</b>	<b>234.9</b>
<b>Total</b>	<b>16.3%</b>	<b>1.6%</b>	<b>15.0%</b>	<b>18.3%</b>	<b>2.7%</b>	<b>0.2%</b>	<b>44.8%</b>
<b>Federal</b>	<b>114.0</b>	<b>35.0</b>	<b>118</b>	<b>108</b>		<b>25</b>	<b>17</b>
<b>% Total Federal</b>	<b>27.3%</b>	<b>8.4%</b>	<b>28.3%</b>	<b>25.9%</b>		<b>6.0%</b>	<b>4.0%</b>
<b>Federal % (Prov/Terr)</b>	<b>13%</b>	<b>412%</b>	<b>149%</b>	<b>113%</b>		<b>2500%</b>	<b>7%</b>

## Notes:

\* Includes general programs for which youth are eligible.

\*\* For youth who have not completed postsecondary education.

\*\*\* Farm youth.

Source: *Inventory of Canada's Youth Employment Programs and Services* (Rev. NN. 1998).

Having provided a brief *tour d'horizon* of Canadian youth programming, we turn now to analyze a few jurisdictions in greater depth. In addition to the federal government, we selected Alberta, British Columbia, Ontario, New Brunswick, and Saskatchewan. These provide a reasonably representative balance between more and less affluent provinces; provinces with histories of federal-provincial cooperation and provinces that vigorously guard their independence; eastern, central, and western provinces. Each of these provinces were also selected because they possess unique characteristics that provide crucial insights into intergovernmentalism.

From the standpoint of intergovernmental relations, New Brunswick has gone furthest in coordinating its youth policy strategy bilaterally with the federal government, originally with a pilot project called the Canada–New Brunswick Youth Strategy (1988-95), and more recently with the Canada–New Brunswick Youth Services Partnership (1996-present). These arrangements are the closest the Canadian federation has come to the idealized model of federal-provincial collaboration within the field of youth policy and, as such, this jurisdiction provides some crucial insights into the promises and pitfalls of this intergovernmental regime. Using the same criterion, Ontario can be considered to be the federation's laggard. Ontario is the only province that had yet to finalize a Labour Market Development Agreement (LMDA) with the federal government. This has crowded-out bilateral youth discussions to some extent, for the amount of diplomatic resources required to negotiate the more complex LMDA has caused youth policy coordination to be pushed back on the agenda.<sup>44</sup> Given the overlap between policies considered within the youth envelope and the package of policies dealt with in the LMDAs, progress in coordinating the former is somewhat contingent on the reallocation of responsibilities for the latter. When placed in contrast, New Brunswick and Ontario can be thought of as positions on the spectrum of formal federal-provincial coordination.

Alberta, British Columbia, and Saskatchewan each play a very different role in youth policy and intergovernmental relations. Notwithstanding Quebec, Alberta is the province that has most clearly articulated its preference for a disentangled intergovernmental relations regime whereby the federal government would restrict itself to a role of funding of provincial labour market programs and providing "appropriate and adequate" labour market support to Aboriginal persons.<sup>45</sup> British Columbia has given a high profile to youth issues on two levels. Provincially, this jurisdiction is unique in the Cabinet profile it has given youth issues, adding youth minister responsibilities to then Premier

Clark's roster of duties. Within the intergovernmental realm, BC has been the most enthusiastic champion of a national youth strategy within Western Premiers' Conferences and Annual Premiers' Conferences. Saskatchewan formally holds the title of "lead province" in the Forum of Labour Market Ministers on the issue of youth. Saskatchewan's Premier Romanow has also come to play an informal role as honest broker in mediating interprovincial and federal-provincial disagreements. Taken together, each of these three western provinces have a very different stake in national youth strategy talks.

### *The Federal Government*

The federal government's current Youth Employment Strategy was launched in 1997 and represents an extension of the previous Youth Employment and Learning Strategy (1994), which grouped together a hodgepodge of existing programs into a single policy envelope. Both initiatives contain a core of internship programs, summer job programs, and a multifaceted program to help out-of-school youth called Youth Services Canada (1994). The number of youth programs has expanded and recent budgets have freed up additional funds. The 1997 strategy also places Aboriginal youth programming within the youth strategy envelope and currently stands as the only batch of initiatives specifically targeted toward a segment of at-risk youth. This expansion has been the source of considerable intergovernmental friction because of the speed at which the federal government's presence has grown within this policy area. The provincial governments were not consulted beyond advanced notice during the expansion of youth programming and, as a result, were not provided with the opportunity to add input or coordinate policy. This 1993-97 phase of youth program expansion was a lack of federal-provincial coordination but for a few joint pilot projects launched with a couple of provinces.

The Youth Employment Strategy also represents a departure from the Youth Employment and Learning Strategy. The earlier strategy had been heavily oriented around literacy, education, and training objectives, even going so far as to articulate a desire to establish "clear national goals" to guide a pan-Canadian "learning system."<sup>46</sup> This goes far beyond the simple use of the federal government's rightful use of its spending power. A Learning Initiatives portion of the strategy involved improving the measurement of learning outcomes, the promotion of a new technological infrastructure, and the dissemination of information.

A Stay-in-School initiative (originally launched in 1989) was targeted toward school drop-outs, a prominent at-risk group. The Canada Student Loans

Program was also folded into this strategy. The main problem with the "learning" side of the federal strategy was that it is seen as an encroachment into the provincial government's constitutionally entrenched authority over education and, the provinces contend, training policy. The intergovernmental conflict that resulted, particularly in the aftermath of the 1995 Quebec Referendum, forced the federal government to rethink its activities in this field.

When a federal Ministerial Task Force on Youth (1996) made extensive recommendations for federal expansion in the area of youth programming shortly thereafter, officials had to scramble in order to tone down its rhetoric and develop a new strategy that would better fit with the new intergovernmental situation. "Learning" was dropped, and with it some of its targeting toward at-risk youth. The resulting Youth Employment Strategy was explicitly designed to skirt the most contentious intergovernmental relations issues by maintaining programs that were, in large measure, closely tied to federal ministries clearly within the federal government's jurisdiction. It is at this point that federal unilateralism became tempered by a heightened sensitivity to the federal division of powers.

The resulting mix of policies has created a partial division of labour between the two orders of government. Provincial policy is increasingly targeted to youth at risk. On the other hand, federal policy during the 1990s is largely targeted to a more affluent segment of youth. Aboriginal youth are the main at-risk segment specifically targeted by the federal government. The provinces are not willing to take responsibility for Aboriginal youth with substantial and stable sums of federal transfers to compensate for additional costs. Otherwise, the federal government's targets are relatively well-off youth, either graduates or near-graduates (mostly of colleges and universities, but in some cases high school), as well as current students. The federal government's largest internship program, Youth Internship Canada (YIC), does not set down minimum educational requirements, but a large share of internships are premised on substantial pre-existing experiences or educational credentials.

Youth Service Canada remains the only program that caters to a broad cross-section of youth. Some provincial officials worry that the federal government's concern over its lack of programming for those at risk has led to a new round of expansion in this area without any consultation with the provinces. An early move in this direction took place in the 1999 federal budget which added new spending for federal programs best suited to help at-risk youth. Federal youth policy is also targeted to a much higher age range than most of the provinces. Most federal policies are geared toward youth defined

as those up to the age of 30 years; most of the provinces set their maximums at around the mid-20s. Overall, this partial division of labour has served to dampen intergovernmental conflict since, in practice, there is less extensive overlap and duplication than one would normally expect in a policy area where both orders of government largely operate independently.

It is also important to note that federal intervention in provincial affairs is often justified with the argument that federal involvement is a force of progressiveness in what would otherwise be a pan-Canadian patchwork including meagre programs in some provinces. However, the description of federal youth policy presented above would suggest that federal programs are not progressive in their redistribution and, to the contrary, may actually reinforce the advantage of better educated youth over those deemed to be at risk. It would be safe to say that the federal government has yet to clearly articulate its role.

### *Alberta*

In Alberta there are two thrusts to the youth employment strategy. The first is through general programs including both postsecondary education and labour market programs. Postsecondary education is seen by provincial officials as a key part of any youth employment strategy and plays a major role. Some other general programs are used extensively by youth. These include programs with large budgets such as Skills for Work, designed to provide life management skills, occupational training, academic upgrading or work experience to unemployed persons who are either receiving social assistance or at risk of doing so; the Skill Development Program provides clients with financial assistance to attend apprenticeship programs, basic foundation skills and/or skill training; and Training on the Job reimburses employers for providing training to referred clients.

In addition, there are specific youth programs for those about to leave school and for young people who have left the school system. The Ministry of Advanced Education and Career Development works closely with Alberta Education on transition programming. Examples include the Registered Apprenticeship Program which promotes apprenticeship as a career alternative in the schools, registers high school credits, and awards them credits for work performed. Apprenticeship programs reportedly continue to be well-supported by labour and business.

Youth Connections, a pilot program which has been operating in Edmonton and Calgary, is targeted at youth who may not have completed high

school and did no further training. These youth are regarded as increasingly at risk and fail to access existing skill-development programs. Youth Connections is designed to reach those young people and assist them to develop action plans. As an outreach approach it uses advertising and the media to reach the target audience and persuade them to explore alternative career programs. It was consciously designed by the provincial government to overcome "entanglement" problems causing confusion about where appropriate assistance might be obtained. CAREERS: The Next Generation Foundation is a community-based business/education partnership to promote careers in trades and technologies, and facilitate the school-to-work transition into trades, technologies and other non-university occupations.

