



# IMPROVING THE GOVERNANCE OF EMPLOYMENT AND TRAINING POLICY IN CANADA

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APPLIED PUBLIC POLICY RESEARCH  
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# Executive Summary

Employment and training policy in Canada has undergone considerable reform in the past fifteen years. The devolution to provinces of programming funded by the Employment Insurance program that began in 1996 represents a dramatic change. Nevertheless, governance problems—in a policy domain where the federal government spends \$3.4 billion annually—remain. Based on our analysis of past experience as well as other policy areas, we propose modifications to governance that will lead to stronger policy to sustain Canada's workforce development system. Our governance model has four features. First, the creation of a national agency: The Canadian Labour Market Information Agency. This body would be charged with improving the quality, transparency and usefulness of labour market information, reporting and analysis. Second, a reformed and expanded Forum of Labour Market Ministers with the mandate to act as a multilateral, pan-Canadian intergovernmental forum responsible for the collective determination of all aspects of employment and training policy in Canada. Third, the consolidation of the existing separate bilateral federal-provincial agreements into one comprehensive agreement between the federal government and each province. In other words, each province would have only one labour market agreement with the federal government, with a common set of accountability and reporting requirements. Fourth, as part of the consolidation of agreements, and in keeping with greater multilateral decision-making, the federal government would transfer responsibility to the provinces for programs for youth and persons with disabilities, and provinces would accept and support an enhanced federal role in areas such as research, comparative benchmarking and pan-Canadian reporting.

# Improving the Governance of Employment and Training Policy in Canada

Donna E. Wood & Thomas R. Klassen

**S**ince 1940 Canada's unemployment insurance program has provided the first line of defence for many workers who lose their jobs and require replacement income support. From the very beginning the program has included an active measures component, with the understanding that preparing the unemployed to return to work is an essential—if not the paramount—role of a short term income support scheme for working age adults.

In 1996, in conjunction with a major reform to the program—including a rebranding as Employment Insurance or EI—the Government of Canada offered to devolve responsibility for active measures for recipients of federal employment insurance benefits to interested provincial governments.<sup>1</sup> Although active measures could be provincially delivered, federal offices would continue to deliver passive income support. The federal offer was triggered by a desire to demonstrate 'flexible federalism,' particularly in response to Quebec sovereignty demands. Decentralization and the enhanced local governance of employment and skills policy had also been promoted by the Organisation for Economic Co-operation and Development (OECD) as a key mechanism to boost economic growth and to create jobs (OECD, 2003).

Devolution of active measures was realized through largely similar bilateral Labour Market Development Agreements (LMDAs) between the Government of Canada and each province. These agreements transferred federal staff, assets and funding to provincial governments in exchange for their commitment to design and deliver what are called in the federal EI legislation 'Employment Benefits and Support Measures' or EBSMs. It took a decade-and-a-half for all 13 jurisdictions to enter into individual bilateral agreements with the Government of Canada on devolved LMDAs.<sup>2</sup> The last agreement with the Yukon Territory was implemented in 2010. In addition to LMDAs, the Government of Canada has also negotiated different bilateral agreements with provincial governments to provide active measures for non-EI clients, disabled persons and older workers. As a result, there are now relatively symmetrical active measures programs for most client groups available across Canada, governed by 49 bilateral federal-provincial agreements using four different agreement templates.<sup>3</sup> Some of these programs are funded through employer and employee contributions to the Employment Insurance account, others through general tax revenues.

Increasing human capital and returning the unemployed (or underemployed) to the workplace is critical to the success of an economy and nation. Arguably, employment and training policy—rather than passive income support—is the cornerstone of the EI program. Driven by constitutional politics, over the past 15 years the Government of Canada and all provincial governments have agreed to a dramatic decentralization of active labour market measures. Yet pan-Canadian arrangements to ensure coordination, coherence and mutual learning between governments have remained completely static. Although each province may report to and engage with its own citizens, there is limited research, reporting and ways to assess overall program effectiveness.

Ensuring that governance of this policy area is improved and strengthened—whether programs are funded by the EI program or from other government sources—is essential if Canada is to have a workforce that is educated, skilled and flexible (Wood and Klassen, 2009: 267). This paper suggests improvements that could be made to the governance of employment and training policy. It does not examine governance arrangements for active measures within each province, nor does it address governance issues related to the income support part of the EI program (called EI Part 1).

