



# TRAINING POLICY FOR THE 21<sup>ST</sup> CENTURY

**Decentralization and Workforce Development Programs for  
Unemployed Working-Age Adults in Canada**

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APPLIED PUBLIC POLICY RESEARCH  
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# Executive Summary

Dramatic changes to the nature of employment over the past twenty-five years underscore the increasing importance of active labour market policy in Canada. There are mounting concerns that Canada lacks the adult training system to facilitate adjustment to 21<sup>st</sup> century economic realities because a large proportion of unemployed adult workers who are ineligible for Employment Insurance have not been able to access the training they need. This paper examines the evolution of how active labour market programs for unemployed adults in Canada are designed, funded, administered, and delivered with a particular focus on Ontario. It argues that the decentralization of active labour market policy under the Labour Market Development Agreements (LMDAs) and Labour Market Agreements (LMAs) that make adult training a *de facto* provincial responsibility and expand eligibility for training programs is a step in the right direction. Recent research on workforce development suggests that training and employment programs are most effective when delivered in a regionally sensitive way. This paper outlines three possible directions for reform of Canada's workforce development system: harmonize Employment Insurance and Social Assistance income support systems and make a single order of government responsible for its administration; permanently devolve policy responsibility and funding for training of all unemployed and low skilled workers to provincial governments under existing LMAs; and create a multi-level policy framework that integrates the local level for strategic policy, program delivery and planning purposes.

# Training Policy for the 21<sup>st</sup> Century

## Decentralization and Workforce Development Programs for Unemployed Working-Age Adults in Canada

Allison Bramwell

**T**he combined pressures of global economic competition, technological change, and de-industrialization have driven dramatic changes in the nature of employment over the past twenty-five years. Workers need to acquire and regularly update their skills in order to find and maintain employment while firms require a large pool of qualified human capital in order to remain competitive in new forms of industrial activity in an increasingly knowledge-based economy. While many workers have been able to navigate these recent structural economic changes, many others have not. Changes in the global economy have resulted in the permanent loss of many stable, high-wage jobs in sectors such as advanced manufacturing in many Western industrialized economies, and coupled with an increase in more precarious, non-standard forms of employment (Howell, 2005; Vroman and Brusentsev, 2005).<sup>1</sup> Concerns are mounting over rising inequality and income polarization and that those who find themselves on the margins of the labour market will fall further and further behind (Banting, 2006; Osberg, 2006, 2009). A large literature on workforce development has emerged in recent years that refers to the importance of upgrading the skills of workers “trapped in low-skilled, low-paying, often insecure jobs” as “a central labour market policy challenge for the 21<sup>st</sup> century” (Nativel, 2006: 34) and “a structural issue of critical importance for the well-being of our nations (Giguere, 2006: 26).

Because labour markets do not always operate as smoothly as many economic models would suggest, the role of public policy in workforce development has become particularly salient in recent years. Dealing with unemployment is one of the most urgent, complex, and enduring policy challenges for governments. Governments learned from the Great Depression that “too much poverty, inequality, economic insecurity, and lack of access by large parts of the population to basic needs... can cripple economic efficiency” (Howell, 2005: 8). Few policy areas straddle the divide between economic development and social welfare as neatly as workforce development (Reich, 1991, cited in Clarke and Gaile, 1998). Workforce development refers to a broad range of policies and programs which increase the capacity of individuals to participate effectively in the workforce throughout their working life. Not simply referring to training activities delivered in formal training institutions, the concept of workforce development refers also to the broader context within which skills operate, and the wide range of actors and policy fields that affect and are affected by skills formation (Hall and Lansbury, 2006). In Canada, workforce development refers to a broad policy agenda that goes beyond active and passive labour market policies to incorporate a wider set of activities including immigrant integration, social security, labour, human capital formation, and economic development policy measures

(Wood and Klassen, 2009). Workforce development policy “stands at the crucial nexus of efficiency and equity” because “it is pivotally located in the political economy of capitalist democracies” between “economic and social policy and the associated imperatives to sustain growth and alleviate the maladies associated with market societies” (Haddow and Klassen, 2006: 277). The strong consensus that effective education and training programs are required to facilitate the adjustment of national labour markets to 21<sup>st</sup> century economic realities has been marked by a major shift in public spending from passive income supports to active labour market programs throughout OECD countries since the 1990s.

In context of the work of the Mowat Centre Employment Insurance Task Force, this paper frames current discussions about how active labour market programs for unemployed adults in Canada should be designed, funded, administered, and delivered. The first section of the paper provides a brief discussion of the recent trend toward decentralization in labour market policy across OECD countries, followed by a more detailed discussion of how federalism and inter-governmental relations have shaped the devolution of labour market policy in Canada in recent years. Active labour market policy in Canada has been perniciously resistant to national policy efforts due to the political tensions inherent in governing them and, as a result, the country has long lacked a coherent and unified policy architecture for adult training for the unemployed. The complexity of labour market policy suggests however, that the tension in federalism is more between stability and flexibility than between national objectives and decentralization. Strong federal structures that shape and fund national objectives are needed in order to address complex 21<sup>st</sup> century labour market challenges, but policy flexibility is also needed to adapt to changing economic circumstances that affect different regions of the country and workers in different sectors, in different ways (Brown, 2005; Boadway, 2001). The second section of the paper analyzes policy and programming gaps in the provision of training for unemployed adults who are not eligible for federally funded Employment Insurance, as well as recently negotiated federal-provincial Labour Market Agreements and additional funding under the federal Strategic Training and Transition Fund that are intended to address these gaps. Labour Market Development Agreements (LMDAs) overcame longstanding jurisdictional conflicts over adult training programs, but did not address a fundamental flaw in Canada’s workforce development system, LMDAs only provide employment benefits for training of the EI-eligible unemployed.<sup>2</sup> As a result, concerns have begun to mount that too many Canadians do not qualify for the income and training supports they need to transition back into the labour market. This paper addresses this problem as it plays out in the case of Ontario, as a comparative analysis of different provinces would be beyond the scope of this paper. The paper concludes with three proposals for reform that address concerns about national policy fragmentation, program coverage, and labour market planning to facilitate the matching of supply and demand.

## **Decentralization and Workforce Development**

Policymakers know that active labour market programs are important policy tools to facilitate economic adjustment and help redress income polarization. There has been a great deal of recent policy activism and experimentation in the areas of workforce development in OECD countries and recent research indicates that in order to effectively facilitate the re-entry of unemployed workers into the labour market, training programs need to meet several important

criteria. First, training must be of high quality and sufficient duration. Instead of haphazard, short-term programs, people need career counseling and access to longer-term training programs that provide career pathways to high quality, living wage jobs (Fitzgerald, 2004). Second, training programs and the income supports to go with them, must be accessible to a majority of the unemployed-but-employable labour force. Providing training to, or “creaming,” workers who are able to re-enter the labour market most easily, or those who are eligible for income supports under existing programs like Employment Insurance, means that many others cannot access the training they need, putting them at higher risk for chronic unemployment (Vroman and Brusentsev, 2005; Battle et al., 2006).<sup>3</sup> Finally, effective programs must match supply and demand sides of the labour market. Training programs require timely labour market information and regular collaboration among labour market stakeholders for planning purposes as well as for making sure that qualified workers are matched with jobs in firms that require their skills (Crouch et al., 2001; OECD, 2001, 2003, 2004, 2009).

In an effort to come up with innovative ways to address these layers of complexity in workforce development policy, a strong argument has been made in favour of decentralization. Many OECD countries, including Canada, have devolved responsibility for planning, implementation and administration of active labour market policies from national to regional levels over the past two decades (OECD, 1999, 2001, 2003, 2004, 2009). These trends toward regional decentralization in labour market policy reflect “an increased perception of the territorial dimension of labour market policy” and “the need to facilitate greater cooperation with other [labour market] actors”, as well as broader national shifts in public administration and the division of powers between national, regional and local governments (Mosley, 2009: 75). But decentralization is a complex and multi-faceted process and there is as yet no conclusive empirical evidence to support arguments either against or in favour of the process. It can improve policy implementation but can also have undesirable effects such as policy fragmentation, program duplication, and uneven program quality and administration. As a result, many current approaches to labour market policy in OECD countries are largely experimental. However, one of the more classic - and influential - arguments in favour of decentralization in labour market policy is that it allows the development of flexible, regionally-sensitive policies and programs that are better adapted to local needs (Tiebout, 1956 cited in Mosley, 2009; OECD 1999, 2001, 2003, 2004, 2009; Gray, 2003).

