

## **How Does Federalism Condition the Employment-Welfare Relationship?: Integrating Social Welfare Policy and Active Labor Market Policy into Youth Employment Policy in Canada\***

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*To account for the formation of employment-welfare relationship, conventional studies often rely on the demand-side or the supply-side perspective. To explain the complete mechanism in the observed nexus, however, I argue that a political institution and its historical path need to be investigated. By examining youth employment policy in Canada, this paper explores how the strategy of integrating social welfare policy with active labor market policy targeting youth ended up with potentials for unilateral action, both at the federal and provincial levels, how the subsequent centralizing force undermined the devolution efforts and the ensuing reform in accordance with neo-liberal framework in labor market policy, how political institutions in a federal state came to affect the phase of employment-welfare relationship, and ultimately why such a center-governed active labor market policy often falls short of realizing its intended objective of transforming the existing nexus between welfare state and production regime.*

**Keywords:** *Federalism, Intergovernmental Relations, Employment-Welfare Relationship, Center-governed Active Labor Market Policy, Canada*

### 1. INTRODUCTION

In democratic systems, getting things done, i.e. effectiveness, without attaining legitimacy is a vacuous concept, especially if constituents are deeply divided over the proper delimitation of government. In Canada, the reverse phenomenon is rather common in that two incompatible visions of political community coexist: the French-speaking Quebecers who interpret federalism as “multination” federalism and most English-speaking Canadians and French-speaking Canadians outside Quebec who define federalism as “territorial” federalism.<sup>1</sup> Consequently, two legitimate but possibly less effective political systems exist and the two parties to the federal compact cannot agree on the precise terms of the union. Thus, when one side imposes its notion of political community upon the other in anticipation of keeping the Canadian union together, such quests are bound to aggravate the conflict.

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<sup>1</sup> “For national minorities like the Québécois, federalism is first and foremost a *federation of peoples*, and decisions regarding the powers of federal subunits should recognize the equal status of the founding peoples. On this view, to grant equal powers to regional-based units and nationality-based units is in fact to deny equality to the minority nation, by reducing its status to that of a regional division within the majority nation. By contrast, for English-speaking Canadians, federalism is first and foremost a *federation of territorial units*, and decisions regarding the division of powers should affirm the equality of the constituent units” (quoted from Kymlicka 1998).

When and if the demand for devolution rears its head, the normal assumption is that subnational governments are better suited for the task, be it the delivery of active labor market services or training. Intergovernmental shifts in labor market policy, represented by the Labour Market Development Agreements (LMDAs) in Canada, are one of the latest and a potentially significant transformation in the intergovernmental relations: Responsibilities are set to transfer from the federal to the provincial orders of government. Conventionally, because there was little material incentive for employers and employees alike to pay for on-the-job training in Canada, institutional training, predominantly supported by provincial governments, has been dominant (Klassen 2001: 164). However, the federal government, at times, has been vocal about its role in active labor market policy, especially since the 1960s. As the degree of intergovernmental disagreement over integration of active labor market policy and social welfare policy into youth employment policy mounted over the years, the corresponding reforms on employment-welfare nexus became difficult for multiple levels of government to implement. Yet there seems a variation in the capacity of a federal system to undertake such reforms as seen later in a comparative context, as well as within the same country over different periods as will be discussed in details about Canada. The odds of successful reform policies, then, arguably depend on a degree of operational bargaining between the orders of government involved.

By examining youth employment policy in Canada, this paper explores how the strategy of integrating social welfare policy with active labor market policy targeting youth ended up with potentials for unilateral action, both at the federal and provincial levels, how the subsequent centralizing force undermined the devolution efforts and the ensuing reform in accordance with neo-liberal framework in labor market policy, how political institutions in a federal state came to affect the phase of employment-welfare relationship, and ultimately why such a center-governed active labor market policy often falls short of realizing its intended objective of transforming the existing nexus between welfare state and production regime. In doing so, I will examine how and why the current strategy of integrating social welfare policy with education policy in accordance with a neo-liberal framework often ran short of contributing to the elusive social union in Canada. The rest of the paper consists of the following sections: 1) selective literature reviews on federalism, social welfare policy, and labor market policy, 2) labor market policy, youth employment policy and federalism in Canada, and 3) conclusion.

## 2. HOW FEDERALISM AFFECTS SOCIAL WELFARE POLICY AND LABOR MARKET POLICY: LITERATURE SURVEY

### 2.1. Federalism and Social Welfare Policy

“Political institutions do matter, but in interaction with other factors ... Governments there [in power fragmented systems] ... are encouraged to adopt negotiated solutions to welfare problems characterized by the inclusion of quid pro quos targeted on key actors. The result is that the political risks are reduced, but at the same time their control over the content of reform is limited ...” (Bonoli in Pierson 2000: 264).

As witnessed above, there seems to be a conventional agreement that constitutional decentralization inevitably leads to lower levels of social provision because the federal

government under conditions of multi-level governance tends to opt for a more restrained role in social policy expansion. The theoretical arguments linking decentralization with conservative social provision are: 1) competition among jurisdictions contributes to constraints on social programs mainly because generous social programs act as “welfare magnets” and deter prospective enterprises and laborers, 2) vested business interests in provinces, the ideological/policy orientation of provincial political elites, and/or provincial political cultures drive provincial governments to be less progressive than the federal government, or 3) more veto players make it easier to effectively block the actions of others such that social policy expansion is slower (Hicks and Swank 1992: 658-674; Bonoli 2001: 245-247; Swank 2001: 210-212; Rothstein and Steinmo 2002: 6-15; Korpi 2003).

Whatever the logical explanation may be, the final outcome is seemingly identical: federalism leads to conservative social provision.

However, there seems to be a caution against such a sweeping conclusion and its indiscreet application. Particular policy areas at particular times often indicate that decentralization does not necessarily tend towards less progressive social policy and that the federal government, at times, exerts its ever enlarging influence on social policy, even to the point of provoking provincial retribution for the federal encroachment. If federalism generates lower levels of social provision in a mature democracy, such a dynamic may operate quite differently in a democratizing country.<sup>2</sup> Even in a mature democracy, federalism may precipitate more progressive social policy at the incipient phase of particular programs, but such tendencies dissipate as the programs mature. Moreover, different dynamics between federalism and social welfare policy operate, depending on the historical context. Therefore, it is indispensable to recognize that “earlier events matter ... hence different sequences may produce different outcomes ... history matters” (Pierson 2000: 253).

## 2.2. Federalism and Labor Market Policy

A similar argument-counterargument can be made with the relationship between federalism and labor market policy, especially in conjunction with more exposure to global market. Nevertheless, it is equally noteworthy that such a modest commitment to labor market policy — as well as social welfare policy — is arguably an outcome of reinforcement by political institutions, federalism to note foremost. For example, both federal and provincial governments may be heavily involved in social policy, which can result in duplication, complexity, and/or waste (Haddow 2003: 244-245; Boychuck 2003: 270-272).