We begin by outlining the current governance of active measures programming in Canada, how these arrangements have evolved over time and the problems that have been identified post-devolution. In order to shed light on alternative governance models and help us to better understand how the current system works, we take a comparative approach. First we look at how employment policy is governed in two very different political systems—the European Union (EU) and the United States (US). These were selected as, like Canada, both represent large, complex and mature multilevel governance systems. Then we consider how other policy sectors in Canada are governed, focusing specifically on the Canada Pension Plan and the pan-Canadian Public Health Network. These were chosen as both demonstrate promising practices in terms of non-government participation and federal-provincial cooperation. The five governance systems identified are compared, drawing out potential lessons for Canadian employment and training policy. The paper concludes by proposing an alternative governance model for employment and training policy.

## Background

There is no mention of labour market policy in the division of powers under the *British North America Act*. Provincial governments are responsible for education (including training) and social services (including last resort social assistance). Ottawa has responsibility for overall macro-economic policy, as well as, since a 1940 constitutional amendment, exclusive jurisdiction over a contributory unemployment insurance scheme.<sup>4</sup> In the 1950s and 1960s as the modern welfare state was established, the federal government also began to develop a broad range of active measures for individuals who were not eligible for unemployment insurance (UI), such as youth, aboriginal persons, older workers, recent immigrants and others. The federal spending power was also used to fund the expansion of provincial social services programming and purchase training for UI clients. In the 1970s many provinces also started to provide active measures using provincial funding, perceiving gaps in federal programming, or a need to

strengthen provincial programs viewed as necessary for economic growth. They also entered into the policy domain due to concerns over rising social assistance caseloads and costs, which could be reduced with more programs to return social assistance recipients to the workforce.

As a result, a patchwork of programs arose, some federally funded (but often delivered by local agencies), others federally funded but provincially delivered, and yet others funded and delivered by provincial governments. The 1996 shift in governance that began with the LMDAs was an attempt to rationalize training policy and make it more responsive to provincial and local needs. This rationalization was initially sought as part of the Charlottetown and Meech Lake agreements, but with the failure of constitutional reform administrative re-alignment was used instead.

Active employment measures in Canada today are a combination of federal and provincial programs, some of which are charged to the EI account (funded solely by employer and employee contributions) and some of which are funded through federal general tax revenues, referred to as the Consolidated Revenue Fund (CRF). Table 1 provides an overview of active employment measures programming and the federal funding allocations in 2008/09 that are considered to be within the scope of this project.

**Table 1 Active Employment Measures and Funding 2008/09**

<b>PROGRAM NAME</b>	<b>FUNDING / ALLOCATION SOURCE</b>	<b>CONTROL</b>	<b>COMMENTS</b>
<b>Labour Market Development Agreements (LMDA)</b>	\$1939.7 M (EI)	Federal-provincial	Provides labour market adjustment services for clients with an EI attachment. Designed and delivered by provincial governments. Indeterminate funding.
<b>Pan-Canadian programming</b>	\$68.2 M (EI)	Federal	Provides funding for labour market partnerships and research & innovation. All programs are federally designed and delivered (Canada, 2010: 59).
<b>Aboriginal Skills and Employment Training Strategy (ASETS)</b>	\$94.0 M (EI) \$257.6 M (CRF)	Federal-aboriginal	Provides labour market adjustment interventions for Aboriginal Canadians. Delivery by 80 Aboriginal organizations across Canada.
<b>Targeted Initiative for Older Workers (TIOW)</b>	\$35 M (CRF)	Federal-provincial	Provides labour market adjustment services for unemployed older workers. Designed and delivered (and partially funded) by provincial governments. Agreements expire 2012.

Table cont.

<b>PROGRAM NAME</b>	<b>FUNDING / ALLOCATION SOURCE</b>	<b>CONTROL</b>	<b>COMMENTS</b>
<b>Labour Market Agreement for Persons with Disabilities (LMAPD)</b>	\$217 M (CRF)	Federal-provincial	Provides employment services and supports for disabled persons. Designed and delivered (and partially funded) by provincial governments. Ongoing funding.
<b>Labour Market Agreements (LMA)</b>	\$500 M (CRF)	Federal-provincial	Provides labour market adjustment interventions for non-EI clients. Designed and delivered by provincial governments. Agreements expire 2014.
<b>Aboriginal Skills and Employment Partnership</b>	\$30 M (CRF)	Federal-aboriginal	Provides labour market adjustment interventions for Aboriginal Canadians. Delivered in partnership with other organizations and provincial governments.
<b>Youth Employment Strategy (YES)</b>	\$232 M (CRF)	Federal	Provides labour market adjustment interventions for youth. Designed and delivered by the federal government through contractual arrangements with private and not-for-profit service providers.
<b>Opportunities Fund (OF)</b>	\$30 M (CRF)	Federal	Provides employment services for disabled Canadians. Designed and delivered by the federal government through contractual arrangements with private and not-for-profit service providers.
<b>Total</b>	\$2101.8 M (EI) \$1301.6 M (CRF) \$3403.4 M (total)		79 per cent of programs are under provincial design & delivery, 11 per cent are under aboriginal administration, and 10 per cent are under sole federal control. 62 per cent of programming is funded through the EI account, 38 per cent through CRF.