To avoid the negative effects of decentralization, however, the flexible development and delivery of regionally sensitive workforce development strategies typically occurs within a national policy framework. Most countries have confined devolution to active labour market policy and programs and retain national control over benefit systems such as EI, and “even in countries with relatively decentralized delivery systems [such as the US and Spain] there is usually a strong effort to retain an overall common policy framework and accountability standards” (Mosley, 2009: 76). Mosley (2009: 79) distinguishes between administrative and political decentralization, and finds that in the latter, lower levels of government play a central role in the implementation of labour market policies, a role which is strongest in federal systems in which policy responsibility is devolved to state or provincial governments that are “politically, administratively and financially strongly independent actors” as in Canada, the US, Belgium, Denmark, Italy, Mexico and Spain. In these multi-level governance structures, the relationship between national and sub-national authorities is less hierarchical and more negotiated, which implies the likelihood of more jurisdictional conflict in intergovernmental relations. This

devolution of labour market policy in Canada is of particular interest because it developed in an asymmetrical way for important reasons. . . The next section provides a more detailed overview of intergovernmental relations in the area of labour market policy that led to the negotiation of one of the earliest examples of asymmetrical federalism in Canadian social policy.

## **How We Ended Up with Asymmetrical Labour Market Development Agreements (LMDAs)**

### **A Brief Recent History of Intergovernmental Relations and Labour Market Policy in Canada**

This section establishes the context for understanding recent developments in active labour market policy by tracing the impact of these developments on the prognosis for a national policy framework for workforce development. The generally patchy and lackluster institutional performance in active labour market policy in Canada over the past twenty years has led many observers to express serious doubts about Canada's ability to come up with a coherent and comprehensive national skills development strategy (for example, Haddow, 1995, 1998; Tuohy, 1992; Bakvis, 2002; Klassen, 2000). Two policy changes in particular radically re-oriented the subsequent pattern of federal-provincial relations in this area. First, the Labour Force Development Strategy (LFDS) was announced by the Conservative Mulroney government in 1989, with the objective of addressing the long-standing perception that government labour market programs were not assisting Canadian workers to obtain sufficient job-relevant skills, and that the training efforts of the private sector were similarly inadequate. Subsequently, the Ottawa-based bi-partite business-labour organization, the Canadian Labour Market and Productivity Centre (CLMPC), was commissioned to conduct consultations with business, labour and other groups on labour market policy. The main role of the CLMPC was to oversee the implementation of the national, multi-partite National Training Board (NTB)—replete with collaborative multi-level governance structure involving non-governmental structures at provincial and local levels, as well as co-ordination and information-sharing among national, provincial and local boards.<sup>4</sup>

Yet not too much later, in response to the narrow defeat of the 'yes' option in the 1995 Quebec referendum, the federal Liberals under Chrétien devolved responsibility for occupational training to the provincial governments under the *Employment Insurance Act* of 1996.<sup>5</sup> This transferred about \$1.5 billion to the provinces to deliver training programs to EI clients and paved the way for decentralization and new forms of 'collaborative federalism' (DiGiacomo, 2001: 1; Simeon and Cameron, 2002).<sup>6</sup> The federal government retained responsibility for the broad residual right to "undertake pan-Canadian activities," as well as responsibility for setting EI policy, managing the EI fund, delivering benefits, and determining eligibility (Simeon and Cameron, 2002: 36). The federal government also retained the ability to develop and deliver active labour market measures for non-EI clients including youth, people with disabilities, Aboriginal peoples, older workers and recent immigrants. While some provinces felt that they were not in a position to take up such an ambitious policy agenda, others were quite keen to take over complete control, and the result was two types of bilateral Labour Market Development Agreements (LMDAs)—co-management and full transfer—that were negotiated between each province and the federal government.<sup>7</sup> Ontario was the only outlier in the devolution process, and did not sign an LMDA until ten years later, in 2005.

The absence of formal constitutional provisions for labour market issues and worker training has historically resulted in much intergovernmental wrangling for control over active labour market policy (Haddow, 1995; DiGiacomo, 2001; Bakvis, 2002).<sup>8</sup> In his analysis of pre-devolution federal-provincial relations surrounding the main training initiatives under Mulroney, Haddow (1995: 339) argues that intergovernmental conflict marked by “competing jurisdictional claims, policy-making capacities, and program goals have always plagued federal-provincial relations on training” and that, as a result, labour market policy has typically been subject to institutional tinkering without much substantive change (see also Tuohy, 1992). Constitutional ambiguity thus drove the pattern of intergovernmental conflict over labour market policy in Canada until the negotiation of the LMDAs when the federal government, that had consistently sought to circumvent provincial influence over training since the early 1980s, suddenly demonstrated a clear willingness to cede authority to the provinces.<sup>9</sup> Thus, Haddow (1998) argues that the “substantially reduced” involvement in active labour market policy of the Chrétien Liberals between 1993 and 1997, had more to do with the fallout of failed constitutional politics, a fiscal policy anchored in deficit reduction, and continued federal-provincial tensions, than with labour market considerations themselves. While LMDAs may have solved a constitutional impasse in the short run, they have done little to lend coherence to larger national labour market strategies. In the wake of the federal devolution that resulted in LMDAs bilaterally negotiated with each province, Haddow (1998) observes that subsequent federal-provincial relations displayed precisely the pattern of “administrative asymmetry” that they had tried to avoid in constitutional negotiations, where the outcomes of intergovernmental conflicts over labour market policy differed across provinces.<sup>10</sup> The federal distancing from active approaches to training—culminating in the 1996 decision to permit the provinces to assume administrative control over federal training expenditures under EI—has had the essentially irreversible effect of barring future governments from undertaking ambitious and coherent national policy approaches to training (Haddow, 1998; DiGiacomo, 2001). As a result, Bakvis (2002: 215) predicted that “the development of national policies deemed necessary in an increasingly globalized economic environment now appears to be well nigh impossible” (for a similar view see DiGiacomo, 2001).

Many recent analyses of asymmetrical federalism suggest, however, that concerns about policy fragmentation and the erosion of national objectives resulting from decentralization, though legitimate, may be somewhat overblown; often, such analyses underplay the shifting context in which labour market policy operates. Asymmetry is built into federalism, and federalism, by definition, is “about the combination of unity and diversity” (Brown, 2005: 2). Because constituent units—provinces in Canada—have powers of self-rule, “it is accepted that different units may employ that power in different ways and toward different ends” (Graefe, 2005: 1). As Mosley (2009) observes, this dynamic is most evident in political forms of decentralization where sub-national orders of government have significant independent powers. When relationships between national and sub-national authorities are less hierarchical, intergovernmental agreements have to be negotiated, a process which is occurring more and more frequently in the Canadian federal system in the form of bilateral agreements in many policy areas, of which LMDAs are but one example. In order to address Canada’s diverse geographic regionalism, economic disparity, urban concentration and religious diversity within a single national context, asymmetry is, in many ways, the only form of governance that makes sense. According to Brown (2005: 2, 3), the ‘flashpoint’ in Canada is not over asymmetry itself, but rather over the fact that “we do not have a strong political consensus [about] the best point on the spectrum



between centralization and decentralization” (p.2). In the “continuing tug of war” between these two visions, “in a very uneasy compromise, has been asymmetrical federalism.”

Increasing pressure toward asymmetry in intergovernmental relations is driven by major shifts in the global economy, and major changes in public administration. Increased global trade and economic competition means that provincial and local governments must respond to competitive patterns that differ significantly by economic region; labour market policies that work for Toronto in the Great Lakes region are very different from what works for BC and Vancouver in the Pacific Rim region. This regional economic variation is driving increasing asymmetry in provincial policy responses (Brown, 2005). At the same time, there is increasing tolerance of asymmetry or “flexible devolution” in public administration, where centralized norms and procedures imposed on lower levels of government have been discredited as ineffective and inefficient because they ignore variation in local and regional needs. While some critics dismiss this shift in policy design and delivery as another form of downloading, Brown (2005: 5) argues that “in reality it is a response that implicates the federal government significantly to ensure that *national* policy goals are articulated and that national policy coordination occurs, but allowing considerable flexibility in how those objectives are met.” Under these new forms of federal governance that use ‘new tools’ to ensure some degree of pan-Canadian social policy, the federal government is “less concerned with ensuring that provinces adhere to strict conditions or broader national standards, but more interested in setting agendas and steering reform” (Graefe, 2005: 1).<sup>11</sup> Periodic federal-provincial summit negotiations produce framework agreements that set out broad principles and policy priorities, but leave wide degrees of flexibility for provinces to allocate resources and define program parameters, while also committing to transparency and nationally established performance and accountability measures (Graefe 2005).