The Summer Temporary Employment Program is not aimed specifically at students but rather at any Albertans who may be unemployed during the summer months. Some of its components, however, such as the Quebec/Alberta Student Employment Exchange Program are targeted.

In addition to programs delivered by the Ministry of Advanced Education and Career Development (AECD), the Family and Social Services (FSS) department has a number of employment programs which can be accessed by young people. These include a series of work-experience programs: the Alberta Community Employment, Alberta Jobs Corps and the Employment Skills Program. However, youth form a low percentage of social assistance recipients — fewer than 20 percent — so are unlikely to be heavy users of these programs.

Other main programs either targeted at youth or for which they are eligible include information services. There is an array of programs supplying information services about career choices and labour market trends. These are provided through various outlets: the Internet, free "hotline" services via telephone, in print, and through in-person services at Canada-Alberta Labour Market Services Centres. The latter offers federal and provincial programs under the LMDA but Alberta does the delivery (for EI-active measures that have been devolved to the provinces).

Over the last five years there probably has been an increase in programming though the picture is complicated by the impact of provincial budget cuts. An official estimated that the level of funds was probably fairly constant but efficiencies that had been made due to provincial operations had created some room.

A variety of mechanisms are in place to handle interdepartmental coordination. A formal memorandum of agreement exists between AECD and FSS regarding employment programs where social assistance recipients are involved;



there is also formal coordination regarding the disabled, some of whom are youth, and between the Education and Advanced Education and Career Development ministries; and another, involving numerous ministries, regarding People In Prosperity — Alberta's human resources strategy — in which youth employment is one of the six major goals.

### *British Columbia*

BC views itself as having a relatively coherent package of youth programs, known as Youth Options, which focuses on accessibility to affordable postsecondary education on the one hand, and on provision of work experience for youth of various educational backgrounds on the other.<sup>47</sup> Again, like Alberta, it is noteworthy that postsecondary education figures prominently in the province's assessment of what it is doing to help youth employment.

The emphasis on accessible postsecondary education is based on the fact that positive labour market outcomes — employment, income levels, etc. — are associated with participation in postsecondary education.<sup>48</sup> Whether this represents returns to increased productivity, as human capital theory suggests or is simply a reflection of sorting within a stagnant labour market remains an open question. Measures to encourage postsecondary education include the freeze on tuition fees, in effect for the last three years, and grants, loans, and work-study opportunities, including a summer works program.

A number of other programs target students or graduates. These include Student Summer Works, and First Job in Science and Technology, which provides a wage subsidy of up to 50 percent of full-time wages for up to one year. The Public Service Youth Employment Opportunities provides co-op work opportunities with the provincial government and its agencies.

Other programs are targeted at those considered "hard-to-service." These include Job Start, which is aimed at youth with no previous work experience and provides a temporary wage subsidy to help with training costs; Bladerunners, designed to provide street-involved young people with work experience and training in construction and related trades; and Youth Works/Welfare to Work replaces welfare for employable young people. Receipt of a living allowance is contingent on participation in three program phases that are designed to result either in labour market attachment, job readiness, or return to school. The emphasis is on short-term measures to bring about work readiness. Government sources regard the latter program as successful in that there has been a huge decline in the number of youth getting income assistance.

The impetus to the program was a mixture of fiscal stringency, partly due to federal unilateralism in cutting transfers under the Canada Assistance Program (CAP) and the Canadian Health and Social Transfer (CHST), and to labour market philosophy. Caseloads had been rising significantly and the government felt it was financially unaffordable. An additional rationale is that welfare was regarded as an unhealthy way for young people to start their working lives so it was better, the government felt, to invest in their skills and employability.

Notwithstanding these claims, the program has been controversial. Opponents claim that it is coercive, provides the wrong kind of assistance (employability training assumes that were sufficient jobs available, training for skills in demand is seen as preferable), and underfunded (assistance levels are low and do not take into account the costs of job hunting: transportation, postage, photocopying, adequate clothing, etc.).<sup>49</sup> There are a number of demand-side programs in the sense that they are aimed at creating positions that would not otherwise exist. For example, student summer works, the environmental E-Teams that focus on hard-to-reach youth, and Youth Community Action are all assessed on the basis of broadening the pool of positions available. Defraying some costs for employers can be regarded as job creating as long as safeguards exist that the positions created are incremental.

Under Glen Clark, the premier also functioned as minister responsible for youth, and the existence of a Premier's Youth Office facilitated interdepartmental coordination. As well, within the Cabinet Policy Group there was a person responsible for youth matters and there was an interdepartmental working group of program managers who shared information and discussed common approaches. While mostly concerned with technical issues, they also had input into policy and planning. For example, there has been a sizeable expansion of youth options and funding, and that group did have input regarding gaps and weaknesses in existing programming. Reasons given for expansion in youth programming include an expanded knowledge base on the nature of youth unemployment; demographics, BC has the fastest growing youth population; and transitional issues, in particular, lack of work experience has been identified as a serious problem.

### *New Brunswick*

New Brunswick's current youth employment strategy is Youth Futures (1995-present). This umbrella initiative combines youth-specific programming within five departments into what is fashionably known as a single-window delivery.

system. Human Resources Development-New Brunswick (HRD-NB) is the lead department at the implementation level, exercising responsibility for managing individual cases through a battery of programs that include: (i) career planning, one-on-one counselling, work experience, wage subsidies and labour market and career information, all from HRD-NB; (ii) rehabilitation counselling, educational up-grading, and the development of work skills, all supplied for young offenders and supplied by the Solicitor General; (iii) stay-in-school initiatives and workplace preparedness from the Department of Education; (iv) health-related services from Health and Community Services; and (v) educational and skills up-grading through Advanced Education and Labour. The system is targeted to a relatively narrow band of youth (15-24 years of age) and preference is given to youth at risk of developing dependency on government assistance as well as young offenders.

New Brunswick is currently undergoing a social policy renewal process in which all social programs will be evaluated and recast according to a new policy framework — a process not unlike the one conducted by the federal government in 1993. It is too early to know how this process will affect the Youth Strategy, although there is speculation that youth programming will move further in the direction of targeting youth deemed most at risk, will include greater representation from youth vis-à-vis a Youth Secretariat, and will mean that new mechanisms of interdepartmental coordination will likely emerge.

The Youth Strategy operates within a loosely coupled set of interdepartmental relationships supervised by a minister of state for youth and an interdepartmental committee. It is loosely coupled because neither the minister of state nor the committee have taken a highly interventionist role in steering any activity, and interdepartmental good-will serves as the glue holding the whole edifice together. HRD-NB is the department the federal government looks upon to coordinate matters within the province, although there does not exist a lead agency for purposes of coordinating policy-making. The department exercises coordination activities outside its boundaries mostly through less formal forms of influence. This has left the Youth Strategy without effective championship in many instances, causing a few gaps in programming as the popularity of youth priorities waxes and wanes within the interdepartmental structure as priorities and available resources change in member departments.

### *Ontario*

Ontario has a particularly long history of policy for youth and currently by provincial standards has a reasonably comprehensive set of youth programs.

In recent years, Ontario's approach has more openly embraced a neo-liberal philosophy, with a flagship initiative — Youth Opportunities Ontario — emphasizing tax-based measures and entrepreneurial initiatives. Employer tax credits and school-to-work transition tax credits were implemented with the view that the tax burden is the primary damper on economic activity and, hence, tax reform would promote youth employment. Start-up loans for youth and student businesses are relied upon to prompt students to take greater individual responsibility in the absence of opportunities within the labour market.

This emphasis, although not markedly different from that of other jurisdictions, has been an additional source of federal-provincial conflict between the federal Liberal's Ontario caucus and the provincial Conservative government — the former being worried that Ontario's emphasis on tax cuts will undermine social services in the field. This has led to some federal resistance to divest responsibilities or cooperate more deeply.

However, there is more to Ontario's commitment to youth programming than just the market-oriented initiatives. Ontario's youth employment system is divided into two spheres: in-school initiatives administered primarily through the secondary school system; and out-of-school initiatives administered interdepartmentally under the Youth Opportunities Ontario banner. In-school initiatives include early guidance on career planning, mentorships, work experience, apprenticeships, and compulsory, unpaid "community involvement activities." Out-of-school initiatives include Job Connect (information, counselling, and referral services, plus a wage subsidy for work experience and on-the-job training), summer jobs, a Rural Youth Jobs Strategy (training and employment support), business loans for youth, tax incentives to hire youth, and labour market information.

Ontario reaps the benefits of a substantial net gain in educated and skilled youth from other provinces; the province is the beneficiary of a "brain drain" of some size. This places Ontario at the centre of the regional equity and youth mobility debate in interprovincial relations. Other sources of intergovernmental challenges involve the sheer size of the Ontario government's labour market program structure,<sup>50</sup> a logistical factor contributing to the nascent state of federal-provincial cooperation. These challenges conspire to make intergovernmental cooperation particularly difficult, with success stories of other, smaller provinces not directly transferable.

### *Saskatchewan*

The Saskatchewan Training Strategy (STS) was released in April 1997 and is viewed within government as the key labour market document. It covers the

population at large, rather than targeting specific groups. Youth programs in Saskatchewan are very much integrated into general programming. The only really targeted programs are the Saskatchewan Partnerships program which provides wage subsidies to approved Saskatchewan employers creating full-time summer jobs for qualifying postsecondary students and the Youth Futures Pilot Project.