If multiple levels of government contest over jurisdiction of social policy, often largely out of political purpose, both employers and employees are reluctant to invest in specific skills (Estevez-Abe et al. 2001: 150-153).<sup>3</sup> Especially in tight labor markets, employers

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<sup>2</sup> As I will examine in details later in case of Canada, federal cost-sharing initially led to a higher level in social provision because provinces could afford more than their fiscal capacity allowed. Yet federal intervention did not necessarily ensure a continuously generous social policy. As provincial resentment of federal encroachment grew intense, the federal government’s claim on pan-Canadian comparability lost its glamour and the demand to enhance regional/local communities reinforced the needs to strengthen regional/local identities.

<sup>3</sup> Citing Aoki, Estevez-Abe et al. argue that firm-specific skills, since they are worthless outside that specific firm, necessitate a high level of employment protection, or institutionalized employment security. Contrarily, industry-specific skills, as workers can move between companies within the

prefer a uniform, national social insurance system to competitive social benefits such that costs and risks are shared through a universalistic social insurance (Iversen 2005: 6-11).<sup>4</sup> Given that a comprehensive and coordinated approach to skill formation is difficult to attain in division of powers, a federal government may strive to simplify the delivery of the relevant programs by reducing contradictory and overlapping policy objectives (Lightman and Riches 2000: 45-63). Moreover, a federal government may be tempted to broaden its claim on education, which is formerly assigned to subnational jurisdiction, in expectation of improving the national economic performance in a global market.

However, such an effort on the part of the federal government often faces a stiff and severe scrutiny on several grounds. First, federal-subnational governmental relations are often laden with a legacy of intergovernmental rivalry, if not hostility, and inefficiency, largely reflecting historical and/or societal complexities. Second, related to the first point, both levels of government are involved in specific social policy largely because a respective order of government has a legitimate interest in the concerned policy field, which makes it virtually impossible to give up. Third, any unilateral attempt to streamline specific social policy-making and/or its administration typically runs short of accomplishing the goal, often due to the ambivalence in federal government's aim. Fourth, related to the third point, when both orders of government remain actively involved in the concerned policy field and there exists a very limited coordination between them for various reasons, each level of government tends to insist on its legitimate role through subsequent unilateral changes in other areas as well.

### 2.3. Federalism and Employment-Welfare Relationship

Estevez-Abe et al. (2001) present an indirect measure of social protection on the basis of the composite indices in various countries, both federal and unitary.<sup>5</sup> By using those figures, I constructed Figure 1 that juxtaposes employment and unemployment protection in 7 federal states.<sup>6</sup> Figure 1 confirms that countries do group into different categories, roughly corresponding to Esping-Andersen's 'three worlds of welfare capitalism' even among

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industry, require wage protection, or an institutional mechanism to protect wages, especially skilled wages from market fluctuations. For more details on company-specific skills and employment protection, refer to Osterman (1987 46-67), Schettkat (1993: 153-170).

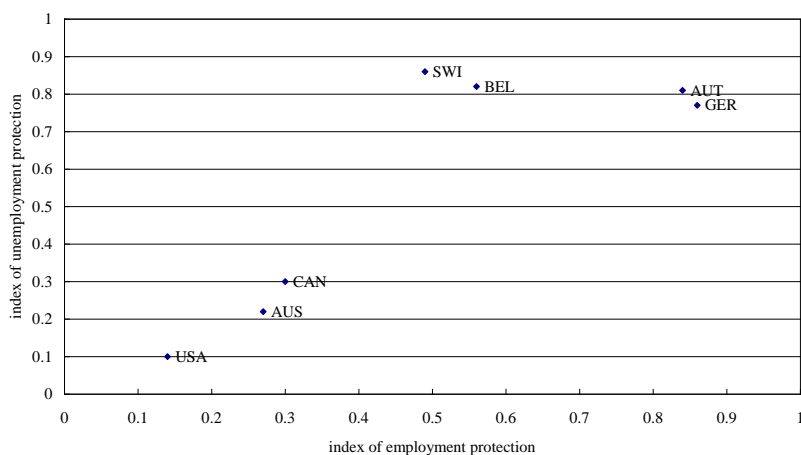
<sup>4</sup> As opposed to the 'power resources model of the welfare state' that hypothesizes the welfare state imposing on an unwilling business and equates welfare capitalism with de commodification, an alternative approach to the welfare state proposes that enterprises, when exposed to risks, favor a progressive social protection, which essentially encourages the acquisition of skills, thus enhancing the competitiveness of the firms in international markets. For more details, refer to Swenson (2002), Mares (2003).

<sup>5</sup> Measures pertaining to employment protection include employment protection legislation (EPL), collective dismissals protection, and company-based protection. Meanwhile, measures pertaining to unemployment protection include net unemployment replacement rates, generosity of unemployment benefits, and definition of 'suitable' jobs in the administration of unemployment benefits to the unemployed. For specifics on each measure and its limitation, refer to Estevez-Abe et al (2001: 168, Table 4.1 and Table 4.2, p. 165).

<sup>6</sup> 7 federal states are Australia (AUS), Austria (AUT), Belgium (BEL), Canada (Canada), Germany (GER), Switzerland (SWI), and USA.

federal states (Esping-Andersen 1990).<sup>7</sup> Based on this social protection scheme, Estevez-Abe et al. predict skill profiles and propose a ‘welfare production regime’ as a critical institution linking the welfare state and the production regime. Iversen (2005) furthers this argument by augmenting “a politics *of* markets” that is supposed to model how social protection affects the operation of markets.<sup>8</sup>

**Figure 1.** Employment-Unemployment Protection in 7 Federal States



Conventional reinterpretation of the welfare state is confined to explaining the observed complementarity between social welfare policy and labor market policy, which tends to repeat and even strengthen its pattern because rational employers and employees support policies that ensure reasonably sufficient returns and steer government towards their preferred path. In this paper, I propose that historical experiences intertwined with institutionalized inter-governmentalism make difference in conditioning the relationship between social welfare policy and labor market policy. Even if a determined government sets out to transfigure social welfare policy to boost product market, which both employers and employees support, the extant complementarity between the welfare state and production regime remains intact despite purposive efforts to transform it, primarily because institutionalized experiences of intergovernmental relations obstruct such transformation endeavors. In other words, social welfare policy and labor market policy are likely to maintain their complementarity even when employers, employees, and government strive to steer clear from it, precisely because they often can hardly stay clear from the institutional

<sup>7</sup> Arts and Gelissen (2002: 145-146) argue that there is an additional category, labeled “the Antipodes,” to which Australia and New Zealand belong because of their higher and more inclusive level of social protection. However, Figure 1 fails to exhibit this subtle difference, probably because the index of unemployment protection is in itself a composite measure.