These bilateral agreements, of which LMDAs are one of the earliest examples, have become the preferred approach to managing intergovernmental relations in Canada, and are by nature asymmetrical.<sup>12</sup> Though LMDAs were administrative rather than constitutional, they nonetheless represented an important re-ordering of federal-provincial responsibilities in the policy domain and resulted in a much greater degree of asymmetrical federalism than had previously existed (Klassen, 2000; Bakvis, 2002). These bilateral arrangements have proved beneficial for the design and delivery of provincial workforce development policies and programs. Because they represent a wide range of types, from a unique agreement between the federal government and a single province, to similar agreements between Ottawa and each province, to agreements between two provinces, they provide the flexibility required to accommodate different provincial interests and circumstances. Furthermore, they are more conducive to focused and productive discussion because they circumvent the numerous issues and interests that arise when more than two parties are at the negotiating table (Wood and Klassen, 2009). The downside of these asymmetrical arrangements, however, is that they provide the federal government with the tactical advantage of a ‘divide and conquer’ approach to negotiations which can spark regional jealousies or claims of unfairness from those who do not reap the same benefits from their agreements (Wood and Klassen, 2009). Most worrisome, however, is the fact that this “softer form of federal control” puts the federal pan-Canadian project of “assuring some harmonization through national standards at risk” (Graefe, 2005: 6). While it provides more tolerance of and room for provincial diversity, it “can also result in a more decentralized nation, with substantially different programming in different parts of the country, leading to public

confusion and potentially undermining a sense of national purpose and common interest” (Wood and Klassen, 2009: 254).

Some would argue that predictions from concerned observers that LMDAs would preclude further federal influence in labour market policy, have come true. Workforce development in Canada lacks a unified and coherent policy architecture, because none of the bilateral agreements—LMDAs, LMPAs, or LMAs—were negotiated as part of a larger national vision or policy framework that was collaboratively developed between both orders of government with input from social partners (Wood and Klassen, 2009). Workforce development in Canada appears to have developed into a *de facto* area of provincial jurisdiction; as a result there is little provincial interest in multi-lateral opportunities for collective dialogue and policy learning, let alone in developing pan-Canadian strategies to address labour market issues such as unemployment or skills and labour shortages. As Wood and Klassen (2009: 267) argue, it is not federalism itself that provides impediments to pan-Canadian approaches, but rather it is the series of “segmented, bilateral, executive dominated, federal-provincial agreements [that]...are inadequate to achieve national workforce development goals and have the potential to...undermine Canada’s political union.” While McIntosh and Boychuk (2000) propose the Forum of Labour Market Ministers (FLMM) as a possible multilateral forum for the discussion of national labour market issues, Wood and Klassen (2009: 266) argue that multilateral forums intended to discuss such pan-Canadian approaches are fragmented and lack policy influence, and that the FLMM “has not demonstrated a capacity to work towards common goals or coordinate workforce development policy on a pan-Canadian basis, or even provide significant focus for sharing experiences and policy learning.”

Pointing to several recent multilateral accomplishments in the area of labor market policy, others might be less pessimistic regarding the value of federal-provincial tables in generating a national consensus on policy issues, arguing that cooperative federalism can work when the needs of all partners are addressed. There a number of examples: the Ministers responsible for Labour have achieved consensus on important files related to safety and employment standards through the Canadian Association of Administrators of Labour Law (CALL); new forms of regionally focused federalism such as the establishment of the New West Partnership and the Council of Atlantic Premiers seek labour mobility in the western and maritime regions; and the Council of the Federation (COF) voted unanimously to adopt the labour mobility protocol of the Agreement on International Trade (AIT), ensuring labour market mobility within Canada. The governance challenge, therefore, is for federal and provincial policymakers and administrators responsible for workforce development to voluntarily find similar types of “innovative ties that bind” because “without a robust intergovernmental process to manage interaction between the two orders of government” Canada’s ability to develop a highly skilled, educated, and *inclusive* workforce could be compromised (Wood and Klassen, 2009: 267). These new forms of cooperative federalism continue to evolve and only time will tell whether or not collaborative arrangements developed in other policy areas like education can be replicated in the area of workforce development.

## **The Downside of Hasty Devolution**

### **Too Many of the Unemployed Left Ineligible for EI-Funded Training**

The analysis now proceeds to an examination of how labour market policy (and income support and training programs for unemployed adults in particular) has played out ‘on the ground’ in Canada in recent years. This analysis indicates that some serious policy gaps remained after the negotiation of LMDAs (Lazar, 2002). Perhaps the most salient point that emerges from the preceding discussion of asymmetrical federalism and labour market policy is the fact that Canada has long lacked a coherent national policy approach to adult training for the unemployed. This policy ambiguity coupled with the federal-provincial dynamics outlined above left some provinces, notably Ontario, to operate in a virtual policy vacuum in this area for years. Since the negotiation of the LMDA in 2005, Ontario has been playing catch-up to build a policy framework for adult training (Bramwell, 2010). This section provides a brief overview of changing labor markets and the rise of ‘precarious’ non-standard forms of employment in which certain groups are over-represented, followed by a discussion of the disjuncture between EI and SA programs, historically one of the main impediments to federal-provincial harmonization of training programs for the non-EI eligible unemployed. There is some evidence to suggest that it is not the devolution of federal labour market policy responsibilities under the LMDAs *per se* that is to blame, but the ill-considered manner in which the devolution was carried out. The preceding analysis suggests that in its haste to divest itself of political and fiscal problems, the federal government gave up too much all at once and relinquished control over active labor market policy and programs without retaining binding mechanisms to encourage multi-lateral discussion and information-sharing, let alone to promote national labour market objectives (Haddow, 1998).

Even more problematic, however, has been the fact that the federal government retained responsibility for program areas that it has not been able to fulfill effectively. Under the LMDAs, the federal government devolved responsibility for active labour market programs, referred to as Employment Benefits and Support Measures (EBSMs), to the provinces, and retained responsibility for setting EI policy, managing the EI fund, delivering benefits and determining eligibility. At this juncture, it is important to re-iterate that Employment Benefits are longer-term, more direct forms of training such as returning to school to upgrade credentials or receiving on-the-job training, which are most likely to lead to re-employment. Support Measures, on the other hand are ‘softer’, short term, interventions such as resume writing workshops, career counseling, or information and referral to employment benefits, which are seen as less effective in facilitating sustainable re-entry into the labour market. Under the LMDAs, Employment Benefits serve only active and reachback EI-eligible clients, whereas Support Measures serve the unemployed regardless of EI status. Because so many of the unemployed are not eligible for EI, they are also ineligible to receive Employment Benefits, which are the interventions most likely to lead to re-employment. This differential access to training programs between EI eligible and non-EI eligible individuals, coupled with major contractions in eligibility discussed at length elsewhere, accounts for mounting concerns that too many Canadians do not qualify for the income and training supports they need to transition back into the labour market.

At the same time, the federal government also retained the responsibility to develop and deliver longer-term active labour market measures for key non-EI clients who tended to be under-represented in terms of access to Employment Benefits, including youth, people with disabilities,

Aboriginal peoples, older workers, and recent immigrants. The rationale behind this division of responsibility was that many groups of the unemployed who were ineligible for EI but most in need of active measures could not access federally-funded EI training programs, so the federal government intended to serve these groups directly. The subsequent patchy and haphazard performance of these training programs suggests that the federal government has not been up to the task, with their efforts undergoing numerous program changes and tending to be out of sync with provincial programs. Up until the introduction of LMAs, provincial governments wanting to fill this policy gap could provide training through provincially funded programs or under provincial social assistance (SA) programs which tend to be of shorter duration, of lower quality, fragmented, and “poorly targeted to those most in need”, especially women and the less educated (Task Force on Modernizing Income Security for Working-Age Adults, 2006).<sup>13</sup> Furthermore, successive contractions in both the EI and social assistance programs in recent years have meant that even fewer people were eligible for what meagre training programs existed for the non-EI eligible, and concerns have mounted that if this policy gap widens, those who fall through the cracks will fall further and further behind (Task Force on Modernizing Income Security for Working-Age Adults, 2006; Battle et al., 2006; Jackson and Schetagne, 2010; Osberg, 2009). At the same time, though this varies by province, there have historically been few provincial programs to address the training needs of those who are not eligible for either EI or SA benefits.<sup>14</sup>

Many recent labour market analyses underscore the fact that certain groups have an above-average risk of unemployment including young Canadians (especially those who have only a high school education or less), women who leave the workforce to care for children or aging family members, displaced older workers with limited education and obsolete skills, Aboriginal people, visible minorities, low-wage workers and recent immigrants. These groups also tend to be most likely to remain trapped in non-standard work, or to be chronically unemployed.<sup>15</sup> According to the Caledon Institute (Battle et al., 2006), the proportion of ‘non-standard’ work—often referred to as ‘precarious’ or ‘marginal’ jobs—has increased to approximately one-third of the labour force and includes the self-employed, multiple job holders, contract workers, and part-time workers (see also Osberg et al., 1995). These types of jobs are typically associated with low wages, limited education and skills, lower job security, lack of pensions and benefits (health, disability, etc.), few opportunities for career advancement or improvement, lack of union membership, and little access to employer-sponsored or on-the-job training.<sup>16</sup> These labour market trends are exacerbated by the rapid technological change in a global knowledge-based economy, which improves the employment prospects for highly skilled and educated workers and further reduces prospects for the low-skilled and under-educated workers.