The STS was developed because of the federal offer to devolve active measures under the 1996 Employment Insurance reforms. Anticipating federal cuts of \$47 million to postsecondary education and training by 2000 the province began to define its own labour market priorities and claimed that despite the federal cuts, more training opportunities would be provided as a result of higher provincial priority to the area.<sup>51</sup>

Apprenticeship continues to be viewed as an important means of handling school-to-work transition. About 50 percent of those in apprenticeship programs are in the 18-24 age bracket. Another program which draws heavy participation from young people is Job Start, in which training subsidies are provided to employers. Trainees must become full-time employees of the sponsoring firm or organization and training must lead to an ongoing full-time job with the employer. An equivalent program exists to subsidize retraining of existing staff so that an employer may remain competitive. Although the Job Start program was constructed primarily to serve employers' needs, provincial officials argue that it has functioned very well as a youth training/employment program. This is attributed to the fact that the program had a specific window of training followed by good prospects of employment. This feature attracted young people who make up about 40 percent of the participants.

One major pilot project, the Youth Futures program in Prince Albert, is focused on young social assistance recipients. The program provides a variety of supports and program opportunities for some 350 18-21 year olds, many of whom, given the demographics of the Prince Albert area are Aboriginal. Delivery is accomplished through a community-based organization and comprises networking, skills, income support, family support, reference to elders for First Nations' participants, counselling, and training opportunities, accredited and non-accredited. It was designed to provide a one-stop shop for programs, training and educational opportunities. New Careers exists to find training and employment for persons on social assistance, and young people participate to an increasing degree, although somewhat below their level of representation in the social assistance category. Provincial officials state that participation in the New Careers option and the Youth Futures pilot project is voluntary, with no coercion.

## ASSESSMENT OF EXISTING INTERGOVERNMENTAL ARRANGEMENTS

### *Policy Framework*

Youth employment represents an exception to the devolutionary trend in active labour market programs. Federal retention of a role in this area seems largely based on political factors. One provincial official considered that there is no chance that HRDC will give up youth responsibilities because it is too "politically nice," meaning it has too much potential for favourable high-profile publicity.<sup>52</sup> The federal defence of its continued role might be that it is partly motivated by a concern that other federal policies such as high debt levels, cuts in social transfers, uncertainty about the future of the Canada Pension Plan, continued high levels of youth unemployment whether resulting from the overall economic strategy or not, have produced intergenerational inequity. Thus, some kind of corrective action at the federal level is required.

Instances of federal unilateralism and lack of consultation, such as the reduced transfers under the CHST and the reduced coverage of the reformed EI system, have major implications for provinces. The pool of individuals formerly dependent on social assistance (including many young people) has increased. A Canadian Labour Congress study recently showed that the number of unemployed young people (ages 15 to 24) receiving employment insurance benefits had declined from 55 percent in 1989 to 15 percent in 1997.<sup>53</sup> Measures have been taken at the provincial level to reduce the financial burden that this increase would cause.

The federal government's establishment of the Millennium Scholarship Foundation is another example of its continued failure to consult. In this case, the provinces are less concerned about the encroachment on provincial jurisdiction, than that the federal government unilaterally cut provincial education transfers and, when provided the opportunity to reinstate spending, chose instead to launch an initiative on its own — one that benefits a more affluent segment of youth. In this sense, the provinces' options are conditioned by fiscal federalism and the relationship is a hierarchical one in which provinces are faced with reacting to federal initiatives.

Lack of advance consultation on the part of both orders of government seemed common. Yet it did not seem that these problems were so severe as to imperil broad cooperation or to necessitate a radical restructuring of responsibilities in the area. Several provinces indicated that there is significant political will to seek out better coordination between the two orders of government

even though there may be conflicts at the political level that are not easily bridged.

### *Policy Implementation*

There is much indication of *de facto* collaboration at the policy implementation level that could be further developed. In cases such as New Brunswick and Saskatchewan, where there is a track record of close cooperation between these governments in the past, closer collaboration already exists. The Canada-New Brunswick intergovernmental relationship is arranged through joint committees operating at two levels. At the central level, policy and planning are handled by a committee that coordinates youth policies on a *post hoc* basis whereby an attempt is made to reconcile the unilateral actions of each jurisdiction. The committee's proactive policy coordination role is largely isolated to the sharing of information, ideas, and experiences about labour markets and programming. These activities are also carried out through jointly sponsored conferences and information-gathering exercises held occasionally.

At the local level, policy implementation is coordinated by regional committees located in 21 precincts and, once logistical difficulties are resolved, implementation will eventually be jointly managed through service centres cohabited by both orders of government. The operationalization of the joint management arrangements, that is, the process by which actual cases are channelled through the myriad programs on offer, has yet to be resolved, for there is no consensus about the most efficient way to manage cases while keeping both orders of government in the loop. There are functional challenges and turf conflicts to be worked out as officials within both governments come to grips with operating under conditions of complex interdependence.

The current debate revolves around the question of whether only one order of government (the provincial one in all likelihood) will be responsible for processing initial requests for services by youth and also managing the traffic within the system. At the moment, joint management of cases takes place on a less streamlined basis as officials channel recipients with the aid of a jointly published program directory and recipient-directed electronic information services. Much of the success of the entire system of intergovernmental coordination is attributable to: the relatively small size of HRD-NB (containing only about 300 employees), which gives it a great deal of flexibility at the cost of being heavily reliant on the personal rapport of individual officials; and the extent to which HRD-NB and HRDC structures mirror each other, the result

of a long history of cooperation between the two jurisdictions. The ongoing administrative challenge mostly involves fully operationalizing the "street-level" division of labour and maintaining the elaborate system of consultation when one jurisdiction single-handedly introduces new policies, which New Brunswick will likely do as it undergoes its comprehensive social policy "re-engineering" process.

Good cooperation in Saskatchewan can also be attributed to experience with previous programs. In this case the programs are the Strategic Initiatives 1995 to which each government contributed financially. As one official commented:

We had to work out a relationship ... It was painful at times, different reporting mechanisms etc., but we laid a solid foundation. There is also the Multiparty Training Plan, a project to facilitate northerners, largely aboriginals, getting employment with the mineral industry in northern Saskatchewan. The first agreement ran 1993-8 and is presently under renegotiation. So we have the modes of cooperation. It is an issue in other provinces. We're small and just get on with it.

Some of the cooperation is tacit, as provinces, perceiving the federal emphasis on university-educated youth, specialize in other groups of young people. However, there were complaints that analyzing and making available labour market information was entangled and that overlaps and duplication might occur in areas like summer employment, work experience under the LMDAs, multiple delivery mechanisms for the Millennium Fund, and funding non-profit organizations to do youth employment activities such as work experience/mentorship. One official commented that separating youth out from the LMDAs caused a programming nightmare compounded by lack of clarity about federal intentions. "The Feds have said they are no longer in the training business, but they are highly involved in the learning business (big time) — tell me where that line is drawn. They have an Office of Learning Technology, the Millennium — they are all over the learning business."<sup>54</sup>

Operationally there is much direct cooperation at the provincial, regional, and local levels as provincial and federal officials cooperate to make the most of scarce dollars and to deliver services to the client group. The following lengthy extract from an interview with Saskatchewan officials captures some of the dynamics of the federal-provincial relationship in this area as far as that province is concerned:

There is a lot more cooperation than people realise. We're involved in some way in 80 – 90 per cent of federal youth programs, with project based programs; the



provincial role may be to provide Provincial Training Allowance. The involvement is less at policy level than at the field operational level. For example, HRDC may get a proposal for a transition project, such as youth to work with seniors in some outlying area. It may have backing from the school board, tribal council partners, and need some Provincial Training Allowance money to make it happen.

Policy tends to be characterised by more struggle. But even those who complain of federal unilateralism (such as the Edmonton announcement) that the federal government would be continuing their youth employment capacity concede the need for collaboration. And, at the field level there seems to be good collaboration. HRDC regional offices have made an effort to be consultative, they have tried hard to reverse their culture.<sup>55</sup>

Indeed, officials interviewed in most provinces argued that the relations between the orders of government are good and that instances of conflict are largely confined to the political and policy framework level.

Another area of cooperation is represented by the National Youth Strategy initiated by the provinces and entangled in the social union proposals. Much of the federal government's current youth strategy was conceived as a reaction to activities within the intergovernmental realm. As the federal Task Force on Youth finished its consultation process, the provincial premiers banded together to endorse the disentanglement of labour market responsibilities called for by the interprovincial Ministerial Council on Social Policy Reform and Renewal (1995).

A companion document on youth employment followed in the form of the provincial-territorial Forum of Labour Market Ministers' National Youth Employment Strategy (1997). The federal government scrambled to reconcile its plans with provincial demands for greater control by downplaying its unilateralist agenda and entering into multilateral negotiations with the provinces. Prior to this, federal intergovernmentalism with respect to youth was limited to occasional consultations and bilateral projects with cooperative provinces. A new intergovernmental framework, entitled *A New Federal/Provincial/Territorial Partnership on Youth Employment*, was completed in early 1998.

This framework confirmed that the federal government would not redistribute responsibilities in the youth field, opting instead for a more pragmatic form of cooperation operating at the multilateral and bilateral levels. At the multilateral level, both orders of government (with the exception of Quebec) would cooperate through a working group to develop joint projects, although there does not exist a formal set of selection criteria to judge whether a project

is more appropriately dealt with at the multilateral or bilateral level. Those areas of youth policy considered best dealt with at the bilateral level are handed off to more specialized officials, although this process remains at the early stages but for bilateral relationships set up prior to the establishment of the National Youth Strategy discussions.