<sup>8</sup> Iversen (2005: 8-9) claims that his approach to the welfare production regime “reconciles the controversy between the power resources perspective and the new employer-focused approaches, and it also links the study of the welfare state to recent work on the importance of democratic institutions for social policy.”

and historical contexts.

In the following section, I will illustrate my argument by delineating a seemingly contradictory legacy in Canada of integrating labor market policy and social welfare policy into youth employment policy. For that purpose, I will link research on the relationship between federalism and welfare, on the one hand, with works on the relationship between welfare and capitalism, on the other hand, by building on Iversen (2005) who argues that social protection can improve or undermine the operation of markets. The key puzzle, then, lies in specifying under which conditions state may complement or hinder market. In this paper, I focus on the historical contexts behind Canada's youth employment policy to scrutinize how federalism has exerted its influence on the relationship between social welfare policy and labor market policy, and why the final outcome is as it is — or if there is any other way to go around. In doing so, I hope to make a meager contribution to the study of federalism and welfare capitalism, and eventually to build a systematic model to account for the variation in the extent to which federalism affects the employment-welfare relationship in future study.

### 3. INTEGRATING SOCIAL WELFARE POLICY AND ACTIVE LABOR MARKET POLICY INTO YOUTH EMPLOYMENT POLICY IN CANADA

#### 3.1. Intergovernmental Jurisdiction over Social Policy in Canada

Canada's constitution codifies that provinces have sole responsibility for education, thus a federal department of education is lacking in Canada.<sup>9</sup> Training, in contrast, is not specifically assigned to any particular level of government. Because education and training are basically investments in human resources development, provincial governments have been deeply involved in its provision. On the part of the federal government, training and the labor market are presumed to be closely connected and the constitution stipulates that the federal government should be in charge of macroeconomic policy, thus justifying its claim on active labor market policy, training in particular and education in general.<sup>10</sup> A fundamental challenge to the political system practicing multi-level governance, then, is about designing and coordinating division of labor. Or is it?

Since the 1960s, the supply-side neo-liberal interpretation of unemployment has replaced the demand-side Keynesian interpretation and Canada was no exception. Accordingly, there have been distinctive demands for different labor market policies, which required different roles of the state, which, in turn, employed different instruments, shifting from dependency on state-provided social policies to the initiatives to promote the market operation. This remarkable shift, in fact, signifies a striking break with the past 30-year pattern in which the

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<sup>9</sup> Section 93. Moreover, section 92 authorizes provinces to be in charge of social assistance, which purports to achieve welfare-to-work. Federal government manages to intervene in an ostensibly provincial jurisdiction of social assistance based on its spending power and its jurisdiction in personal taxation.

<sup>10</sup> Especially since World War II, the federal government claimed its responsibility for the macro-economy. Through a national approach to active labor market policy, the federal government is argued to be better qualified to foster labor mobility and to correct inter-provincial discrepancies in labor market infrastructure (Haddow 2003: 245).

federal government even encroached on the provincial jurisdiction of responsibility in education, training, and social assistance.

Despite its keen interest in improving the human capital and promoting its competitiveness with foreign counterparts, the Canadian federal government appeared to commit fewer resources to labor market policy measures, both active (ALMP) and passive (PLMP).<sup>11</sup> Some even argued that Canada, being a market-oriented English-speaking nation, left technical skill formations entirely to the free market and instead invested in liberal arts university education — or more pertinent to ALMP, student loans and grants (Klassen 2001: 163).

Thus Canada belongs to a liberal trajectory in which it ranks low on the degree of decommodification (Estevez-Abe et al. 2001: 162-169; Goodin 2001: 20; Huber and Stephens 2001: 85-112; Art and Glissen 2002: 141).<sup>12</sup>

Canada's labor market policy indeed illuminates how and why conscientious efforts in social policy by the federal government only prolong a traditional welfare-production nexus. Labor market policy, despite its potential for the much coveted social union in Canada while reducing a chronically high unemployment rate at the same time, often runs short of fulfilling its much anticipated role for various reasons, both accountable from the demand- and supply-side perspectives.<sup>13</sup> Additionally, Canada has relied on immigration to address skills shortages in the labor force, thus investing insufficiently in training.<sup>14</sup>

What is noteworthy in Canada is that government, business, and labor shunned on-the-job training and relied on institutional training for different reasons. There was little incentive for the private sector to pay for on-the-job training because "it does not pay." First, both business and labor organizations are highly decentralized and fragmented such that no

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<sup>11</sup> In Canada, passive labor market policy (PLMP) measures include Employment Insurance (EI) and social assistance, which are basically income support during unemployment. Active labor market policy (ALMP) measures are institutional training in community colleges, apprenticeship/on-the-job training, job creation either by direct employment or through incentives to employers, counseling to prospective job seekers, and data collection and its dissemination, thus helping individuals to enter/re-enter the workforce and/or increase their earning capacity.

<sup>12</sup> The degree of decommodification refers to the degree to which social provision is deemed to be a matter of right, thus a degree to which an individual is capable of livelihood without market reliance. The second dimension signifies the kind of social stratification and its ramification on solidarities.

<sup>13</sup> Since the 1960s, the unemployment rate in Canada at 7.4 percent has been significantly higher than the average in other OECD countries at 5.2 percent and remained persistently higher (OECD. *Historical Statistics*, 1960-1994). Then in 1994, the Labour Market Development Agreement (LMDA) finally emerged both to improve the individual access to employment and enhance the operation of labor market. Nevertheless, even among the so-called 'liberal' welfare production regime, Canada's unemployment rate at 7.6 percent (8.0 for men and 7.2 for women) stands higher than the US' 6.0 percent (6.3 for men and 5.7 for women) or Australia's 5.7 percent (5.6 for men and 5.8 for women) in 2003 (Canadian Statistics: Labour force characteristics by age and sex, Canada and selected countries <http://www.statcan.ca/10I01/cst01/labor23a.htm>)

<sup>14</sup> Active labor market policies consist of information provision, job training, and subsidized/created employment. Canadian ALMP was riddled with insufficient investment for various reasons as described above (Klassen 2000: 161). Consequently, even after the LMDA was adopted, Canada ranked at the lower bottom in expenditures on labor market measures, both active and passive (OECD. 1998. *Employment Outlook*).

single umbrella organization represents all members, not to mention pursuing a uniform ALMP objective.<sup>15</sup> A large majority of workers are not unionized,<sup>16</sup> except for public sector unions.<sup>17</sup> Second, since labor law is under provincial jurisdiction, organized labor has largely focused on provincial politics and ignored the federal government's initiatives in ALMP.

Additionally since 1960, the leftist control of government — namely the Liberal party — lasting from 1963 through 1978 (Lester Pearson 1963,1965; Pierre Trudeau 1968, 1972, 1974), from 1980 through 1984 (Pierre Trudeau 1980; John Turner 1984), and from 1993 through 2005 (Jean Chrétien 1993, 1997, 2000; Paul Martin 2004) has not been particularly associated with the accentuated expansion in training.<sup>18</sup> Although the federal government's funds in training increased, such increases often occurred under the Conservative rule. Furthermore, even though the federal government claimed its commitment to inter-provincial equity in training provision and expanded its involvement, its grip over provincial discretion on fund distribution often slipped away, regardless of partisanship.