As part of the 2009 Economic Action Plan, the Government of Canada also made new time-limited funding of approximately \$900 million in 2009-10 available for labour market adjustment until 2011 (an increase of 26 per cent of the base funding). This funding has now ended.



## **Problems with Current Governance Arrangements**

The devolution of program design and delivery for active measures has led to positive outcomes in the governance of this policy domain. It has provided provincial governments with significantly greater flexibility to match programming to local conditions, thereby improving the effectiveness of labour market programming. Those involved with the sector believe that provincial governments (and their regional and local offices) have the necessary leadership and capacity to provide citizens and employers with the services they require (Wood, 2010: 69). It has also restored harmony in federal-provincial relations in the sector, a very significant accomplishment. However, three major sets of governance problems remain. First is executive dominance along with weak federal-provincial coordination that results in limited opportunity for stakeholders or citizens to participate on a pan-Canadian basis. Second is a lack of transparency and reporting, as well as comparative research and processes to facilitate mutual learning. Third is a continued fragmentation and residual incoherence, making accountability and program management difficult. We analyze each of these problems below.

### **Executive Dominance and Weak Federal-Provincial Coordination**

The Employment Insurance Act of 1996 is the prime federal legislation that authorizes and controls the federal-provincial LMDAs and other active measures programs charged to the EI account. The non-EI funded programming in Table A is governed by federal policy parameters via the annual budget process. Federal executives in consultation with federal politicians decide how much money is to be made available, how it is to be distributed between provinces, overall strategic priorities and directions, the nature of the individual agreements, and outcome indicators for each agreement. There is no over-arching pan-Canadian organizing framework collectively agreed to that binds the whole together, nor a public process involving debate between federal and provincial legislators or the public at large.

Each bilateral funding agreement has been negotiated at the executive level between the federal government and each provincial government. Within the context of the accountability provisions contained in each agreement, each province then decides 1) how it will structure the federally funded programs and whether specific provincial legislation is required; 2) how the federal programs will relate to provincial programs; 3) to what degree and how non-government actors will be involved; and 4) how provincial citizens will be informed. Unlike other social policy programs (e.g. health and post-secondary education), the federal funding provided to provinces for active measures is largely conditional, in that provinces must adhere to the provisions of the applicable bilateral agreement; however, there are limited mechanisms for calling a province that does not conform to the terms of a particular agreement to account.

The Canada Employment Insurance Commission is the only means for stakeholders (specifically business and labour) to directly influence EI program policy. The commission has four members—the chairperson and vice-chairperson are senior Government of Canada officials, while the other two Commissioners represent the interests of workers and employers. These commissioners are appointed following informal and ad hoc consultation with their respective communities (unions and employers). That this consultation is informal and ad hoc means the commissioners are largely selected by the federal government. Furthermore, the commission-



ers are prohibited from holding any other office or employment, making them full-time civil servants. Consequently, these two stakeholder representatives, without staff or other resources, have to date played a marginal role in EI policy-making.

There are many pan-Canadian as well as provincial organizations that from time to time express an interest in employment and training issues (for example the Canadian Labour Congress, the Canadian Association of Manufacturers and Exporters, the Canadian Association of Small Business, the Canadian Association of Universities and Colleges, national aboriginal organizations). Employer groups in particular often argue that using the EI account for active measures fragments the purpose of the EI program (Pal, 1983). However, there is no ongoing or permanent institutional process or structure to bring these organizations together or mobilize them around specific concerns.

One explanation for the exclusion of many stakeholders is the dismal experience of the corporatist arrangements of the 1990s. When the Government of Canada was fully in charge of EI-funded active employment measures, in an effort to foster corporatism, it increased the involvement of business and industry by establishing the Canadian Labour Force Development Board in 1991 to allow business, labour and other social partners to develop policy. These corporatist boards, also established in most provinces, were largely abandoned a few years later as the lack of consolidated labour and business organizations in Canada (unlike in Europe, from where this model derived) made it impossible for the boards to reach consensus (Klassen, 2000; Sharpe and Haddow, 1997).<sup>5</sup> In part due to the failure of the national board, the Government of Canada has established 37 national sector councils and related organizations for business, labour and professional groups to address human resource issues within their occupational sector; however, these have not forged formal linkages with provincial governments which now substantially control the Canadian workforce development system.