While conceding that cooperation worked well for the most part there was a sense of continuing frustration on the part of provincial officials:

The hardest part is the two cultures of the two orders of government, especially for HRDC. They have to get beyond thinking of senior/junior orders of government, that "we know what's best" and we'll carve it up this way. Its hard for them to comprehend that anything that Saskatchewan does will relate back to the Saskatchewan Training Strategy. All governments are anxious about not getting into unsustainable funding. So we all operate with pilots. That's fine but the need will not diminish. We do three or four pilots and learn a few things. But the need is there for continuous support. We need a sustained mechanism.<sup>56</sup>

In terms of intergovernmental regime, the youth area is thus hard to classify. Examples of unilateralism by the federal government, of classical or disentangled federalism in which both orders of government act without consultation, and a great deal of day-to-day collaborative federalism are to be found. While by no means perfect, this type of intergovernmental regime seems to us entirely normal in a functioning federal system. It is an example of what might be termed "flexible federalism" and, for reasons to be outlined, if it were suitably improved, we consider it superior to any likely alternative, such as disentanglement or devolution.

### *Policy Goals and Outcomes*

While our assessment of youth in relation to assessment criteria developed by Lazar and McIntosh for the purposes of these studies — redistributive equity, efficiency, contribution to human development, mobility, and social equity — is decidedly mixed. There are some significant negatives as well as some positives and we do not consider that the record is attributable primarily to the type of intergovernmental regime that exists. Rather, these outcomes are derived from the ideas, or policy paradigms, being applied to public policy in this sphere. Therefore, while we are interested in suggestions to improve the intergovernmental regime we are more concerned with preserving one that leaves institutional space for applying alternative policy paradigms as they arise over

time. Our point is that if public policy in a federation is to move with the times and respond to new circumstances it should remain institutionally flexible, though not so flexible as to produce excessive unpredictability for current actors.

*Redistributive Equity.* Redistribution may be of a progressive (from “haves” to “have nots”) or regressive (from “have nots” to “have”) nature. In the youth employment area the most marked form of redistribution is regressive and this is largely reflected in the imbalance between the resources devoted to the young people who benefit from postsecondary education (technically outside our brief in this chapter but defined by many provinces as “in” the portfolio) versus those who do not participate in postsecondary education. Some provincial officials commented on this maldistribution of resources. One New Brunswick official pointed out that HRDC’s own research suggested that at-risk youth experience most of the problems, and that highly educated youth manage to obtain jobs more easily (albeit at the cost of underemployment in many instances). Yet, HRDC contradicts itself by placing too much emphasis on programs for university-educated youth.<sup>57</sup>

Of course, if access to postsecondary education were equally open to those of all class and ethnic backgrounds, it could be argued that the impact would be socially egalitarian.<sup>58</sup> However, current trends in university financing, tuition fee increases in most jurisdictions, and the increased debt loads that students experience,<sup>59</sup> make it clear that the sociological accessibility of the postsecondary system is possibly more likely to narrow rather than broaden.

Such trends are quite consistent with the human capital paradigm: that since individuals benefit from postsecondary education<sup>60</sup> they should pay an increased share of the costs. The latter proposition is entirely normative and integral to the neo-liberal paradigm. In fact, students already pay the costs of their education through the higher taxes they pay after graduation and, in addition, society benefits from the investment in human capital.<sup>61</sup> The requirement that individuals bear a higher proportion of the costs of postsecondary education will have a chilling effect on those from lower socio-economic backgrounds, with the effect that the continued imbalance in resources devoted to postsecondary education (versus those in the same age group who do not attend postsecondary education) will be concentrated on a narrower, and already advantaged, stratum of society.

The emphasis on postsecondary education may be regressively redistributive in a second sense as well. In some provinces there is considerable out-migration amongst postsecondary graduates.<sup>62</sup> To the extent that such

patterns affect the "have-not" provinces more than the "have" provinces, regressive redistribution is occurring regionally. Such a situation could serve to rationalize an increased federal role in the financing of postsecondary education, though whether this should take the form of transfers to individuals, as with the Millennium Scholarship Foundation, or restoration of transfers under the CHST, obviously is a bone of contention.

Federal programs tend to emphasize university-educated youth. This leaves low-income and lower educated youth to the provinces, many of whose programs are aimed at increasing the attachment of these individuals to the labour market. However, such programs can also be regarded as redistributive in a regressive sense, as data on the increased inequality of market-generated incomes confirm.<sup>63</sup>

It is sometimes argued that disentanglement, with youth programming given to the provinces as many requested during LMDA negotiations, might enhance equity.<sup>64</sup> The case that current instances of federal unilateralism and use of spending power in the youth field has a positive effect on redistributive equity is largely a theoretical one. The federal Youth Strategy undermines equity because its programming is, in the main, geared toward educated youth with above-average employment, enhances their advantage relative to less well-off youth. The theory that a strong federal presence is redistributive, in a progressive sense, rests on providing "have not" provinces with greater resources for youth programming and the inclination to spend. This is the prevailing wisdom among those who study fiscal federalism in general; that is, federal intervention furthers redistributive equity in a pan-Canadian sense.

In the present conjuncture, federal unilateralism and the use of the spending power do not serve redistributive equity and may, in fact, create less progressive redistribution. However, there is considerable power in the theoretical argument. In our view, it would be prudent to leave institutional arrangements sufficiently flexible so that the federal spending power could potentially play a progressively redistributive role.

The federal government has recently sought to increase its role in policy for youth at risk, but it has attempted to do so mostly through its indirect influence with the provinces, especially through National Youth Strategy and bilateral talks and not so much through directly implemented programs. The reason for this is clear enough and it relates to intergovernmental relations.

In the aftermath of the Quebec Referendum of 1995, when the federal government gave provinces authority over active labour market programming, it designed the outstanding youth policies in such a way as to not interfere

with this divestiture. The result is a set of youth policies isolated to employment measures closely tied to existing government ministries, a situation that overwhelmingly favoured youth with some university education. Any attempts to program beyond this limited sphere run the risk of contravening the Labour Market Development Agreements and promises made to the provinces. Thus devolution, which we have argued partly springs from neo-liberal policy considerations to reduce the role of the state and enhance the role of markets, serves to reinforce this direction.

*Efficiency.* To what extent is the existing intergovernmental regime in youth employment policy efficient? In part, the answer depends on the definition of efficiency adopted. Haddow has outlined how, under the Liberals there was an "effective emasculation of federal capacity" in active labour market policy.<sup>65</sup> It may be doubted whether the decision to devolve active labour market policy to the provinces represented an efficiency gain. Having taken this step, however, does federal retention of a role in youth employment make sense in efficiency terms? For some provinces the answer is clearly "No!" Alberta and Saskatchewan, for example, favour inclusion of youth within the Labour Market Development Agreements, with an appropriate transfer of resources, and the same is likely true of all provinces that opted for a full devolution type of LMDA. There is administrative logic in the argument that labour market programs should be approached as an integrated whole. However, it is far from clear that the patchwork programming that might emerge as a consequence would be efficient in any except the narrowest sense.

There are also factors that imply a continued role for the federal government. For example, to the extent that national labour markets are seen as more significant than provincial ones, then a role for the federal government might be retained. According to the prevailing view, there currently exists an informal division of labour between the federal government and the provinces even though unilateralism tends to prevail. The tacit division of responsibilities should help to prevent inefficiencies. Federal programming has been cast narrowly to a highly educated segment of youth and the gathering of labour market information for youth as a whole, usually through a partnership between Statistics Canada and HRDC.

Provinces have generally taken responsibility for a much broader band of the youth cohort, including highly educated youth but increasingly youth deemed to be at greater risk of unemployment or marginalization, and do not have the robust information-gathering capacity of the federal government. This

would suggest only a small amount of overlap, although, to our knowledge, there have been no attempts to gauge its magnitude systematically. But, as one provincial official pointed out to us, there have not been any complaints of over-servicing from the stakeholders in youth programming and, one could argue, the provision of duplicate programming could potentially provide recipients with greater choice and/or a larger variety of services. Most of the controversy involves disagreements about the size of any duplication, although most concede it is not that significant. More important than these considerations is a broader and temporal notion that might be termed efficiency of governance. This is the concept that any society should equip itself with institutional arrangements that are not only appropriate to existing policy concerns but which are also sufficiently flexible that they can accommodate changed priorities and instruments that may arise in future. Certainly, the history of Canadian federalism, viewed over the long term, is one of oscillation between centrifugal and centripetal forces.<sup>66</sup> By this calculation, entanglement between federal and provincial governments is likely to vary over time but can be posited to continue indefinitely. Current policy preferences should not foreclose future options. As a result, while no doubt capable of improvement, the existing policy regime in youth policy can be judged reasonably efficient since it delivers programs effectively (judged by their own criteria) while permitting the area to evolve over time, a capability that has arguably been lost in labour market policy as a whole.

*Human Development.* In terms of youth employment programs, human development can largely be equated with human development for the economy. Some provincial programs do have goals of community or environmental benefit<sup>67</sup> which may attract those interested in contributing to society as well as, or rather than, their own human capital development in a narrow economic sense. Similarly, some provinces remain attached to the goals of traditional liberal arts education and are resistant to the notion that, as one provincial official put it "career counselling should start in Grade 3."

Beyond this, however, it was apparent that provinces see human development in a general sense as secondary to, or drawing on the same skills base (thinking, reasoning, problem solving, teamwork, communication) as preparation for the labour market, or simply, that it is beyond the purview of labour market programming per se.