These labour market trends have important implications in terms of eligibility for income supports and training programs that help workers re-enter the labour market. EI covers only those workers who have significant attachment to the workforce and excludes many workers who cannot accumulate enough insurable hours of work, often because they are employed in marginal or part-time jobs, cannot work full-time hours due to family commitments, or have disabilities that make it difficult to find and keep work. A recent task force (Task Force on Modernizing Income Security for Working-Age Adults, 2006) examined the issue of income security for working age adults in Toronto and found that only 30 per cent of Ontario’s labour force is eligible for the longer-term training available to active EI claimants under EI Part II (EBSM) training. Many of the 70 per cent who do not qualify can only access shorter-term

support measures programs, but need more robust, long-term training programs as much, if not more, than those who are EI-eligible to help them find and keep a job. As a result, “unemployed Canadians who cannot meet EI’s tougher eligibility rules have been denied the EI-linked skills and learning services that many so desperately require. Both for income benefits and skills and learning services, EI has favoured the unemployed who have standard jobs and effectively excluded those in nonstandard employment” (Battle et al., 2006: 21). This has resulted in a perverse situation where many workers have made mandatory contributions to the EI fund from which they are ineligible to benefit (Campeau, 2005). Social assistance, or welfare as it is commonly known, is usually not an option for those who are not eligible for EI because it is a needs-tested, income support program of last resort. Most people who must temporarily rely on welfare subsist below the Low-Income Cut-Off (LICO) or poverty line and are only eligible for the most basic types of short-term ‘employability’ training.

The discontinuity between the federally funded Employment Insurance (EI) program and provincially funded social assistance (SA) programs is considered to be one of the primary barriers to a harmonized system of income and training supports for unemployed adult workers. While conventional wisdom assumes that there are high levels of movement between EI and SA programs, and that they often act as substitutes for each other, there are compelling arguments to suggest that there is a growing gap between the two programs, and that this gap varies between provinces. McIntosh and Boychuk (2000: 104) describe income support for the unemployed in Canada as a “disentangled’ form of intergovernmentalism” which conforms most closely to a classic model of federalism with little overlap or duplication, because each order of government operates within its own jurisdiction, and sets policy framework and implements programs independently of each other. This presents several major challenges for coordination of the two programs. Jurisdictional independence means that there is no real legal or political commitment to resolve disputes or improve outcomes, and though each order of government is clearly aware that changes to either program in terms of eligibility or benefit levels will affect the other, “there has been no significant attempt to focus specifically on those interactions in a meaningful manner” (McIntosh and Boychuk, 2000: 108; see also Gray, 2003). Successive cuts in EI since the mid-1970s, accompanied by increasingly stringent provincial needs-tests so that only a small proportion of EI claimants are eligible for SA once their EI benefits expire, means that fewer Canadians are eligible for income supports and the training that accompanies them. Most importantly, the functional and perceived division of responsibility between EI and SA coupled with cuts to both programs means that there is a possibility that more and more people will fall through the cracks between the two programs. A lack of data and intergovernmental dialogue suggest that “governments themselves do not appear to have a solid grasp” on “who these people are, how and/or whether they are able to re-integrate into the labour market” and what will happen to them in an economic downturns such as the one we are currently experiencing (McIntosh and Boychuk, 2000: 107). Even more disconcerting is the possibility that both orders of government have been off-loading rather than downloading or uploading, and simply removing clients from EI or SA rolls “with no clear understanding of where they go from there” (Jackson and Schetagne, 2010: 111). The potential for serious policy failures is clear and, in this context, increasingly insistent calls for harmonization of EI and SA are understandable (Duclos, 2007; Battle et al., 2006; Task Force on Modernizing Income Security for Working-Age Adults, 2006).

## Filling the Gap

### Labour Market Agreements (LMAs) and the Strategic Training and Transition Fund

Federal-provincial relations in the area of labour market policy leading up to the negotiation of LMDAs in the mid-1990s have been consistently described as patchy and conflictual, with neither level of government being seen as having adequately responded to “the growing need for training and other employment services for all workers who need them, whether unemployed or employed” (Battle et al., 2006: 23). In contrast, the immediate post-LMDA labour market policy regime has been described as generally collaborative, because LMDAs generated “little, if any, political tension between the two levels of government”, and were negotiated with “a high degree of good will” (Klassen, 2000: 190; see also Lazar, 2002). Many provinces actively sought responsibility for labour market policy to demonstrate their capability to effectively design and implement programs, while the federal government initiated the transfer and did not want to be seen as “impeding the process it initiated” (Klassen, 2000: 193). However, this cooperative environment operated in a period of relative calm for only a few years until 2002 when “the limitations of the new regime became evident” (Wood and Klassen, 2009: 256). At the time, because Ontario still had not signed an LMDA, nearly 40 per cent of the population was not represented under LMDAs. Federal officials were expressing regret over the permanent loss of federal influence over labour market policy. Provinces with devolved agreements sought additional federal funding and the capacity to serve non-EI eligible clients, while provinces with co-managed agreements sought devolved agreements; all of this underscored the fact that provinces had come to see workforce development as largely, if not entirely, under provincial jurisdiction (Wood and Klassen, 2009).

When Ontario finally signed an LMDA with the federal government in 2005, it was one of the few provinces (along with Manitoba and Saskatchewan) that also negotiated a Labour Market Partnership Agreement (LMPA) to address gaps in labour market programming for non-EI eligible adults. Federal funding earmarked to Ontario under the original agreement was \$1.368 billion over six years, and was to cover six program areas: expansion of apprenticeship, integration of recent immigrants, literacy and basic skills, workplace skill development, assistance to Aboriginals, and employment supports for those facing barriers to re-entry such as older workers and persons with disabilities. The intention was also to negotiate similar agreements with other provinces and territories. LMPAs were heralded at the time as a major breakthrough in the provision of training and employment programs for “all low-income adults who need them”, and seen as evidence of government recognition of this major policy gap and its willingness to take concrete steps to address it (Task Force on Modernizing Income Security for Working-Age Adults, 2006: 39; see also Battle et al., 2006). Though various labour market stakeholders and service providers eagerly anticipated the benefits that would ensue from the implementation of the agreements, LMPAs never got off the ground. This was due in part to the provinces actively resisting measures that they saw as attempts at federal incursion into provincial jurisdiction, and partly because the agreements had been negotiated with the Liberal government and were cancelled by the federal Conservatives in 2006.

Subsequent intergovernmental relations under the Harper government have been referred to as a system of ‘open federalism.’ The 2007 Federal Budget outlined a new approach to labour market and training policy which saw the provinces as best-placed to design and deliver these types

of programs. Building on this federal policy approach, the trend has been toward the provision of fiscal transfers to provinces in the form of block grants accompanied by broadly defined accountability frameworks. Negotiations between federal and provincial governments resulted in the signing of Labour Market Agreements (LMAs) in nine jurisdictions that provided funding arrangements to support skills development and training programs for various non-EI eligible client groups and low-skilled employed workers; with the exception of Aboriginal peoples, these groups corresponded roughly to the client groups outlined in the original LMPAs. LMDAs and LMAs are, however, quite different types of agreements. LMDAs are essentially detailed service delivery agreements, administered under the EI Act to deliver former federal Employment Benefits and Support Measures (EBSM) training programs, and leave little scope for provincial policy development or innovation.<sup>17</sup>