Interestingly, the federal involvement in training expenditures became extensive in 1960 only when the Technical and Vocational Training Assistance Act (TVTAA) was legislated under the Conservative watch. Even though the federal government funded half or more of the provincial training programs through the TVTAA, training programs in more affluent provinces expanded rapidly while those in less affluent provinces remained unaffected. Thus in 1966 under the Liberal watch, the federal government replaced the TVTAA with the Adult Occupational Training Act (AOTA), which covered practically all training costs as the federal government purchased courses relevant to training. Despite the Pearson cabinet's effort to use the federal employment service offices in selecting candidates and identifying sites for training, provincial governments successfully wrestled to ascertain that most of training funded by the AOTA took place in their own community colleges through intergovernmental negotiations. This provincial inclination clearly did not meet the federal government's specific demands for training to meet skill shortages. Yet it took nearly two decades until a new legislation, the National Training Act (NTA), replaced the AOTA under the Liberal watch in 1982.<sup>19</sup>

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<sup>15</sup> The Canadian Labour Congress and several provincial labour federations, in particular in Quebec and Newfoundland although trade unionism and labor movements were curtailed, do exert significant political influence (Robinson, Ian 2003: 220-221).

<sup>16</sup> On average, union densities have steadily declined since the 1980s and currently run around 30 percent of total labor participation population (Statistics Canada, 2005, *Historical Labour Force Statistics*).

<sup>17</sup> They opposed on-the-job training because vocational training would replace institutional training, which threatened the employment of their union members, mostly teachers and instructors at community colleges (Klassen 2000: 160).

<sup>18</sup> Since 1960, Conservatives came to power in 1962 (John Diefenbaker), 1979 (Joe Clark), 1984 (Brian Mulroney), 1988 (Brian Mulroney), 1993 (Kim Campbell), and 2006 (Stephen Harper).

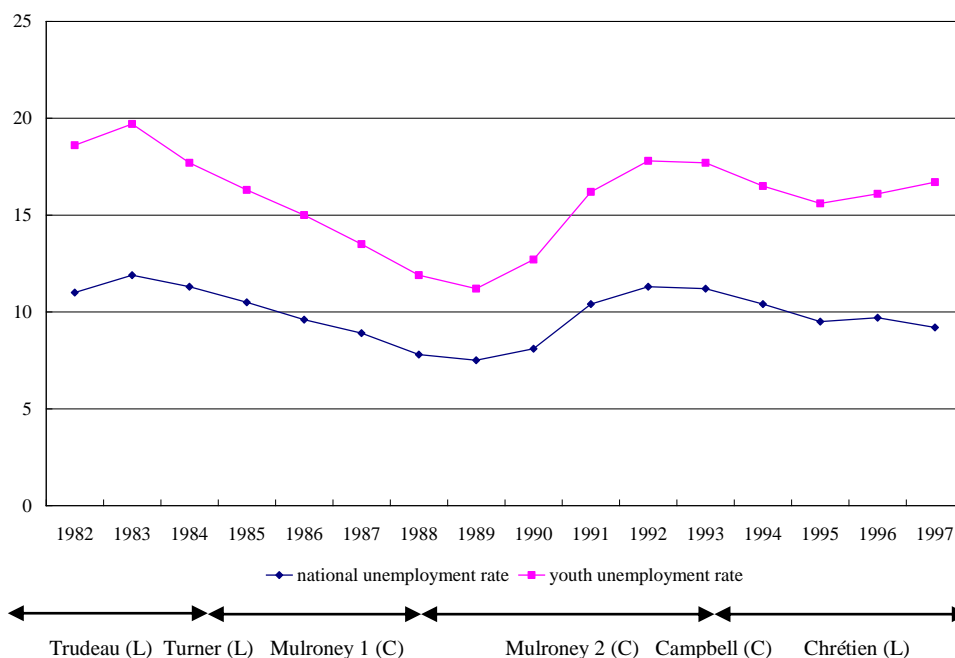
<sup>19</sup> Despite a series of legislative efforts to reassert federal control by creating a Skills Growth Fund and expanding funds for on-the-job training to the private sector, provincial governments managed to attenuate federal 'encroachment' upon their jurisdiction at the federal expense. For more details, refer to Noel (2000).



### 3.2. Integrating Social Welfare Policy with Active Labor Market Policy Targeting Youth: 1982-1997

Figure 2 compares national unemployment rate with youth employment rate since 1982 through 1997. This 15-year trend carries different political implications by specific period, so I will divide it into three portions: 1982-1989, 1990-1992, and 1993-1997.

**Figure 2.** National Unemployment and Youth Unemployment Rate, 1982-1997



Source: Statistics Canada (1998)

First, between 1982 when the NTA replaced the AOTA and 1989 when another policy reform — the Labour Force Development Strategy (LFDS) — was launched, both national and youth unemployment rate steadily declined, with the latter at a steeper rate than the former. Second, this trend reversed, however, since 1990 onward and both unemployment rates increased, with the youth unemployment rate arising much more rapidly, during the second Mulroney administration. Third, in 1993 general election, the Liberal Party consequently reclaimed its throne and promised a national program for apprenticeship, an employment initiative for youth, and an effort to increase workplace training. Nevertheless, this so-called “Red Book” did not survive long because of the fiscal graveness and Quebec’s insistence upon the provision of employment services.<sup>20</sup> Accordingly, the federal

<sup>20</sup> During the 1993 general election, the federal Liberal Party’s platform was referred to as the “Red Book,” which enlisted ALMP as one of its most focused policy area. For more specifics, refer to Liberal Party of Canada (1993: 33-37).

government transferred responsibilities for training purchases to provinces, while retaining employment services provision and labor market information dissemination through the restructured Human Resources Development Canada (HRDC).<sup>21</sup> Furthermore, the federal government reduced the renamed Employment Insurance (EI) benefits and overhauled the job creation and training measures funded by the EI in anticipation of transforming the federal-provincial distribution of responsibilities.<sup>22</sup> The Chrétien administration eventually witnessed a decline in both rates, although there were sporadic increases in youth unemployment rate in 1997 and 1998.

### *3.2.1. The First Mulroney Administration: Depriving Provincial Involvement in ALMP*

When the Conservatives returned to power in 1984 after a brief stint by the Liberals, the Mulroney administration was determined to curtail federal involvement in the labor market, reducing its role in direct job creation and training purchases,<sup>23</sup> but retaining employment services through the Canada Employment Centres, and the collection, analysis and distribution of labor market information and research. Unlike its predecessors, the newly adopted Canadian Jobs Strategy (CJS) targeted “at risk” individuals who had little labor market prospects, which meant that provincial involvement in the “indirect” part of job creation and training spending was halved.<sup>24</sup> By redirecting the money from community colleges to private-sector actors, however, the federal government alienated provincial governments in the ALMP field, which was further manifested by the Labour Force Development Strategy (LFDS) to assist workers displaced by the Free Trade Agreement in readjusting to the labor market. Thus, a steady decline in unemployment rate was arguably achieved at the cost of intergovernmental relations.