Much like the situation with respect to redistributive equity, federal programming in this field is not particularly conducive to the expansion of human development beyond a narrow economic definition. Notwithstanding this

government's scholarship and student loan programs most programming is focused on the enhancement of employability; that is, the programs that are explicitly designed to enhance youth development only as an actor within the labour market. The federal government's position in National Youth Strategy talks echoes this, for the government has expressed little interest in expanding influence beyond youth employability.

It should be added, however, that the gap between the federal government and the provinces is not terribly large. The provinces we looked at seemed to be concentrating focus on employability programs and, to a lesser extent, the rehabilitation of young offenders into law-abiding citizens, leaving broader issues of human development to education ministries (also under pressure to reorient the curriculum to cater to job markets).

*Mobility.* Some mobility barriers exist within the youth field. In Saskatchewan, for example, student loans are not available for arts degrees outside the province. Out-migration is a critical issue for Saskatchewan and there is a need to encourage people to remain in the province and to sustain provincial educational institutions. However, if a trade or qualification was not available inside the province individuals could be funded to take it elsewhere. An Ontario official pointed to the Rural Youth Jobs Strategy as a program designed to keep people in rural areas.

*Social Equity.* Approaches to ensuring equitable participation in programs varied from province to province. The Saskatchewan Training Strategy covers the population at large and attempts to ensure that all groups receive equitable treatment. Under this strategy, outcomes are measured and compared to the representative population for those groups. The idea is at least to meet the percentages in terms of participants and hopefully exceed them. In British Columbia, a different model applies with a coherent strategy focused specifically on youth.

We are not aware of any comparative study that would enable judgments to be made about the relative efficacy of the various ways provinces have evolved to reflect equity considerations. However, we would note that there does seem to be sensitivity to the need for programs to be equitable.

#### *Democratic Values and Goals*

*Citizen Involvement.* All the provinces contacted had procedures in place either to provide youth with some input and/or governments with feedback. In

Alberta, some efforts had been made to involve youth in consultative processes through conferences; and the design and implementation of youth programs involved youth focus groups. For example, for the Youth Connections outreach initiative, focus groups were asked, "What do we need to do to reach you?" The advertising campaign relied on information from the focus groups. In British Columbia, there are programs designed to provide young people with a chance to speak. Youth on Boards provides an opportunity to sit on the boards of government agencies, commissions, and Crown corporations; periodic youth forums have been held with the desire for jobs and education surfacing as the main theme; and a Youth Website is maintained, along with free call lines and an e-mail forum where queries and opinions can be registered.

Various measures are in place, or planned, to provide Saskatchewan youth with a voice in policy forums. A youth advisory committee on economic issues is planned; the government uses focus groups of young people, representative on a geographical and demographic basis, to get a handle on such issues as why unemployed youth are not taking up training opportunities. Preliminary indications from that particular focus group are that there are useful (if standard) suggestions which will be helpful with apprenticeship renewal and other processes. As well, the Saskatchewan Labour Force Development Board has a youth reference group. It meets on an ongoing basis and has input, through reports, to the minister. Other forums are planned for youth employed in public sector and Crown corporations, student councils are active, and the Federation of Saskatchewan Indians has set up a youth group and recently held a Youth Legislative assembly. The nature of these various forms of participation could not be accurately assessed. But on the face of it, they do constitute a modest form of "citizen engagement" which may have some influence on policy implementation and program delivery.

### *Federalism Principles*

Federal expansion in the field during the early to mid-1990s, although not without instances of bilateral cooperation, was largely either "unilateral" or "uncoordinated." Making a distinction between these two concepts is difficult in many instances, for the ambiguity surrounding the jurisdictional boundaries of youth policy undermine attempts to determine whether or not federal action encroaches on provincial responsibilities.

Much of federal youth policy revolves around the provision of information and the creation of short-term job experience within the public sector,



both fairly generic functions of governments writ large. Neither order of government has a monopoly over creating partnerships that encourage non-profit organizations and businesses to hire more youth. However, there is a case to be made that federal unilateralism did impinge on provincial jurisdictional sovereignty with respect to the "learning" initiatives under the former Youth Employment and Learning Strategy (1994-97) as this involved extensive encroachment into the provinces authority over education. This problem largely dissipated in the aftermath of the Quebec referendum as the federal government sought to insulate its youth programs from such criticism by tying them closer to federal ministries and generic governmental functions. This is a moderate shift toward disentanglement.<sup>68</sup>

Some provinces are attempting to more tightly integrate their social assistance programs and their youth employment systems, as in the recent movement toward welfare-to-work schemes. This type of integration is not open to the federal government because of provincial jurisdiction over social assistance. However, removal of federal conditions on transfer payments, as under CAP, has enhanced provincial ability to do so. Conversely, federal responsibility for Aboriginal youth has implications for these provincial efforts, since those youth living off-reserve create policy challenges for provincial jurisdictions. This has led to provincial calls for the federal government to take greater responsibility for these youth, or provide appropriate compensation. The issue of Aboriginal youth would seem to pose challenges to any regime that involves a thorough disentanglement.

There have been intermittent instances of meaningful and proactive consultation between the federal government and the provinces over the last two decades. There have also been a few bilateral pilot projects. However, most federal and provincial activities have tended to be unilateral.

This changed as a result of two separate developments: the federal commitment to intergovernmentalism was taken to a new level with the establishment of the Federal/Provincial Youth Services Partnership Initiative in New Brunswick. Both orders of government are represented in committees at the central and regional levels and conflicts are resolved. This case is atypical, however. This lack of multilateral commitment to intergovernmentalism led the provincial Forum of Labour Market Ministers to set out a list of demands within their interprovincial Provincial/Territorial National Youth Employment Strategy (1997).

This eventually led to the federal/provincial/territorial partnership establishing both multilateral and bilateral forums for dealing with disputes,

although these forums are largely governed by good-will, lofty principles, and joint committees instead of formal processes of dispute resolution.

## ASSESSMENT OF ALTERNATIVE INTERGOVERNMENTAL REGIMES

The relationship between youth policy and intergovernmentalism is complex and undergoing a transition. The jurisdictional ambiguity surrounding the policy area has led to a heated debate about the legitimate scope of action of both orders of government. There are a few instances of federal unilateralism, some instances of disentanglement, and many instances of a lack of coordination between the federal government and the provinces. There are a few special projects oriented around intergovernmental cooperation and joint management and there is now a process in place with the stated goal of increasing cooperation and coordination in want of a coherent national strategy. There are many contentious issues that need to be resolved and aspects of the process that need to be operationalized before one can describe precisely the emerging intergovernmental regime.

This section will assess the viability and efficacy of those alternative intergovernmental regimes that have been proposed most often. Three alternative regimes are assessed:

*Interprovincial Cooperation (or Joint-Management):* Assigning responsibilities holus-bolus to the provinces, with policies that require multilateral coordination and dispute resolution handled by a forum or authority representing provinces.

*Thorough Disentanglement:* The assignment of discrete areas of responsibility to each order of government, doing so for the entire range of youth programs to prevent any overlap or duplication.

*"Flexible" Cooperation (or Joint-Management):* Intergovernmental arrangements that facilitate cooperation and dispute resolution between orders of government for the full range of youth policies, but designed in a way that does not bind future policy responses when faced with new challenges, new understandings of the issues involved, or changes in the views of the electorate.

Some suggest that the most realistic framework would involve disentanglement for affluent provinces and cooperation for less affluent provinces. While we recognize that disentanglement and cooperation could be applied to different

provinces at the same time, this chapter will consider these regimes without any comment about the potential for such asymmetrical approaches.

### *Interprovincial Cooperation*

Greater interprovincial cooperation is one of the recommendations of the Ministerial Council on Social Policy Reform and Renewal's *Report to Premiers* (1995). This report recommended greater provincial/territorial influence over social policy, reduced overlap and duplication between orders of government, and the development of a new national, that is interprovincial, framework to: (i) promote shared principles and goals held by the province; (ii) develop a national policy reform agenda within specific sectors such as youth; and (iii) develop mechanisms for dispute resolution and assessment of progress in fulfilling goals.<sup>69</sup> It is not clear whether the joint mechanisms would be administered by arm's length agencies staffed by public servants or forums with some measure of direct political representation. Such an interprovincial model is favoured by some market populists, such as Thomas Courchene, because it presumably promotes self-sufficiency of the provinces and interjurisdictional competition for citizen loyalty and business investment. Some believe, and in fact hope, that the logical outcome of such a "sink or swim" system is the further degradation of provincial welfare states. The specific model proposed by the provincial premiers is much milder, owing to worries among some in less affluent provinces that these are indeed the incentives created by a comprehensive adoption of interprovincialism. In recent years, it should be noted, provinces have become more willing to view social policy goals in terms of their interprovincial and international trade implications, thus aligning social policies with the imperatives of the neo-liberal focus on competitiveness and promotion of business investment.

Intergovernmentally, this approach is not likely to come to fruition for many reasons. Canadian governments have little experience with such arrangements in the youth field, or any field for that matter, beyond joint priority-setting among first ministers. A great deal of political good-will would have to exist for such a strategy to be put into action and a high tolerance for trial-and-error would be required. A major impediment to such Confederation-like arrangements has been the resolving of disputes that involve a clear clash of interests between constituent jurisdictions. The difficulty obtaining agreement on an appropriate and fair mechanism of arbitration is the challenge. Potential sources of conflict of this kind in the youth field involve sharing financial resources

and policies promoting or discouraging interprovincial migration, both discussed below in greater detail.