In contrast, LMAs outline high-level federal strategic objectives with accountability measures such as requiring provinces to report on a common set of performance indicators, while giving provincial government the flexibility to design their own labour market programs. Each province receives an annual block grant, calculated on a per capita basis, which the federal government has committed to funding from 2008 to 2014 (Ministry of Training, Colleges and Universities, 2009). In addition, responding to the increased need for training of the unemployed resulting from the current recession, the Harper government provided an additional \$500 million over two years under the Strategic Training and Transition Fund to provide increased access to training that is not tied to EI eligibility (HRSDC, 2010). In 2009-2010 Ontario received \$193.7 million in core LMA funding, \$62.5 million in unspent funds carried forward from 2008-2009, \$103.2 million under the STTF, and an additional \$1 billion to top up the LMDAs over the same two year period. Federal funds under the LMAs are intended to be used to provide increased opportunities for vulnerable groups in the labour market, and in particular to serve unemployed people who are not EI clients, or employed individuals who are low-skilled.<sup>18</sup> More specifically, as outlined in Part I of the LMA, Ontario programs were expanded to target unemployed non-EI clients from many of the same groups that were to be covered originally by federal programs after the implementation of the LMDAs, as well as several others including social assistance recipients, immigrants, persons with disabilities, older workers, youths, Aboriginal peoples, new entrants and re-entrants into the labour market, unemployed individuals who were previously self-employed, as well as employed individuals who are low skilled—in short, pretty much anyone who is not eligible for EI.<sup>19</sup> Federal funds were combined with Ontario funds to support new and existing programs offered through the province's Skills to Jobs Action Plan, the Reaching Higher Plan for post-secondary education, and Employment Ontario investments in training for the unemployed, as well as labour market initiatives in affiliated ministries including Citizenship and Immigration, Community and Social Services, Health and Long-Term Care, Finance, and Government Services. Under the Government of Ontario's 2009-2010 Activity Plan, LMA funds were allocated to four cross-cutting priority areas, most of which involve more than a single ministry, including the Labour Market Integration of Immigrants, Foundation Skills Training and Supports, Labour Market Supports for Persons with Disabilities, and Technical Skills Training.

Perhaps because Ontario operated for so long without an LMDA, and independently recognized the need to implement labour market training and support programs, it already had a suite of pre-existing training programs in operation when the LMA was signed; therefore, instead of creating new programs as several other provinces have done, Ontario used LMA funds

to top up existing programs that were already working well. As a result, programs could be expanded so that more eligible people, including unemployed non-EI clients and the employed low skilled, could access the training programs already on offer. The major provincial programs that were in place included Job Connect, Literacy and Basic Skills, Apprenticeship programming, and Summer Jobs, all of which received additional LMA funds. It is also worth noting that, as mentioned above, MTCU was not the only ministry to receive funds under the LMA; the Ministry of Community and Social Services, the Ministry of Citizenship and Immigration, and the Ministry of Health and Long Term Care each also received extra funds to expand their training programs. In this way, employment services for Ontario Works (SA) recipients were also expanded. When the LMA was negotiated, not only could Ontario expand the amount of training offered to a broader range of clients, it also saw an opportunity to streamline federal and provincial programs. Though the streamlining process has gone more slowly than originally envisioned due to the recession, several existing Ontario programs have now been merged with the federal EBSMs delivered under the LMDA. The new Employment Services program has replaced numerous programs (Ontario's Job Connect, the former federal Employment Assistance Services, and Targeted Wage Subsidy programs) and the Ontario Skills Development program has been merged with Second Career. Both of these programs are available to both EI and non-EI clients, but each type of client must be administered separately according to which agreement they are funded under.<sup>20</sup>

The LMA funding mechanisms are considered to be much easier to administer and leave more room for provincial discretion in the design and delivery of regionally sensitive training programs. This stands in stark contrast to the more complex administrative requirements of LMDAs that continue to operate on the basis of the anachronistic division between EI and non-EI eligibility. This is also, however, the primary drawback to this arrangement, which provides funding for training from three different envelopes (provincial funds, LMDA funds, and LMA funds) and is therefore overly administratively complex and cumbersome. For example, because both the Employment Service and Second Career programs are claimed under both agreements, administrators find it challenging to work with two sources of funds that have different eligibility requirements. The LMA was seen as a big step toward being able to finally provide an integrated training system in Ontario, but the complexity of administering the program is seen as an impediment to increasing its efficiency. The province envisions a single source of consolidated federal training funds that it can flexibly administer as it sees fit according to Ontario's labour market needs. Furthermore, it would appear that the LMA answered a number of important concerns outlined above about access to training for the unemployed non-EI clients, including SA recipients. Since the implementation of the LMA, employment and training services have been successfully expanded to serve more non-EI clients, including SA recipients. In short, the LMA has successfully helped Ontario to address the gaps in service provision left by LMDAs, and has given the provinces the flexibility to design regionally sensitive labour market policies. While the LMA expires in 2014, this does not appear to be a significant obstacle. Even more to the point, the provinces now already deliver almost all training programs for unemployed adults and, as was observed earlier, training has essentially become an area of exclusive provincial jurisdiction. Because it is already mostly done and working well, the responsibility for all adult training programs should be devolved to the provinces entirely, and the consolidation of federal funding should be made permanent.



**Table 1 Training Programs Offered By the Ontario Government (Pre-LMA)<sup>21</sup>**

<b>FUNDER</b>	<b>PROGRAM</b>	<b>DESCRIPTION</b>	<b>ELIGIBILITY</b>
<b>Federal/LMDA</b>	Targeted Wage Subsidy (Employment Benefit)	Employer incentive to hire for job experience	EI clients
<b>Federal/LMDA</b>	Self-Employment Benefits (Employment Benefit)	Financial assistance to start own business	EI clients
<b>Federal/LMDA</b>	Skills Development (Employment Benefit)	Direct financial assistance to fund institutional training	EI clients
<b>Federal/LMDA</b>	Job Creation Partnerships (Employment Benefit)	Wage subsidy for job experience leading to long-term employment	EI clients
<b>Federal/LMDA</b>	Employment Assistance Services (Support Measure)	Range of employment services	All
<b>Federal/LMDA</b>	Labour Market Partnerships (Support Measure)	Funding for community-based initiatives to support labour market planning and adjustment	All
<b>Ontario/MTCU</b>	Second Career <sup>22</sup>	Financial support for skills training in community colleges in high demand occupations	Laid-off workers
<b>Ontario/MTCU</b>	Job Connect	Assessment, job search, labour market information, potential for training	All, but training only for unemployed and out of school
<b>Ontario/MTCU</b>	Apprenticeship	Certification in skilled apprenticeable trades	Students, registered apprentices
<b>Ontario/MTCU</b>	Literacy and Basic Skills	Literacy training	All
<b>Ontario/MTCU and other Ministries</b>	Summer Jobs	Variety of supports to help students find summer employment	Students 15 to 30 planning to return to school in the fall
<b>Ontario/MCSS</b>	Ontario Works	Income and employment supports to people who are in temporary financial need	SA

Table cont.

<b>FUNDER</b>	<b>PROGRAM</b>	<b>DESCRIPTION</b>	<b>ELIGIBILITY</b>
<b>Ontario/MCSS</b>	Ontario Disability Support Program	Income and employment supports to people with disabilities.	SA
<b>Ontario/MCSS</b>	Educational upgrading	High school completion, literacy	SA
<b>Ontario/MCSS</b>	Job-specific skills training	Training for a specific job	SA
<b>Ontario/MCSS</b>	Literacy screening and training	Literacy and basic skills assessment	SA
<b>Ontario/MCSS</b>	Learning, Earning and Parenting (LEAP)	High school completion and parenting skills for 16 to 25	SA
<b>Ontario/MCSS</b>	Employment placements	Job search and placement	SA
<b>Ontario/MCSS</b>	Community placements	Work experience in community agency	SA
<b>Ontario/MCI</b>	Ontario Bridge Training	Flexible program that provides a range of assessment, training and job search supports	All but targeted to Foreign-Trained Professionals
<b>Ontario/MCI</b>	Language Training ESL/FSL	Adult language training classes to help participants develop the English or French language skills needed to work and live in Ontario	All, but first language cannot be English or French

## **Building Innovative “Ties That Bind”**

### **Three Directions for Reform (With Varying Degrees of Pragmatism)**

In summary, this brief review of the trend toward asymmetrical federalism and the negotiation of bilateral labour market agreements reveals significant change in the development and delivery of workforce development policy and programs over the past decade. As Wood and Klassen (2009: 261) observe, there have been some major benefits to the devolution of labour market policy under LMDAs, which have provided provincial governments the “policy capacity, opportunity and motivation to develop integrated workforce development service-delivery arrangements” to people who need them, and to leverage funding toward more strategic workforce development uses. At the same time, however, a paucity of data—including a consistent set of reporting requirements and performance indicators across jurisdictions—makes it difficult to determine whether asymmetrical bilateral arrangements have resulted in differ-

ences in program delivery across provinces, or to assess the movement of individuals between EI and SA programs. Most worrisome, however, is the fact that adult training and workforce development programs in Canada lack a unified and coherent policy architecture. At this point, there appear to be few mechanisms to promote multi-lateral dialogue and policy learning, let alone to develop pan-Canadian strategies to address labour market issues such as unemployment and skills and labour shortages. The governance challenge that remains, therefore, is for federal and provincial policy actors in the area of workforce development to re-build the robust intergovernmental process—or “innovative ties that bind”—needed to develop a highly skilled, educated, and *inclusive* workforce (Wood and Klassen, 2009: 267).