### *3.2.2. The Second Mulroney Administration: Aggravating Provincial Distrust of Federal Initiatives*

What is noteworthy about the Labour Force Development Strategy (LFDS) in comparison with the Canadian Jobs Strategy (CJS), in particular, is that 1) the federal government increasingly derived funds for training and job creation from the Unemployment

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<sup>21</sup> The Canada Employment Centres (CEC) were not only renamed but also reduced in their number to save maintenance costs.

<sup>22</sup> When the Unemployment Insurance (UI) was renamed the Employment Insurance (EI), the job creation and training measures funded from the EI budget were regrouped into 1) targeted wage subsidies to employers, 2) self-employment assistance to individuals, 3) job-creation partnerships to community organizations, 4) skills development/skills loans and grants to individuals, and 5) targeted earnings supplements to the EI claimants with low-wage jobs. Of these 5 components, 4)skills loans and grants were related to training, while the other 4 were related to job creation.

<sup>23</sup> The Mulroney administration launched the Canadian Jobs Strategy (CJS), which integrated job creation with federal training purchases. Through its emphasis on market-relevant spending on training, the Mulroney administration managed to reduce overall federal spending (Haddow 2003: 248).

<sup>24</sup> Provincial government retained its influence over “direct” spending on job creation and training such that they kept pouring funds to community colleges. In the meantime, the federal government, in charge of the “indirect” spending, signed contracts with individual firms, private-sector trainers, or private-sector groups and even delegated some decision-making responsibilities to private-sector committees. The CJS, like its predecessors, was funded from the federal Consolidated Revenue Fund.

Insurance (UI), and that 2) the beneficiaries of this federal money had been employed until recently, thus qualitatively different from the “at risk” individuals targeted by the CJS. Such shifts in federal emphasis forced provincial governments to redirect their attention away from their “at risk” clients to the federal clients who would otherwise return to the labor market anyway. Because the expanding UI funds were “indirect” spending, provincial governments had little influence over their expenditure, which was further aggravated by the declining share of “direct” spending on provincial community colleges. Furthermore, 3) the creation of the Canadian Labour Force Development Board (CLFDB), included in the LFDS, imposed a corporatist decision-making in ALMP upon provincial governments.<sup>25</sup> Given that jurisdiction over ALMP is divided between different levels of government, however, a multi-layered board of training funded by the federal government provoked provincial suspicion that the federal government was trying to intervene in provincial ALMP decision-making. Combined with the shift in the source and target of federal training spending, the newly proposed national training board of a three-tier system was the last blow to provincial governments.<sup>26</sup> The federal unilateralism in pursuing market-oriented ALMP not only failed to reduce unemployment rate but also aggravated provincial distrust of the federal initiatives in ALMP.

### 3.2.3. *The Chrétien Administration: ‘Devolution Revolution’ à la Canada Gone Awry*

By 1992, unemployment rate climbed up to the 1984 level and the federal-provincial relations turned from worse to worst. Irritated by unilateral federalism, many provinces, especially Quebec, argued for a transfer of responsibility in ALMP, contesting that the federal control over labor market policy deterred an adequate integration due to the close link between social and economic development. However, the Charlottetown Accord on constitutional reform regarding jurisdiction over labor market adjustment policy got defeated in a national referendum and a provisional agreement on program transfer responsibilities to provinces was nullified when the Liberals swept the 1993 general election.<sup>27</sup> However, the Chrétien administration soon discovered that they, too, were faced with the same demand for the withdrawal of the federal government from “training,” one of the main components in ALMP. The Quebec referendum on sovereignty in 1995 exacerbated the urgency to transform the social welfare policy and labor market policy regime.

By the 1990s, the conventional demand-driven policy to reduce unemployment, i.e. the traditional Keynesian approach to labor market dominant since the 1970s, became obsolete such that the federal involvement in job creation was curtailed.<sup>28</sup> Witnessing that such an

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<sup>25</sup> Convinced that the corporatist forms of policy-making in which business and labor representatives were brought together produced a greater commitment to training as seen in several European countries, the second Mulroney administration launched a national training board, consisting of business, labor and other non-governmental representatives in 1991.

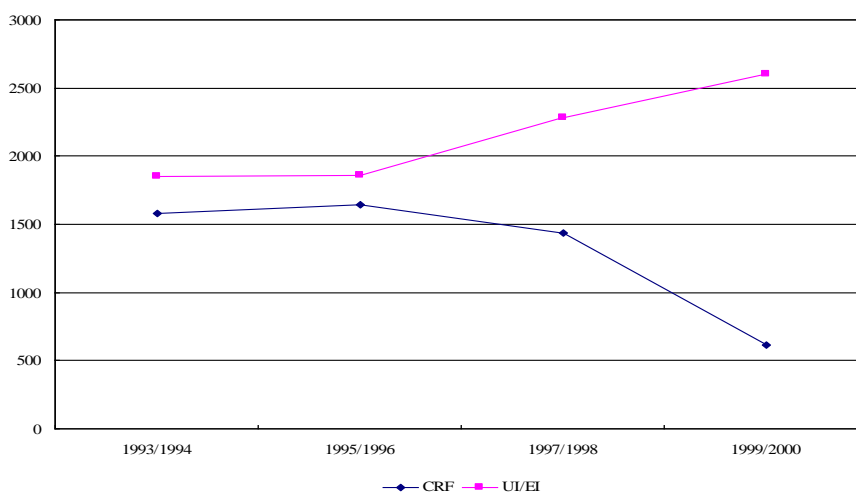
<sup>26</sup> Eventually, the CLFDB was terminated in 1999. For more details, refer to Sharpe and Haddow, eds., (1997).

<sup>27</sup> By reaching a provisional agreement rather than a constitutional codification, the federal government ensured that responsibilities of labor market policy would be transferred to provinces on a de facto manner.

<sup>28</sup> The labor market policy in Canada evolved through 4 periods of regime changes: 1) limited federal actions until the mid-1960s, 2) increased federal intervention through the late 1980s, 3) a corporatist attempt to create a national training board through the mid-1990s, and 4) a neo-liberal approach to

approach to unemployment fails to resolve an epidemic, the federal government instead stressed training as an economic issue to be addressed nationwide. However, the federal government's unilateral actions in the 1980s spurred provincial governments to demand for a complete transfer of all active labor market programs, including training. Additionally, the federal government became increasingly committed to smaller government so that provincial governments found it easier to argue for devolution in ALMP.