Provinces that have made the largest investment in youth perceive little incentive to engage in interprovincial arrangements beyond information-sharing. Some provincial officials we interviewed expressed concern about being impeded by laggard jurisdictions and saw little direct gain, at least initially, from such arrangements. It is for these reasons that the provincial proposals for greater interprovincialism read more like a bargaining position with the federal government than robust commitment to interprovincialism.

This said, it is useful to look at the strengths and weaknesses of this model irrespective of its viability, given current political trends. The interprovincial model would seem to score low on those criteria related to policy goals and outcomes. Federal government activities within the youth field are not as progressive as provincial initiatives and so interprovincialism does not undermine the redistribution of resources between more and less affluent youth. Interprovincialism does, on the other hand, pose a challenge to the redistribution of resources between more and less affluent provinces. Transfers of resources between provinces and the ability of less affluent provinces to raise revenue would seem to be compromised by interprovincialism, since this regime offers no incentives for interprovincial transfers. Given the imbalance in the scope of youth programming between "have" and "have not" provinces, there would seem to be a need to strengthen this form of redistribution. It is for this reason that most interprovincial proposals retain a financing role for the federal government.

Ensuring the mobility of youth is another weakness of this model. Youth, particularly well-educated youth, are likely to combine school-to-work transitions with geographical relocation, with the Prairie and Atlantic regions experiencing heavy net losses.<sup>70</sup> There are residency requirements in many provinces for receipt of student loans and some scholarships, and Quebec has begun experimenting with separate out-of-province student tuition fees (with British Columbia possibly following suit).

While there are fewer overt mobility barriers of this kind among provincial school-to-work programs directed toward out-of-province youth, many programs are operationalized in a way to encourage youth to stay within the province. Indeed, many provincial politicians tout the benefits of youth employment policy using this justification. In Newfoundland, for example, there is enormous concern that the flight of young people combined with the aging of the population will undermine the capacity of the government to finance

social programs in the long term. Likewise, provinces are reluctant to finance the education of young people who will subsequently make use of their education elsewhere. Advocates of interprovincialism mention the Red Seal program — an instance of interprovincial cooperation to ensure portability and mutual recognition of apprenticeship qualifications — as an innovation that promotes mobility.

However, a closer look shows that interprovincial conflicts have led to a dilution of the Red Seal program's comprehensiveness and stringency when compared to the original intentions of the designers. Although all provincial premiers officially support the notion of youth mobility, clearly this is understood in less affluent provinces as occurring in combination with a broader set of policies that attempt to make local labour markets more attractive. Interprovincial agreements that promote the mobility of individuals, goods and services between provinces (and international trade agreements between countries) in the neo-liberal mould, with its emphasis on "comparative advantage," are rarely accompanied by additional policies that "level the playing field" in this way.

Interprovincialism has a number of disadvantages on three topics related to democratic values and goals, namely: the promotion of citizen involvement, legislative involvement, and the maintenance of transparency and accountability. If the provinces were to create a separate interprovincial forum with representation by provincial officials, be they elected politicians or appointed officials, an additional "degree of separation" is added between the electorate and the effective policymakers. If the provinces were to create a new authority with a measure of responsibility and autonomy, there would be no direct linkage with the electorate. In whatever form, such an arrangement would likely require mechanisms of citizen involvement that are, by themselves and relative to traditional forms of democratic input, less likely to obligate policymakers to respond to citizen preferences.

This approach would also sideline legislatures, whose role would be presumably reduced to ratifying the new arrangement and, in a more conscientious formulation, periodic review of progress by legislative committees. It should be noted, however, that most proposals call for a separate, non-legislative, mechanism for reporting progress in order to provide a basis for audit-like evaluation. This is only one aspect of a comprehensive approach to accountability which, as Paul Thomas notes, should also include: "the assignment of responsibilities, ideally based upon agreed upon goals and purposes; an obligation to answer for the discharge of those responsibilities; surveillance of performance to ensure compliance with directions given; [and] possible

sanctions for non-performance and rewards for successful performance."<sup>71</sup> It is unclear how the last item on this list would be fulfilled, for, constitutionally speaking, sanctions and rewards within Canada's existing Westminster model of governance are directed solely through parliamentary and electoral institutions. Finding a way to reconcile this type of divided governance with existing democratic institutions is a problem for which there would seem to be no obvious solution.

Protection of minority rights is poorly served by this model, for there is no check on the arbitrary actions of each province except for moral suasion from other (concerned) provinces. Only minorities who speak one of the official languages would seem to have the benefit of this weak form of protection. Manitoba government objections to Quebec language laws during the Meech Lake Accord debate, and Quebec objections to Ontario closing a francophone teaching hospital in the late 1990s, are examples. More active forms of minority protection, such as federal government attempts to promote the French language outside Quebec, are largely negated by this model.

The criteria on which the interprovincial regime scores higher relate to its adherence to federalism principles, or, perhaps, confederalism principles. This regime is premised on a division of powers in which overlap is minimized or eliminated between orders of government, with interprovincial overlap handled through diplomacy. The issue of whether or not this translates into respect for political sovereignty between orders of government is less clear. The federal government currently maintains clear jurisdiction over Aboriginal affairs on reserves, the collection of national labour market statistics, and the use of its spending power. The federal government has also insisted that it has some authority over occupational training matters.

Most interprovincial regime proposals are operationalized in a somewhat diluted form to allow the federal government to retain those responsibilities that are undisputed. This is in recognition of the sovereignty problems posed by a fully interprovincial regime. There also needs to be a strong commitment to intergovernmental processes for this model to function, although, as mentioned earlier, there would seem to be few incentives to encourage jurisdictions to conduct diplomacy in good faith. Unlike arrangements in which orders of government operate with overlapping and complementing responsibilities, there are few incentives to spur diplomatic efforts where approaches to policy diverge. The youth policy area has no obvious characteristics that would spur such efforts.

### *Thorough Disentanglement*

A far-reaching proposal for a thoroughly disentangled regime on the issue of youth has been made by the Alberta government in its People and Prosperity strategic plan. According to this plan, the federal government is "responsible for the efficient functioning of the national economy, Employment Insurance, providing fiscal transfers to the province for postsecondary education and other human resource activities, and providing appropriate and adequate support to programs for Aboriginal persons."<sup>72</sup>

The provincial government is given the remaining responsibility for promoting human and career development, with much of the implementation delegated to local governments, educational institutions, and organizations within the market and non-profit sectors. What makes this plan most persuasive is the federal government's failure to articulate its responsibility, including the rationale behind it, beyond the policy areas enumerated in the Alberta plan. It is not clear, for example, what functional purpose is served by the federal government's direct involvement in services to non-Aboriginal, at-risk youth, especially when one considers that the provinces retain control over the policy areas best suited to helping this segment (e.g., the education system and social assistance).

Indeed, given that the bilateral LMDAs provide provincial governments with such a large swath of labour market policies, maintaining a separate system for youth would seem needlessly redundant and result in the poor integration of services. Folding youth policy into an LMDA-like arrangement would be fairly simple in logistical terms. Thus, federal activities beyond the areas enumerated above pose efficiency problems, at least as managerialists would define the term "efficiency."

There is, however, an important shortcoming to thorough disentanglement proposals: it is not clear whether a policy area such as youth employment and school-to-work policy *can* be hived-off into discrete jurisdictions. Youth employment policy cuts across departmental structures, jurisdictional boundaries, and common categorizations of policy. As well, many youth policies involve fairly generic functions of government. Public sector employment, which used to give youth jobs and work experience, for example, is open to all governments and is, as evidence of a "lost generation" of young public servants suggests, a necessity.

To take another example, provincial governments, local governments, businesses, universities, unions, and even foreign governments provide

Canadian citizens with scholarships. Thus, there would seem to be no compelling reason to actively prevent the federal government from doing so. Scholarships are perceived by many as generic functions of large, socially conscious organizations, not of a single level of government. It is for these reasons that many advocate a disentangled model operationalized in a more modest form whereby: (i) governments would be free to set internal personnel policies to favour youth; (ii) those policies more easily disentangled would be given to particular jurisdictions; and (iii) for those policies where overlap is unavoidable, one order of government would be given a leadership role and coordination would proceed on a bilateral basis (in the area of Aboriginal youth, for example). This less-than-thorough form of disentanglement would not eliminate the need for coordination.

However, disentanglement scores over interprovincialism in accountability terms. With discrete jurisdictions, less effort is required to determine what government is responsible for each program. Regimes that require a large investment in intergovernmental mechanisms undermine transparency. Citizens can judge the outcomes of the process but can rarely pin-point responsibility. A thoroughly disentangled regime avoids this except in instances of policy voids. In those cases no jurisdiction takes responsibility, and it is unclear which order of government to hold accountable. For example, prior to the signing of the new LMDAs, third-party service providers in many provinces were given federal funding to maintain labour market programs. Following the LMDAs, federal funding was eliminated and many provinces were not interested in picking up the tab (despite a federal transfer of funding, albeit at more modest levels). In other words, many provincial governments lobbied to obtain control over certain services, only to opt not to provide such services when control was secured. In such instances, disentanglement becomes a form of surreptitious defunding.

This regime also does not address responsibility for funding decisions. For example, recent cuts in federal transfers to the provinces for health and education caused programming cuts. And it appears that it is the provincial governments that are being held accountable by their public for these cuts. The division of powers and commitment to political sovereignty are strong points for thorough disentanglement because these federalism principles were conceived with the "classical" model of federalism in mind. Commitment to intergovernmental processes would be rendered moot for most areas of policy, although intergovernmental mechanisms to provide stable and predictable federal funding would still be required.