If politics is the art of the possible, innovative public policy seeks to push the limits of the probable. Workforce development is a complex policy field, and as Battle et al. observe, “reforming adult benefits is a daunting task that has been attempted several times before, with little success” (2006, 24). This section provides a brief overview of three potential directions for reform of workforce development policy for the unemployed in Canada. Regardless of what we might wish for, as has been argued here, the prognosis for a coherent national policy vision for workforce development is inauspicious within the context of current federal-provincial relations in this policy domain, at least for the foreseeable future. As was suggested by observers at the time of the negotiations of the original LMDAs, future federal influence in this policy area would be unlikely (Haddow, 1998; Bakvis, 2002; DiGiacomo, 2001; Klassen, 2000) and subsequent analyses appear to have largely substantiated this prediction (Wood and Klassen, 2009). Despite some evidence of successful multilateral forums in other policy areas, which suggest that the prognosis for federal-provincial collaboration in the area of labour market policy may not be so dire, decentralization and the negotiation of a series of bilateral agreements with all provinces and territories means that workforce development in Canada has developed into a *de facto* area of provincial jurisdiction. The three directions for reform outlined below, therefore, seek to reflect this reality by taking the current constraints on federal influence in national labour market policy as a starting point; therefore, approaches to workforce development have to proceed within the context of new forms of asymmetrical arrangements, a situation that underscores the need for policy innovation in this area.

### **1. Decouple Access to Training Funds from EI Eligibility by Harmonizing the Income Support System**

There is an increasingly insistent argument that Canada needs a new system of income security and employment supports for unemployed adult workers - a “new architecture’ of social policy for the 21<sup>st</sup> century” (Battle et al., 2006: 1). The current social security system, which rests primarily on the ‘twin pillars’ of Employment Insurance and Social Assistance, was built in the immediate post-war era and no longer meets the needs of unemployed working-age Canadians (Battle et al., 2006; Duclos, 2007; Task Force on Modernizing Income Security for Working-Age Adults, 2006). In contrast to past reforms in this policy area, which were patchy and incremental, reform advocates argue that the two programs must be integrated because neither can be adequately reformed in isolation from the other. The most ambitious and radical option for reform would be to harmonize the EI and SA programs in order to decouple access to training programs from eligibility for EI, a realignment of the federal-provincial division of powers that would require some form of constitutional amendment. Several different options

for this type of reform have been proposed. While one reform proposal calls for adjustment of existing income supports and taxable benefits (Task Force on Modernizing Income Security for Working-Age Adults, 2006), another advocates the introduction of a single basic income support (Duclos, 2007), and a third advocates a tiered system that provides programs most appropriate to the needs of different recipients (Battle et al., 2006).

Regardless of the form a new income support program would take, McIntosh and Boychuk (2000) outline two ways in which major reform could be accomplished. In one scenario, a process of “further disentanglement” would involve a division of labour according to sector, rather than program thus leaving the two programs intact while formally grouping them together; it would then be possible to give responsibility for their delivery and administration to a single order of government. Whether this would involve increased centralization or decentralization is unclear but, as has been discussed above, the clear trend toward decentralization in labour market policy since the mid-1990s suggests that further decentralization would be more likely. There would, however, likely be some major resistance to the transfer of EI: provinces may not want to assume the fiscal responsibility; the federal government may not want to relinquish control over EI; and public opinion may not support the formal devolution of one of the few remaining national programs. In another scenario, a process of “radical reorganization” would formally recognize that income support for the unemployed should be taken as a single policy area, which would prevent policy failures resulting in unemployed individuals falling through the cracks between the two programs. Again, this type of reorganization could involve centralization or decentralization. Richards (1998, cited in McIntosh and Boychuk, 2000) proposes that all passive income supports under EI and SA be transferred to the federal government and all active labour market policy to the provinces, a proposal that appears the most seamless because the existing policy framework has already gone far down that road, as has been made clear in the foregoing discussion. Alternatively, Noël (1998, cited in McIntosh and Boychuk, 2000) argues for the complete decentralization of all EI responsibility to the provinces, especially in the case of Quebec, because that is the level at which income supports and ALMP can have regional and local sensitivity. While the benefit of both of these scenarios is that neither violates the core principles of federalism, the drawback is that they would both require a reorganization of constitutional responsibility, a path upon which neither the federal or provincial governments is likely to embark. There is little tolerance in the Canadian electorate for constitutional politics, and administrative solutions, like the option outlined below, are more likely to achieve wide acceptance.

## **2. Decouple Access to Training From EI Eligibility by Permanently Devolving Funds for Training Under LMAs**

Brown (2002: 72) describes the current challenge for federalism not as one of how to increase federal policy influence across policy fields, but rather of how “to reach a new equilibrium between the competing pressures of equity and efficiency, and of decentralization and local initiative versus national objectives and control.” As has been suggested throughout this analysis however, the current tension in federalism and labour market policy is as much, if not more, about stability and flexibility. There is a strong argument in favour of decentralization to allow regional sensitivity for effective workforce development activities (OECD, 1999, 2001, 2003,

2004, 2009; Mosley 2009). Regional flexibility is built into federalism in the form of bilateral asymmetry in legislation, policy, and administrative procedure because of the general acceptance of the idea that national norms need to be sufficiently flexible to allow for adaptation to regional and local conditions (Brown, 2005). It is argued here that there is room for the federal government to renew its involvement in labour market policy through a combination of fiscal federalism and intergovernmental means without eroding the gains in provincial policymaking autonomy that have accrued in recent years. The direction for reform that would be the easiest to achieve, while still having far-reaching policy implications, would be to permanently devolve responsibility for all adult training programs—and the funding to go with it—to provincial governments within a *standardized accountability framework*. This would essentially involve rolling funding for LMDAs and LMAs into a single *conditional* federal transfer.

Intergovernmental transfers common in Canadian federalism tend to be either conditional or unconditional. On one hand, unconditional block grants, which tend not to impose any conditions on receipt of federal funds and leave much room for provincial interpretation, are now the most commonly used form of fiscal transfer and leave few levers for federal influence over provincial implementation strategies. On the other hand, conditional block grants can be made for specific purposes such as encouraging social programs with similar entitlements across the country (Boadway, 2001). While the vast majority of fiscal transfers tend to be unconditional, some ambiguity remains about whether or not fiscal transfers should be tied to central policy objectives.<sup>23</sup> It has been argued here that the evolution of federal-provincial relations in the area of labour market policy means that the development of a coherent national policy framework for workforce development is unlikely. However, national objectives in labour market policy could be established and enforced through the use of conditional block grants that permanently fund adult training on condition that provincial governments commit to a set of federally determined accountability and transparency measures that apply equally to all jurisdictions, and include the collection and public reporting of data such as provincial labour market information, key performance indicators, and the results of regular program evaluations, to which provinces can add additional performance indicators as they see fit (Boadway, 2001; Mosley, 2009). There is some indication that many of these reporting mechanisms are already in place but further research would be required to examine the extent to which existing transparency and accountability measures meet national strategic objectives and are consistent across provinces.

This option would be the easiest to implement because it builds upon existing intergovernmental relations, would not require politically untenable constitutional amendment, may (or may not) require only moderate increases in program spending, and makes use of existing policy levers under fiscal federalism. The biggest challenge is that this option would require amendments to EI, which could be politically difficult. Perhaps most importantly, however, this would create the policy space for more far-reaching and innovative changes. Removing anachronistic divisions between funding for EI and non-EI eligible unemployed workers would go a long way toward allowing provinces to develop more coherent active labour market policies of their own. Labour market policy already operates under asymmetrical bilateral agreements that set out broad principles and policy priorities giving provinces a wide degree of flexibility in allocating resources and defining program parameters that require a standard set of accountability measures beyond fiscal accountability. As Wood and Klassen (2009) observe, however, there is a paucity of data about how LMDAs and LMAs are resulting in different outcomes across

provinces. While fiscal federalism is “meant to be about flexibility” and is uniquely suited to asymmetrical applications, it is also about administrative accountability which requires asymmetrical approaches to be “transparent, coherent, and pragmatic” (Brown, 2005: 7, 9). Furthermore, the policy space for innovation that would be created with this option may have another effect. The removal of administrative complexity, and improved service delivery that would result, could pave the way for developing more collaborative types of intergovernmental mechanisms, like those discussed above, that could lend coherence to provincial adult training policy frameworks.