**Figure 3.** Federal ALMP Expenditures (million \$), 1993-2000



Source: Klassen (2001: 171, Table 3)

Alongside reforms in labor market policy but independent of them, social welfare policy underwent its share of reform, including funds for ALMP to be transferred to provinces. Yet all these devolution measures were conceived by the Finance Department whose primary motive was to reduce federal government expenditure rather than to enhance the employability of individuals, as evidenced from a declining total ALMP expenditures in Figure 3.<sup>29</sup> Furthermore, Figure 3 shows that funds for ALMP decreasingly came from CRF and increasingly from UI/EI, in which most of expenditures were paid to individuals engaged in training or for purchasing training rather than for work-sharing, job creation, etc. Given that UI/EI funds could not serve CRF clients and CRF funds declined over the years, provincial government felt constrained in providing social assistance to those unemployable

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labor market through devolution. Under the market-oriented paradigm, active labor market policy aimed to make labor market function like commodity market so that it is imperative to strip away work disincentives such as collective bargaining or unemployment benefits. Accordingly, the current ALMP strives to integrate social welfare policy with labor market policy by investing in skills development/investment in human capital for higher wages, on the one hand, and encouraging low-wage employment to relieve labor shortage on the other.

<sup>29</sup> In terms of constant price, total ALMP expenditures were stagnant between 1993 and 1998, but dropped thereafter. Interestingly, the amount earmarked for educational grants and loans steadily increased (Klassen 2000: 171, Table 3; Haddow 2003: 261, Table 9.1).

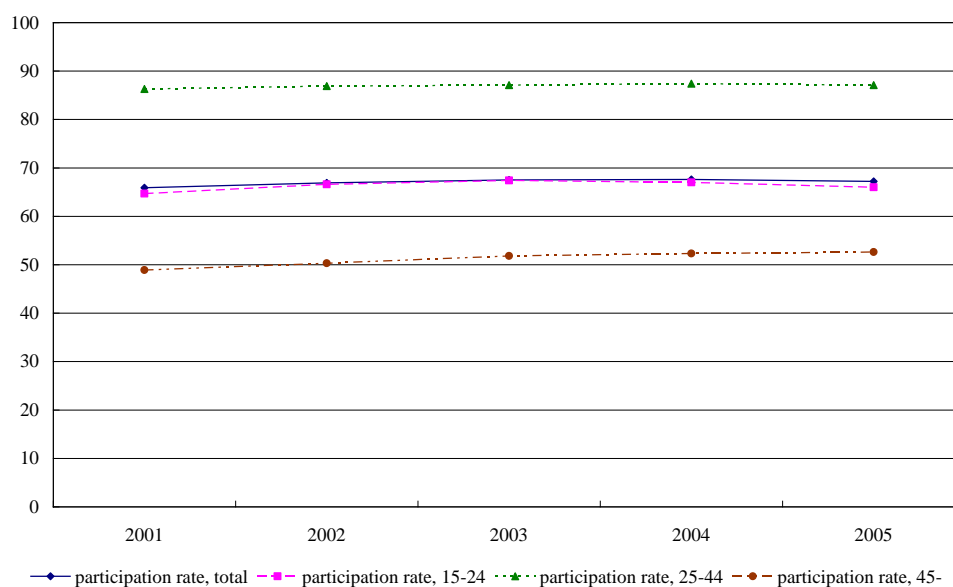
such as persons with disabilities, single parents with young children, or older workers. Consequently, provincial governments shifted their emphasis to the programs for youth.

### 3.3. Youth Employment Policy in the Post-Chrétien Canada: Federal-Provincial Rift over Youth

Since the 1990s, many provinces have been attempting to integrate labor market policy and education policy with social welfare policy in accordance with the neo-liberal paradigm. Regarding social welfare policy, there has been a drastic shift to a “welfare-to-work” approach to the unemployable whose benefits would be reduced if they fail to return to the labor market with active labor market measures. Moreover, social welfare policy focused more state support on individuals “most in need but least responsible for their condition,” i.e. youth.<sup>30</sup> Accordingly, education policy shifted toward providing skills that enable youth to make a smooth transition from school to work.

Especially since the recession in the 1990s, youth participation rate in the labor market fell below the national average. Especially because the percentage of youth in total population actually decreased, this declining youth employment rate does not result from a demographic change (McBride and Stoyko in McIntosh 2001: 212). Furthermore, of the young people working, young full-time workers are shrinking. All these findings indicate

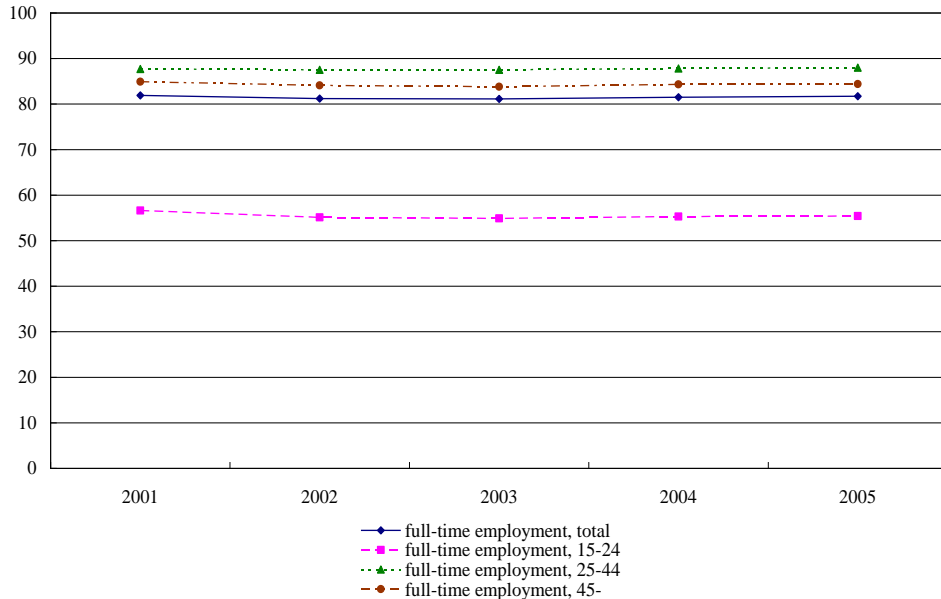
**Figure 4.** Labor Force and Participation Rates by Age Group, 2001-2005



Source: <http://www40.statcan.ca/I01/cst01/labor05.htm> (Statistics Canada. CANSIM. Table 282-0002)

<sup>30</sup> According to this rationale, people in their prime age of work are considered to be responsible for their unemployment so that social assistance should be limited and contingent on their ability to return to work in a reasonable time. Contrarily, helping poor children/youth was deemed desirable even though attacking the assistance to poor adults or families to whom those poor children/youth belonged was politically popular.