### "Flexible" Cooperation

The model with the highest report card score would be what we have termed "flexible" cooperation and joint management between orders of government. Because youth policy tends to sprawl across a large cross-section of government departments, and because our understanding of this policy field is evolving at such a rapid rate, there would seem to be a case for the flexible cooperation model. It is also justifiable on long-term governance efficiency grounds.

Insofar as the flexible cooperation model includes active joint representation on committees at the policy and implementation levels, such mechanisms would function well, although their precise configuration would likely differ across very dissimilar provincial state structures. This would also allow for the provinces to gain a more reliable opportunity to have input into federal decisions that encroach on their jurisdiction, instead of the intermittent contact that would come from unilateral or disentangled regimes. Asymmetric arrangements would be possible.

The key benefit of a cooperative regime involves the way it provides a hedge against future developments in the youth policy field, both in terms of the types of problems encountered and the innovations created. Rigid disentangled regimes often possess an inertia that can preclude the creation of functional solutions to new problems in the future, especially ones in a field that so readily cuts across jurisdictions. Flexibility is undermined by disentanglement because jurisdictions are given a *de jure* mandate to defend their turf, whereas fully implemented cooperative arrangements are premised on maintenance of relatively fluid relationships of interdependence. This model also allows governments to adopt a more citizen-centred approach to service delivery which can become streamlined and fully integrated. This could potentially evolve into a model that goes beyond simply offering easy access to a menu of programs and addresses a young person in a holistic fashion and tailors services to meet individual needs.

The chief barriers to such a model relate to cost and the difficulty of connecting federal and provincial institutions that have evolved differently. The closest example of a cooperative arrangement is the Federal-Provincial Youth Services Partnership Initiative in New Brunswick. This initiative was largely built by federal pilot-project funding that made both cooperation and New Brunswick's wider array of programs possible. The structure of both governments' lead ministries also mirror each other, owing to a long-standing relationship of cooperation. The experience of federal-provincial collaboration

in Saskatchewan is similar. It is unclear how such a relationship can be replicated on a grander scale in the larger provinces and then to cope with very different provincial program structures. Another barrier to implementing such a regime would be intergovernmental tensions within larger, affluent, and more disentanglement-oriented provinces (British Columbia, Ontario, Alberta, and Quebec). Political tensions between federal and provincial levels, such as within Ontario and Quebec, make the likelihood of implementing such a regime very low in the near future.

Integrated and flexible cooperation scores higher than other regimes with respect to the main policy goals and outcomes addressed in this study. Redistributive equity could potentially be better served through arrangements that oblige all policymakers to identify a continuum of services and subsequently adapt programming to fill gaps and increase progressivity. Interprovincial redistribution and mobility would presumably be well served, assuming that the federal government, as representative of the country as a whole, is more committed to these goals. There would also be the potential for a more comprehensive approach to human development in situations where the whole cross-section of social policies are fully integrated. There are, of course, a large number of "ifs" in this regime regarding the political will and foresight to offer a more comprehensive approach. The point made here is simply that cooperative arrangements provide a larger window of opportunity for such policy approaches.

The benefits of flexible cooperation with respect to democratic values and goals would seem to be less straightforward. The protection of minorities in provinces less disposed to minority rights would be presumably reinforced by this model for the minorities in which the federal government took an interest. The role of legislatures would likely be weakened as responsibilities would be delegated to public servants, although active Cabinet committees would be required to champion the cause across departments. Citizen involvement under this model would seem to be ambiguous and subject to greater competition insofar as the input of other organized stakeholders is sought.

Most importantly, transparency and accountability would be undermined by the regime's reliance on closed and complex administrative structures to coordinate policy. Pin-pointing effective decision-points would be nearly impossible. The New Brunswick example serves as testament to this problem. However, collective accountability for youth policy would be reinforced since governments find it more difficult to completely avoid responsibility for

decisions made through collaboration. The Westminster model's doctrine of collective responsibility accommodates this.

The main challenge would be to reinforce such collective accountability mechanisms in an era when the general public seems to want more pin-pointing of individual responsibility for decisions. Although the flexible cooperation regime denies a very strict division of powers, this would seem to suit the very nature of youth employment policy. There would be a much stronger commitment to intergovernmental processes as these processes would become more formalized within joint decision-making and joint-management administrative structures.

## CONCLUSIONS

Since the current system is moving away from a largely counterproductive regime of unilateralism toward some form of sophisticated intergovernmental collaboration, cooperation would likely provide the workable framework from which to build an alternative governance regime. Among the principles that such a regime might include are the following:

- negotiation of medium-term definitions of roles and responsibilities with the clear understanding that these can be reviewed and altered with adequate notice of intention to do so;
- avoidance of duplication by building on the tacit division of labour that already exists;
- new funding arrangements for joint programming in regard to urban Aboriginal populations;
- medium-term funding agreements to replace project funding;
- reciprocal and adequate notice of changes to funding and programming;
- continued exploration at the Forum of Labour Market Ministers of possibilities for multilateral and bilateral programming agreements;
- reciprocal early-warning arrangements regarding future unilateral initiatives.

These should be regarded as indicative only. Our main conclusion is that the current intergovernmental regime is capable of incremental improvement and that moving in this direction has the virtue of making existing roles and responsibilities clearer while leaving options open for the future.

## NOTES

<sup>1</sup>G. Bruce Doern and Richard W. Phidd, *Canadian Public Policy* (Toronto: Methuen, 1983).

<sup>2</sup>Stephen McBride, *Not Working: State, Unemployment and Neo-conservatism in Canada* (Toronto: University of Toronto Press, 1992), ch. 3-6.

<sup>3</sup>At the time of the 1993 federal election the Liberal *Red Book* hinted at greater priority for jobs. For accounts of what happened to the *Red Book's* jobs agenda, see Stephen McBride, "Investing in People: Labour Market Policy," in *Global Imperatives*, ed. Andrew Johnson and Andrew Stritch (Toronto: Copp Clark, 1996); Peter Stoyko, "Creating Opportunity or Creative Opportunism? Liberal Labour Market Policy," in *How Ottawa Spends 1997-98*, ed. Gene Swimmer (Ottawa: Carleton University Press, 1997).

<sup>4</sup>A process that, for whatever reason, is rarely described as making them *dependent* on the *market* for all forms of social sustenance

<sup>5</sup>R. Simeon, "Rethinking Government, Rethinking Federalism," in *New Public Management and Public Administration in Canada*, ed. Mohamed Charih and Arthur Daniels (Toronto: Institute of Public Administration of Canada, 1997), p. 73.

<sup>6</sup>See John Shields and B. Mitchell Evans, *Shrinking the State: Globalization and Public Administration "Reform"* (Halifax: Fernwood, 1998), ch. 3.

<sup>7</sup>R. Haddow, "The Political and Institutional Landscape of Canadian Labour Market Policy-Making," in this volume, ch. 2.

<sup>8</sup>R. Haddow, "How Ottawa Shrivels: Ottawa's Declining Role in Active Labour Market Policy," in *How Ottawa Spends, 1998-99: Balancing Act, The Post-Deficit Mandate*, ed. Leslie A. Pal (Toronto: Oxford University Press, 1998).

<sup>9</sup>Since public opinion polls in the summer of 1998 showed that few Quebecers were aware that the transfer was occurring, the efficacy of this component of the strategy may be doubted.

<sup>10</sup>Stephen McBride and John Shields, *Dismantling a Nation: The Transition to Corporate Rule in Canada* (Halifax: Fernwood, 1997); David B. Robertson and Dennis R. Judd, *The Development of American Public Policy* (Glenview, IL: Scott, Foreman and Co., 1989). For a contrary view see Alain Noël, "Is Decentralization Conservative? Federalism and the Contemporary Debate on the Canadian Welfare State," in *Stretching the Federation: The Art of the State in Canada*, ed. Robert Young (Kingston: Institute for Intergovernmental Relations, Queen's University, 1999), pp. 195-219.

<sup>11</sup>Robin Boadway, *The Constitutional Division of Powers: An Economic Perspective* (Ottawa: Economic Council of Canada, 1992), p. 3.

<sup>12</sup>Clearly this association is contingent. In Australia, for example, neo-liberal training reforms have been implemented in a context of greater authority for the federal authorities and diminished influence of the states.

<sup>13</sup>For a review and rebuttal of literature suggesting that the unemployment insurance system acted as a disincentive to work and hence raised the unemployment rate, see McBride, *Not Working*, ch. 6.

<sup>14</sup>The beneficiary-to-unemployed ratio having dropped from 83 percent in 1989 to 42 percent in 1997 with about half of the decline being attributed to policy. See Human Resources Development Canada (HRDC), "An Analysis of Employment Insurance Benefit Coverage," Working Paper W-98-35E (Ottawa: Applied Research Branch, Strategic Policy, HRDC, 1998). See also chapter 3 in this volume, "Dis-Covered: EI, Social Assistance and the Growing Gap in Income Support for Unemployed Canadians," by T. McIntosh and G. Boychuk.

<sup>15</sup>For a discussion of the Keynesian, post-Keynesian, and monetarist (a key ingredient of what is here referred to as neo-liberalism) views of the economy and the labour market, see McBride, *Not Working*, ch. 3.

<sup>16</sup>For a discussion and critique of the NAIRU concept, see M. Setterfield, "Using NAIRU as a Basis for Economic Policy: An Evaluation," in *The Unemployment Crisis: All for Nought?* ed. Brian K. MacLean and Lars Osberg (Montreal and Kingston: McGill-Queen's University Press, 1996).