### **3. Establish Multi-Level Policy Frameworks to Facilitate Local Labour Market Planning and Service Delivery**

This proposed policy option builds on the previous one and picks up the thread of labour market policy decentralization discussed earlier, to propose the development of a policy framework to facilitate innovative *locally sensitive* service delivery and workforce development initiatives to improve the training and employment prospects of the unemployed. Labour markets often do not function seamlessly on their own and the case for government involvement in labour markets is typically uncontested. As has been discussed here, however, what *is* contested is the way in which governments tend to deliver labour market policy. Other countries that follow a market-oriented, supply side approach such as the United States, the United Kingdom, Australia, and New Zealand, also tend to lack national strategies to ensure comprehensive skills development programs for the workforce as a whole. These experiences suggest that Canada’s reliance on supply-side active labour market policies that focus primarily on providing training for individuals without addressing the demand side of the labour market will become increasingly ineffective (Crouch et al., 1999). Recent research indicates that an over-reliance on supply-side training policies tends to result in fragmented skills formation systems that lead to “chronic [employer] underinvestment in skills, persistent but poorly understood skill shortages, and continuing strong growth in lower-skilled, lower-paid employment without clear career paths or development opportunities” and risk entrenching a ‘low-skills equilibrium’ in their national labour markets (Hall and Lansbury, 2006: 579).

It was argued above that adult training programs must be of high quality and sufficient duration, accessible to a majority of the unemployed but employable labour force, and match supply and demand sides of the labour market in order to be effective. There has been increasing attention to the spatial dimension of labour market policy, as well as the need to establish collaboration between labour market actors for regional planning and program development (OECD, 2009) while retaining a common national policy framework and accountability standards (Mosley, 2009). ‘Top down’ federally-administered ‘one size fits all’ approaches that implement standardized policies and programs across a diverse array of local political economies typically “fail to provide a leg up the economic ladder for low-wage, low-skilled, frequently minority workers” because they lack the regional sensitivity and flexibility to meet local workforce development needs (Gilothe, 2004: 1). While most discussions of labour market policy and workforce development occur at national and provincial levels in Canada, labour markets are “primarily local”, meaning that strategic initiatives are most productively implemented and delivered at that level (Gilothe, 2004: 2; see also OECD 2009). The third policy option outlined

here, then, simply suggests that in order to better address the needs of unemployed adult workers for improved access both to training *and* employment opportunities, federal and provincial labour market policymakers need to integrate the *local* dimension of workforce development into active labour market planning and programming.

Building a local or ‘place-based’ orientation to labour market planning and employment service delivery could be accomplished in two discrete but complementary ways. The first would be to establish a policy framework to support local workforce development initiatives. The concept of local workforce development focuses on the ways in which firms, community-based organizations, and other labour market intermediaries collaborate to develop mechanisms to source, recruit, and develop skills in local labour markets. Rather than ‘work-first’ approaches that place unemployed workers in low-skilled, contingent, and ‘precarious’ jobs, local workforce development initiatives are premised on inclusive views of community economic and social development, and seek to provide individuals with access to career pathways which lead to high quality, stable, ‘family-sustaining’ jobs in the local economy (Giloith, 2004; Harrison and Weiss, 1998; Melendez, 2004; Fitzgerald, 2004).<sup>24</sup> Successful workforce development initiatives are based on partnerships between labour market actors that form “an expanded network that links disadvantaged workers with job opportunities, educational opportunities, and support services” (Giloith, 2004: 16). While local workforce development networks are not government-led, governments act as catalysts and facilitators that provide the policy context, resources, infrastructure and institutional frameworks for these networks (Hall and Lansbury, 2006). Though Canada has had little experience with these mechanisms, there has been a great deal of experimentation with different models of local workforce development across industrialized countries, particularly in the U.S, but also in the U.K., New Zealand, and Denmark, and policymakers by now have a pretty good idea of what works and what does not (Chapple, 2005; Melendez, 2004; OECD, 2004, 2009; Giloith, 2004). This idea is not as eccentric as it might at first appear in the Canadian context. Governance mechanisms already exist upon which local capacity could be built, and there is empirical evidence to indicate that many communities have a strong interest in developing locally sensitive workforce development strategies, but lack the policy support to get these efforts off the ground (Bramwell, 2010).<sup>25</sup> This discourse has been too easily dismissed and needs to find its way back on to provincial policy agendas, particularly now that provinces largely have *de facto* jurisdiction over active labour market policy and programs for both EI and non-EI eligible unemployed adult workers.

Building on innovations to local labour market planning and workforce development outlined above, another complementary way to establish a regionally sensitive or ‘place-based’ approach to labour market planning and program delivery would be to establish a policy framework to support integrated alternative client-centred approaches to employment service delivery. Regardless of whether someone is an EI client, an SA recipient, or neither, a training program and which level of government or ministry delivers it, is of little value or relevance to someone who is unemployed if it does not result in a job that is sustainable over time. As mentioned above, traditional service delivery models tend to be rigid in their application and deliver the same array of programs in the same way across all jurisdictions. In contrast, newer, more client-centred approaches deliver services on the basis of individual need at a particular point in time, rather than on the basis of rigid program requirements, and recognize that people may require different services and interventions as they progress (or regress) along the service continuum. Under the LMAs, provinces have demonstrated that they can deliver employment services to EI and

SA recipients alike, as well as to those who are not eligible for either program but could benefit from training. This success holds promise for the establishment of a single point of contact for the unemployed to access the particular services they require regardless of which level of government funds the service they are accessing. This would entail the establishment of single service centres, or “one stop shops”, where clients could obtain a wide range of employment-related services such as needs assessments, EI or SA benefits, skills training, student financial assistance, referral to counseling services, day care information, vocational rehabilitation and retraining, or resume writing and job search assistance, with the cost of the particular suite of services accessed would be billed to the appropriate level of government. In fact, this service delivery model is already underway in Ontario. Under the new Employment Ontario network, launched in 2010, MTCU reduced the number of third-party service providers (i.e. Employment Services providers), and all of these providers are to offer a one-stop approach to training and employment services to eliminate the need for clients to visit separate locations in order to receive services.<sup>26</sup>

## Conclusions

There are mounting concerns that Canada does not have the income support system to get us where we need to go (Banting, 2006; Jackson and Schetagne, 2010; Osberg, 2006, 2009). This paper has sought to frame the discussion about whether or not we have the adult training system to take us where we need to go. A large proportion of unemployed adult workers have long been excluded from access to the training and employment supports they need to transition back into the labour market. Strong arguments in favour of the decentralization of policy and program responsibility for workforce development indicate that training and employment programs are most effective when delivered in a regionally—and increasingly locally—sensitive way. This analysis indicates that the decentralization of active labour market policy has been underway in Canada since the mid-1990s. The potential to develop an integrated national workforce development strategy attenuated with the negotiation of LMDAs, and taken together with the negotiation of LMAs to provide training funding for the unemployed non-EI client and employed low skilled, active labour market policy is now effectively a *de facto* if not a *de jure* provincial responsibility. In this context, three possible directions for reform of Canada’s workforce development system for unemployed workers have been suggested: harmonize EI and SA income support systems and make a single order of government responsible for its administration; permanently devolve policy responsibility and funding for training of the unemployed non-EI clients and employed low skilled to provincial governments under existing LMAs; and create a multi-level policy framework that integrates the local level for strategic policy, program delivery and planning purposes. The first two would effectively decouple access to training from EI-eligibility, but the second provides the most viable policy option. The third set of recommendations would help facilitate the matching of supply and demand sides of the labour market on a regional basis.