**Figure 5.** Full-time Employment as a Percentage of Total Employment by Age Group, 2001-2005



Source: <http://www40.statcan.ca/I01/cst01/labor12.htm> (Statistics Canada. CANSIM. Table 282-0002)

that young people are faced with the labor market that is not accommodating to their urgent needs. Therefore, even after the economy recovers and more jobs are offered to the youth, many young people are still working part-time involuntarily despite their willingness to work full-time as seen in Figure 4 and 5.

It is a common sense that the young people have to deal with unique challenges when looking for a job, especially in the depressed labor market. It is also widely known that politicians and policymakers neither target all segments of youth nor contemplate all approaches to youth employment policy. Recently a specific type of policy in accordance with a neo-liberal framework has become dominant, even though its record shows a rather disappointing outcome.<sup>31</sup> It is intriguing, then, that the young people and graduating students only recently became the primary target of labor market policy, both at the federal and provincial levels. Yet precisely because youth employment policy was formulated for complex reasons, it has often been operated at cross-purposes in Canada.

Estevez-Abe et al. (2001) claim that vocational training is weak in liberal countries, including Canada, which can be suggested by the shorter length of enterprise tenure and the more restrictive unemployment benefits. Iversen (2005) argues that certain “politics of markets” ensures that social protection does not hinder the operation of markets while other kinds get in the way and aggravate the welfare-production trade-off even more. Youth

<sup>31</sup> As seen in Figure 5, the gap in full-time employment rate between the national average and the youth population remained unchanged. Moreover, full-time employment rate among the young people actually decreased during the past 5 years.

employment policy — and labor market policy in a broader sense — in Canada illustrates that purposive “politics of markets” indeed ensures to prolong the aforementioned liberal welfare production regime. An intriguing puzzle in Canada, then, is that such a tendency remains intact even after a particular order of government was determined to transform the existing liberal regime by restructuring social welfare policy and labor market policy.

Indeed, youth employment policy in the context of labor market policy shows that neither the demand-side nor the supply-side perspective fully accounts for the welfare-production regime formation in Canada. To explain the complete mechanism in the observed nexus, I concur with Iversen that a political institution and its historical path need to be investigated. Intergovernmental relations in Canada are uniquely complex and contentious issues.<sup>32</sup> Combined with complexities involving youth and employment policy, it is not difficult to imagine that boundary problems are abundantly found in this particular field of labor market policy. For instance, Table 1 illuminates how complicated it is just to define the category of youth in consensus among all provinces, and between the federal and provincial governments.

**Table 1.** Minimum and Maximum Ages of Youth by Jurisdiction, 1998

Prov	10	15	20	25	30	35
NS		17-----		24		
MB		15-----		24		
SK		17-----		25		
AL		15-----		24		
NB		15-----		24		
NF		16-----		27		
PE		16-----			30	
ON		15-----		25-----	30*	
BC		15-----			30	
QC		16-----			30-----	36*
CAN			16-----			31

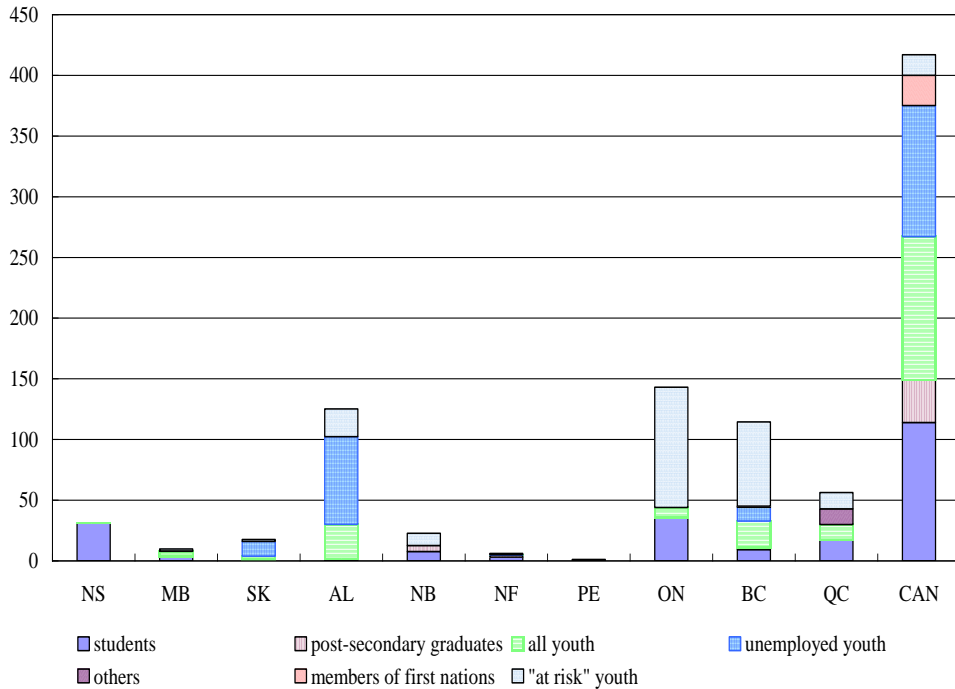
\* Special maximums for entrepreneurial program (in Quebec, “young farmers”)

Source: McBride (2001: 218, Figure 4)

More substantively, the young people can be divided into at least 4 different groups: 1) disadvantaged/marginalized youth (ex. members of Aboriginal communities, youth with disabilities), 2) “at risk”/ “vulnerable” youth (ex. high-school dropouts, absentee students), 3) “young achievers”/ “advanced youth” (ex. young people with high-level aptitudes or above-average career prospects), and 4) “young offenders” (ex. young people who committed crimes). Corresponding to its specific needs to prioritize certain groups of youth, government spending on youth employment programs also differs significantly among provinces, and between the federal and provincial level, depending on the target group as seen in Figure 6.

<sup>32</sup> Gagnon and Erk (2002:328) contend that “in multinational societies with deep divisions some ambiguity is necessary for the smooth functioning of the system [since] there are core differences about the nature of the political community and no solution to the debate as to whether Canada is a community of 10 provinces or two nations.”

**Figure 6.** Spending on Youth Employment Programs by Jurisdiction and Target Group, 1998.



1. SK and AL include general programs applicable to youth.
2. The category of “others” refers to young people who did not complete post-secondary education in NF, and young farmers in QC.