<sup>17</sup>Derek Robinson, *Monetarism and the Labour Market* (Oxford: Clarendon Press, 1986), pp. 383-98.

<sup>18</sup>Neo-liberal opposition to unemployment benefits and minimum wages legislation is based on the ability such measures give workers to refuse jobs at wage rates the market might determine. The effect, from a neo-liberal perspective, is to keep unemployment levels higher than they might be otherwise since they provide individuals with the option of turning down employment that, from their point of view, is unsatisfactory. In addition, unemployment benefits are regarded as a contributing factor to higher labour force participation rates than would otherwise occur. This is because some individuals allegedly enter the labour force on the expectation that they will soon become eligible for unemployment benefits.

<sup>19</sup>OECD, *The Jobs Study* (Paris: OECD, 1994).

<sup>20</sup>OECD, *Implementation of the OECD Jobs Study: Lessons from Member Countries Experience* (Paris: OECD, 1997).

<sup>21</sup>The extent, implications, and significance of Jobs Study compliance is dealt with in S. McBride and R. Williams, "Globalization and Labour Market Restructuring," paper presented at the annual general meeting of the Canadian Political Science Association, Sherbrooke, 1999.

<sup>22</sup>As Marquardt observes, these designations are equivalent to the distinction between "progressive competitiveness" and "competitive austerity" drawn by G. Albo, "'Competitive Austerity' and the Impasse of Capitalist Employment Policy," in *The Socialist Register 1994: Between Globalism and Nationalism*, ed. Ralph Miliband and Leo Panitch (London: Merlin Press, 1995); Richard Marquardt, *Enter at Your Own Risk: Canadian Youth and the Labour Market* (Toronto: Between the Lines, 1998), p. 133.

<sup>23</sup>Marquardt, *Enter at Your Own Risk*, ch. 7.

<sup>24</sup>These developments carry the potential that access to postsecondary education will be narrowed sociologically. There are, in any case, grounds for believing that human capital theory, which underlies the approach, may prove an inadequate guide to policy. Marquardt, *Enter at Your Own Risk*, pp. 125-26; G. Albo, "The Cult of Training: Unemployment and Capitalist Employment Policy," in *Work and Idleness: The Political Economy of Full Employment*, ed. J. Wheelock and J.J. Vail (Amsterdam: Kluwer, 1998); S. McBride, "Policy from What?" in *Critical Perspectives on Canadian Public Policy: Restructuring and Resistance*, ed. Mike Burke, Colin Mooers and John Shields (Halifax: Fernwood, 2000).

<sup>25</sup>Marquardt, *Enter at Your Own Risk*, pp. 133-34.

<sup>26</sup>Mike Burke and John Shields, *The Job-Poor Recovery: Social Cohesion and the Canadian Labour Market* (Toronto: Ryerson Social Reporting Network, 1999).

<sup>27</sup>Explored more fully in Nadine Rehnby and Stephen McBride, *Help Wanted: Economic Security for Youth* (Ottawa: Canadian Centre for Policy Alternatives, 1997).

<sup>28</sup>Marquardt, *Enter at Your Own Risk*, pp. 91-92.

<sup>29</sup>Rehnby and McBride, *Help Wanted*, p. 13.

<sup>30</sup>Lucie France Dagenais, "La Jeunesse, une construction du discours sociopolitique canadien de 1965 à 1989," *Sociologie et Sociétés* 28, 1 (1996):89-105.

<sup>31</sup>Jean-Pierre Voyer, "Emerging Employment Patterns and the Implications for Labour Policy," in *Labour Policy in the New Millenium*, ed. Richard Chaykowski and Akivah Starkman (Kingston: School of Policy Studies, Queen's University and McGill-Queen's University Press, forthcoming).

<sup>32</sup>Richard Marquardt, "Youth and Work in Troubled Times: A Report on Canada in the 1990s," Working Paper No. W-01: 6-7 (Ottawa: Canadian Policy Research Network, 1996).

<sup>33</sup>For example, Manitoba's *Urban Green Team* initiative has official objectives of protecting the environment, promoting environmental awareness, providing students with summer employment, and enhancing work skills. In practice, it is a program that exploits the low cost of young labour by "warehousing" idle youth in unfulfilling and dead-end jobs, such as picking up litter in urban slums, instead of preparing them for gainful careers.

<sup>34</sup>Pierre Pettigrew, "Address to the Forum for Young Canadians," Ottawa, 11 March 1997.

<sup>35</sup>Gordon Betcherman, "A Job is the Best Social Policy," in *A New Social Vision for Canada?* ed. Keith Banting and Ken Battle (Kingston: School of Policy Studies, Queen's University, 1994), p. 40.

<sup>36</sup>The authors are grateful to Dan Cohn for bringing this point to their attention.

<sup>37</sup>Indeed, it is now a popular genre of self-help book, see, for example, Nuala Beck, *Shifting Gears* (New York: HarperCollins, 1995).

<sup>38</sup>Forum of Labour Market Ministers, *FLMM Endorses New Partnership on Youth/Makes Further Progress on Removing Barriers to Inter-Provincial Labour Mobility*, Press Release, 1998, pp. 1-2.

<sup>39</sup>Forum of Labour Market Ministers, "A New Federal/Provincial/Territorial Partnership on Youth Employment," unpublished paper, 1998, p. 4.

<sup>40</sup>Haddow "How Ottawa Shrivels," p.113.

<sup>41</sup>Ibid., p. 115.

<sup>42</sup>Unless otherwise stated information in this section was obtained either from the *Inventory of Canada's Youth Employment Programs and Services* (November 1998) or from interviews with government officials.

<sup>43</sup>Though, of course, it does not include spending on education or postsecondary education which primarily benefit the young.

<sup>44</sup>Other provinces, such as BC, have had the same experience as they move to implement their LMDA.

<sup>45</sup>Other provinces that opted for a full devolution LMDA may share Alberta's orientation.

<sup>46</sup>Canada, *Youth Employment and Learning Strategy: Backgrounder* (Ottawa-Hull: Human Resources Development Canada, 1994), p. 11.

<sup>47</sup>British Columbia, *Youth Options BC: Your Guide to BC's Job Training and Education Programs* (Victoria: Government Printing, 1998).

<sup>48</sup>See, for example, Robert Allen, *Paid in Full: Who Pays for University Education in BC?* (Ottawa: Canadian Centre for Policy Alternatives, 1998), p. 3.

<sup>49</sup>See Diana Gibson and Warren Dow, *Welfare Changes: Does BC Benefit?* (Vancouver: Workfare Hurts One and All coalition, 1996), pp. 9-11.

<sup>50</sup>In the 1999-2000 fiscal year, Ontario will spend \$217 million on out-of-school-youth. The federal government, in contrast, will spend approximately \$77 million over the same period in Ontario.

<sup>51</sup>Saskatchewan, *The Saskatchewan Training Strategy: Bridges to Employment* (Regina: Ministry of Postsecondary Education and Skills Training, 1997).

<sup>52</sup>Interview, New Brunswick official, December 1998.

<sup>53</sup>*The Globe and Mail*, 27 January 1999.

<sup>54</sup>However, see our discussion of apparent federal withdrawal from learning in the earlier section on federal youth programming.

<sup>55</sup>Interview, Saskatchewan official, December 1998.

<sup>56</sup>Ibid.

<sup>57</sup>Interview, New Brunswick official, December 1998.

<sup>58</sup>In terms of gender it would appear that undergraduate postsecondary education is now relatively egalitarian.

<sup>59</sup>For a review of data on this point see Rehnby and McBride, *Help Wanted*, pp. 25-27.

<sup>60</sup>As employment and income data already cited clearly demonstrate.

<sup>61</sup>Allen, *Paid in Full*.

<sup>62</sup>In Saskatchewan, for example, as many as two-thirds of university graduates may find employment outside the province.

<sup>63</sup>See, for example, Grant Schellenberg and David Ross, *Left Poor by the Market: A Look at Family Poverty and Earnings* (Ottawa: Canadian Centre on Social

Development, 1997); and Armine Yalnizyan, *The Growing Gap: A Report on Growing Inequality between the Rich and the Poor in Canada* (Toronto: Centre for Social Justice, 1998).

<sup>64</sup>The argument runs as follows: even in provinces run by more conservative governments, such as Ontario where youth policy is becoming more explicitly designed to be less redistributive (e.g., greater use of less progressive tax incentives), youth policy (as a whole) is currently operationalized in a way that implicitly furthers vertical equity more than federal programming by virtue of its greater scope and growing propensity to target programs.

<sup>65</sup>Haddow, "How Ottawa Shrivels," p. 100.

<sup>66</sup>Garth Stevenson, *Unfulfilled Union* (Toronto: Gage, 1982).

<sup>67</sup>Youth Community Action and Environmental or E-Teams in British Columbia are examples.

<sup>68</sup>Though there is not universal agreement on this point, Alberta in particular believes that the federal authorities remain heavily involved in the learning area.

<sup>69</sup>Report to Premiers (Ministerial Council on Social Policy Reform, 1995), p. 20.

<sup>70</sup>Mary Sue Devereaux and Georges Lemaître, "Job-related Moves," *Perspectives on Labour & Income* (1992):47-48.

<sup>71</sup>P. G. Thomas, "The Changing Nature of Accountability," in *Taking Stock: Assessing Public Sector Reforms*, ed. B. Guy Peters and Donald J. Savoie (Montreal and Kingston: McGill-Queen's University Press, 1988), p. 352.

<sup>72</sup>Government of Alberta, *People and Prosperity* (Edmonton: Government Printers, 1997).



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