# Endnotes

1. While job growth in other industries was relatively strong from 2004 to 2008, manufacturing fared much worse than the rest of the economy, with the loss of nearly 322,000 or more than one in seven manufacturing jobs. These losses resulted in the rapid erosion of the share of manufacturing jobs in the economy, from 14.9 per cent in 1998 to 14.4 per cent in 2004 before falling sharply to 11.5 per cent in 2008 (Bernard, 2009). Employment in manufacturing tumbled again during the recent recession, with 177,000 fewer employed in the sector than the previous year, and accounted for only 10.4 per cent of employment by the end of 2009 (Usalca, 2010).
2. Under the LMDAs, provinces were given the responsibility to deliver federal Employment Benefits and Support Measures (EBSM) programs. Employment Benefits are longer term, more direct forms of training such as returning to school to upgrade credentials, or receiving on-the-job training, that are most likely to lead to sustainable transitions to re-employment. Support Measures are short term, ‘softer’ interventions such as resume writing workshops, career counseling, or information and referral to employment benefits, and are seen as less effective in facilitating sustainable re-entry into the labour market. Under the LMDAs, Employment Benefits serve EI-eligible clients (active claimants and reach back clients), whereas Support Measures serve the unemployed regardless of EI status, along with Labour Market Partnerships that support the employed at risk of losing their jobs.
3. There appears to be an important tension on this point between much of the literature on labour market training policy and the labour market economics literature. While most policy perspectives argue that access to training for all unemployed workers is a critical means to facilitate re-entry into the labour market, much econometric research on training programs finds a weak link between training programs for the unemployed and return to employment. For example, Jones (2011) argues that based on much experimental and non-experimental research, the returns to training, particularly for older workers with long job tenure tend to be low, because people who do successfully re-enter the labour market tend to find new jobs in less than a year, and with minimal training supports. These findings suggest that government expenditure on training for this group may not be the best use of resources. This does not, of course, address the question of what types of jobs displaced workers are able to find, and whether or not they are able to replace their former wage rates. It also does not address the social equity dimension of access to opportunities that support employment and re-employment, or the question of whether the returns to training would be higher if the quality of training was higher. Other research suggests that the returns to training vary by policy mix and type of labour market program, that outcomes vary by the method used to measure them, and that positive impacts on aggregate labour market outcomes can arise when appropriate strategies are adopted (Boone and van Ours, 2004; Card et al., 2009; Martin and Grubb, 2001).
4. The NTB was in turn intended to oversee the implementation of similarly designed Labour Force Development Boards (LFDBs) in each province, and Local Training Boards to guide training initiatives at the local level. The LFDB structure was an important institutional innovation because it provided for non-governmental membership, led by labour and business, but also including representatives of various ‘equity groups’ and educators who, taken together, would be given “an unprecedented degree of influence over national and provincial labour market initiatives” (Sharpe and Had-dow, 1997: 3).
5. The failure of the Charlottetown Accord coupled with the razor-thin defeat of the ‘yes’ option in the sovereignty referendum seemed to galvanize labour market policy, and seeing an opportunity to appeal to Quebec and divest itself of responsibility at the same time, the federal government devolved substantial powers over training expenditures to the provinces.
6. This move was marked by a re-naming of Unemployment Insurance to Employment Insurance to reflect a shift in emphasis from passive labour market programs (PLMPs) of income support to active labour market programs (ALMPs) that focus on skills training. ALMPs included wage subsidies to employers, earnings supplements to EI recipients, income subsidies for EI recipients starting their own businesses, funding for community job creation projects, and support for EI recipients to obtain training.
7. Ultimately, four provinces and two territories, including BC, Alberta, and Quebec opted for complete devolution, or full-transfer agreements, and five provinces and one territory opted for modified co-management agreements. The exception was Ontario, which did not negotiate an agreement until 2005. For a more detailed discussion of the substance of these agreements see Bakvis, 2002: 207-209.

8. While the rationale for federal involvement in training for the unemployed was that occupational training is essential to national economic adjustment, the provinces historically claimed legitimate jurisdiction on the basis of their exclusive control over education.
9. Throughout the time that the federal government was attempting to build a national training strategy, federal officials were keenly aware of the larger underlying constitutional context of their efforts, knowing that any constitutional package that offered new powers to Quebec would have to be offered to all provinces, which would directly conflict with CLFDB attempts to build a national training strategy.
10. Stronger provinces that were able to resist federal policy, (primarily Quebec, Ontario, BC and Alberta) negotiated full-transfer LMDAs that accommodated their authority, whereas smaller provinces tended to negotiate co-management LMDAs and remained more dependent on the federal government.
11. Graefe (2005) finds that these new forms of federal governance are evident in various social policy areas including health, disability, housing, child care, and workforce development.
12. There is some debate on whether or not the current federal-provincial labour market policy regime is asymmetrical or symmetrically bilateral. Klassen and Wood (2011) argue that the asymmetry in federal provincial labour market policy has largely attenuated because LMDAs and LMAs have now been negotiated with all provinces and territories. When overlaid with mechanisms for funding training for unemployed adults, however, important asymmetries remain. For example, one of the major controversies in the EI program is the allocation formula which has been criticized for its lack of transparency and for the unfair treatment of some provinces. Some provinces with predominantly rural and seasonal employment including Newfoundland and Labrador, Prince Edward Island and New Brunswick, are allocated more EI benefits than they contribute to the system, whereas highly populated urban centres in B.C. and Ontario like Vancouver and Toronto have much higher numbers of workers who do not qualify for EI, such as new Canadians, and therefore receive less than they pay into the system (Mendelsohn and Medow, 2010; Campeau, 2005; Battle et al., 2006; Hale, 1998).
13. For example, almost 47 per cent of Ontario Works (the Ontario social assistance program, administered by the Ministry of Community and Social Services) have less than high school education as opposed to 33 per cent of the labour force; furthermore, 72 per cent of young adults and 55 per cent of lone parents who receive Ontario Works have less than a high school graduation diploma. Ontario did have several provincially funded training programs in place for under-represented groups that predate the LMAs, such as the Bridge Training Program for internationally-trained professionals.
14. Though it would require additional research that is beyond the scope of this paper, Ontario and Quebec appear to be outliers in this regard. For example, because Ontario operated without an LMDA until 2005, it developed and funded its own suite of programs for this group including Job Connect, Literacy and Basic Skills, Apprenticeship programming, Summer Jobs Services, Bridge Training, and Language Training for Immigrants, to name a few. Quebec, as Noël (2011) points out, has long been interested in developing its own regionally-sensitive suite of training programs, and has devoted substantial additional provincial resources to achieve this.
15. There is also evidence to suggest that single males are facing increasing unemployment and having difficulty attaching to the labour market (Stapleton, 2011).
16. Battle et al. (2006) observe that one in four workers in Canada are low-wage and earn less than two-thirds of the national median hourly wage (under \$11 per hour), and that these workers tend to be women. In addition, the gender gap in EI coverage has recently widened, and tripled between 1996 and 2004, during which EI coverage for men fell from 49.3 per cent to 47.3 per cent, but for women fell from 47.3 per cent to 39.7 per cent during the same period.
17. There are provisions in the LMDA (section 3.3) that enable jurisdictions to make ongoing modifications to the design of benefits and measures as long as the modifications adhere to the requirement that similarity and consistency with the purpose and guidelines of Part II of the EI Act are maintained. Making these modifications is, however, an onerous process, which substantially limits the scope for provincial autonomy in this area.
18. Low-skilled refers to individuals who do not have a high school diploma or a recognized certification, or who have low levels of literacy and essential skills.
19. Most provinces, including Ontario, have recently signed temporary federal-provincial cost-shared agreements to administer the Targeted Initiative for Older Workers (TIOW) program which provides training to unemployed workers aged 55-64 in high unemployment regions.
20. While the LMDA transfer is the primary source of funding for the former federal ESBMs, Ontario also invests additional funding into these programs from its own resources.
21. This is not an exhaustive list of all employment training programs and support measures offered by all Ontario ministries.

22. It is important to note that the Second Career program did not exist before the LMA. . . While it does receive some LMA funding, it is considered to be an Ontario program and was developed to respond to a gap in training programs, rather than because Ontario received additional funds under the LMA.
23. Brown (2005) observes that Canada is unique among federations for the fact that approximately 94 per cent of current intergovernmental transfers are largely unconditional.
24. For example, influential work on career ladders emphasizes the development of educational pathways that improve employability by providing individuals with credentials targeted at specific industry sectors (Fitzgerald 2004). Markusen (2004) argues that community economic development planners can target required occupations as well as local industries.
25. For example, local training boards, the last remaining vestiges of attempts to build a collaborative, multi-stakeholder, multi-level governance labour market policy framework under the Canadian Labour Force Development Board (CLFDB) in the early 1990s, still operate in Ontario.
26. The one stop service delivery mechanisms will provide a suite of services in one location including job search; job matching, placements and incentives; job retention; client service planning and coordination; and resources and information to individuals and employers.

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## About the EI Task Force

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The Mowat Centre has convened a research-driven Employment Insurance Task Force to examine Canada's support system for the unemployed. The Task Force will develop an Ontario proposal for modernizing the EI system—conscious of the national context—that works for individuals and businesses.

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