Source: *Inventory of Canada's Youth Employment Programs and Services* (Rev. NN. 1998); quoted by McBride and Stoyko (2001: 231, Table 6)

Moreover, the nature of school-to-work transitions has changed so that the traditional sequence from secondary education, to post-secondary education, and eventually to full-time employment is no longer a standard norm. As full-time employment is increasingly absent for many young people, they go through various transition paths. Additionally, even during their participation in the labor market, they are increasingly pressured into upgrading their skills on a regular basis so as to reduce their vulnerability to market volatility. All these recent changes resulted in longer transitions and more diverse — and often repetitive — transition paths such that a clean break from school to work has become ever more difficult. To attenuate such difficulties, it was agreed among different levels of government to provide three categories of youth policies: 1) (re)employment services (recruiting, counseling, collecting and distributing information), 2) direct employment creation (public sector employment, employment subsidies to employers, self-employment support), and 3) work experience programs (internship, mentorship, work study, work exposure, volunteer).<sup>33</sup> Depending on the types of programs that each jurisdiction is inclined to offer, however, the

<sup>33</sup> For more details, refer to McBride and Stoyko (2001: 220, Table 3).



organization of the youth policy differs greatly among provinces, and between the federal and provincial level.<sup>34</sup>

As a result, there is considerable unevenness in the types and targets of youth programs. Additionally, less affluent provinces tend to offer fewer programs than more affluent provinces do. Besides, there is very little coordination among provinces such that there is no standard for comparability even in collecting and distributing information pertinent to employment. But most of all, most of youth programs are heavily concentrated on low-cost initiatives. All these problems point to the plain fact that some measures of inter-jurisdictional equalization and inter-level promulgation of responsibilities, both functional and financial, are necessary to assure the provision of programs at the similarly sufficient level.

Nevertheless, the current state of federal-provincial relations in the field of youth employment policy is not only extremely complex, but also in transition and often bitterly contentious. Basically, intergovernmentalism in youth employment policy consist of three distinct and often separate tracks: 1) bilateral cooperation/consultation (ex. the Canada-New Brunswick Federal/Provincial Youth Services Partnership Initiative), 2) a pan-Canadian strategy (ex. the Forum of Labour Market Ministers, the Federal/Provincial/Territorial Partnership on Youth Employment), and 3) social union negotiations/procedural guidelines in establishing new programs (ex. A Framework to Improve the Social Union for Canadians). When both bilateral and multilateral components are juxtaposed as in the case of youth employment policy, there is a risk of unilateralism proclaimed by disgruntled provinces and/or the irate Ottawa.

The problem is that any solution to the current entanglement is double-edged. If the federal government is excessively intent on reducing fiscal deficit and cutting down transfers to the provinces, provinces tend to argue for more control over policy. At the same time, as the provincial governments also strive to reduce deficits by discriminating against out-of-jurisdiction clients, the federal government is compelled to exercise unilateral control over national standards more coercively and frequently. Accordingly, youth policy is in a constant fluctuation even if the federal government devolves its policy claim — or more precisely, a small fraction of it — to assuage provincial grievances. In fact, any form of devolution without a minutely articulated division of labor across different levels of governments only intensifies “turf wars” and invites “accountability vacuums.”<sup>35</sup>

#### 4. CONCLUSION

Starting from 1996, the federal government agreed to devolve its responsibilities in labor market policy through the Labour Market Development Agreements (LMDA). Along with funds, the federal government also agreed to transfer personnel to the provinces. Many provinces opted for a complete devolution while others contemplated less than full-scale devolution, namely co-management and strategic partnership, as seen in Table 2.

However, the federal government refused to devolve its role in youth employment programs as well as programs for members of First Nations and the disabled, mainly for

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<sup>34</sup> For specifics on youth employment “flagship initiatives” and the lead department in charge, refer to McBride and Stoyko (2001: 227, Table 4). For specifics on general categories of youth program by jurisdiction, refer to McBride and Stoyko (2001: 229, Table 5).

<sup>35</sup> Thus Haddow (2003: 262) concludes that federal-provincial relations remain “messy as always!”

political reasons to retain some visibility as a national government in the arguably important

**Table 2.** LMDA Chronology and Type of Agreement, 2006

Province	Date of agreement	Date of implementation	Type of agreement
NS	4-24-1997	4-24-1997	Strategic partnership
MB	4-17-1997	11-27-1998	Full transfer
SK	2-6-1998	1-1-1999	Full transfer
AL	12-6-1996	11-1-1997	Full transfer
NB	12-13-1996	10-1-1997	Full transfer
NF	3-24-1997	3-24-1997	Co-management
PE	4-26-1997	4-26-1997	Co-management
ON	11-23-2005	1-1-2007	Full transfer
BC*	4-25-1997	4-25-1997	Co-management
QC	4-21-1997	4-1-1998	Full transfer

\*Negotiations for a full transfer agreement failed to emerge in BC till now.

Source: <http://www11.hrdc-drhc.gc.ca/pls/edd/lmda.main> (Evaluation and Data Development. *Labour Market Development Agreement Series*)

field. Prompted by such political factors, especially when the governing party at the federal level differed from — thus even detests or resents — the opposition party controlling provincial governments, there was even less cooperation/coordination forged between two orders of governments.<sup>36</sup> Moreover, the federal government was keenly aware of public support for the federal involvement — and even to the brink of encroaching upon provincial turfs — in youth employment to enhance education opportunities as a shield against economic insecurity.

Yet youth employment policy — if it purported to resolve the recent problems associated with the labor market challenges to the young people — can be argued to transcend conventional division of labor between different levels of government. Precisely because the discrete jurisdictions were lacking, both federal and provincial governments were called upon to coordinate their initiatives. To allay the provincial antipathy, the federal government has made devolution offers, yet at the same time, it has reasserted its role. In the end, when provincial governments remained significantly active and the federal government exhibited the aforementioned discordant tendencies, there was very little prospect of coordination.

Federal-provincial relations in the ALMP area were characterized with complexities for many reasons. In this paper, I emphasized that the lack of intergovernmental coordination led to the inadequate ALMP policy because complexities in federalism intertwined with the Canadian history of building “one state, two nations.”<sup>37</sup> By examining the ALMP and youth employment policy, I addressed to the question of “How and why the welfare production regime in Canada is ‘liberal’.” The conventional explanations are that rational employers and

<sup>36</sup> For example, it took almost 10 years for the LMDA to be signed between the Ontario provincial government and the federal government.

<sup>37</sup> For details, refer to Douglas (1986: 149-171).

employees, to ensure their returns from investment in specific skills, support specific policies and steer the government towards the path to enhance their preferences. Yet such an account is incomplete in explaining how and why the existing complementarity between the welfare state and production regime remains more or less the same even if government is determined to transform the current welfare production regime by restructuring and reorganizing social welfare policy and labor market policy. I argue that it is so not because employers and employees successfully steer the government towards their preferred policy path, but because the ongoing institutionalized experiences of intergovernmental relations get in the way of such a transformation scheme. In the end, government is obliged to resume — or at least express its will to return to — the status quo, thus the existing liberal welfare production regime remains intact to strengthen the kind of skill formation selected by employers and employees alike.

In the future research, I intend to develop a systematic model that explains under which conditions government complements the operation of market under the condition of complex and interdependent federalism. This paper is a preliminary work to investigate several observed tendencies in Canada during the past 40 years. Building on the findings in this paper and Iversen's theoretical argument, I hope to formulate a comparative model of federalism and its effect on the employment-welfare relationship, thus contributing to the study of "capitalism, democracy, and welfare" in political systems committed to the formalized multi-level governance.

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