Notwithstanding devolution, the pan-Canadian institutional mechanisms that bring governments together on active measures have remained unaltered. The *Forum of Labour Market Ministers* (FLMM) was set up in 1983 and then formalized in 1993 to promote inter-jurisdictional cooperation on a wide variety of labour market issues. Three officials' working groups—labour market information, labour mobility and career development—are active and promising practices workshops have been held from time to time; however, post-devolution there have been fewer meetings of the broader forum, and limited ministerial engagement.<sup>6</sup> There is little, if any, structured involvement in the FLMM from legislators, aboriginal organizations, social partners, civil society or municipal governments. The FLMM is co-chaired by the federal government and a lead province where the lead rotates every two years on an east-to-west basis. A modest, provincially-managed, co-funded secretariat provides support, however the forum has no strategic policy capacity and in the past has not proven to be a locus of substantial federal-provincial negotiation. From time to time special commissions are put in place to examine labour market issues—for example, a special advisory panel of five members on labour market information was established in 2008 by federal-provincial labour market ministers and reported in 2009.<sup>7</sup> A key recommendation of the Advisory Panel on Labour Market Information was to adjust the FLMM governance structure, by including an enhanced secretariat and a renewed relationship with Statistics Canada and the Council of Ministers of Education Canada. To date there has been no government response to these recommendations.

## **Lack of Transparency, Reporting and Comparative Research**

In regard to labour market information, the Advisory Panel identified basic information gaps, parallel but separate and fragmented federal-provincial universes, a lack of public awareness about the importance of labour market information, and non-user friendly information. The only national report that is produced in Canada on employment policy is the annual *EI Monitoring and Assessment Report*, which provides little information on how services have changed under the LMDAs and cautions readers that interjurisdictional comparisons may be misleading due to differences in programming and labour market conditions. Dawkins concludes that this report is “vague to the point of being useless” (2009: 12).

The 49 bilateral federal-provincial agreements that govern active labour market policy have an array of differentiated accounting requirements. Reporting is problematic not only for provincial governments, who resist reporting to Ottawa in principle, segmented reporting also makes it gruelling for citizens and stakeholders to hold their governments collectively to account, as each province reports separately on each agreement, often at different times (Graefe and Levesque, 2008). Although the federal government posts provincial LMA and LMAPD reports on their departmental website, many are missing or incomplete. There are no pan-Canadian reports. As a result, it is very difficult for Canadians to determine the results achieved for the almost \$2.7 billion provided by the Government of Canada to provincial governments for employment and training programs.

With respect to research and information exchange for mutual learning, activities on a pan-Canadian basis are limited. Although the Labour Market Information Working Group and the Career Development Services Working Group under the FLMM maintain public websites related to the development and delivery of labour market information and career development services, they are not kept up to date.<sup>8</sup> Post-devolution ‘best practices’ workshops have been held on occasion on selected aspects of labour market policy; however these workshops were only open to government officials. The federal government does undertake evaluations and post results and facilitate exchange of research among academics through the *Canadian Labour Market and Skills Researchers Network*; however, there is limited provincial engagement in this federal dominated process. Until 2010, Canada also funded a Work and Learning Knowledge Centre of the Canadian Council on Learning that brought together more than 90 organizations in a consortium to identify and capture existing knowledge on workplace learning. However, federal funding for this network was discontinued in 2009. Many provinces refused to participate, viewing federal involvement as intrusion on provincial jurisdiction over education.

## **Fragmentation and Incoherence**

As outlined in Table 1, of the \$3.4 billion spent annually by the federal government on active labour market programming, 79 per cent of program expenditures are under provincial design and delivery, 11 per cent are under aboriginal administration, and 10 per cent are under sole federal control. 62 per cent of current programming is funded through the EI account, and 38 per cent through CRF. No consolidated information is available on the degree to which provincial revenues fund active measures, as this varies from one province to another. Wood estimated the federal contribution to support employment programming in Alberta as covering 50 per cent of the costs, whereas in New Brunswick it was 85 per cent (2010: 36 and 50).

The \$2.7 billion in federal money that is transferred to provincial governments each year flows through four separate agreements, each with its own client target group, accountability framework, and funding formula. This leads to a fragmented system that is very difficult to understand, let alone manage. For the LMDA funding was initially allocated through a formula based on a standardized set of labour market objectives, adjusted in relation to the impact of the overall 1996 EI reforms.<sup>9</sup> LMA funding is distributed between provinces on a per capita basis. In neither of these agreements is a provincial contribution required; this contrasts with the TIOW and LMAPD agreements where provincial matching funds are required. The one-time funding that was made available between 2009 and 2011 in response to the economic downturn was distributed based on each jurisdiction's share of the unemployed.

The four agreements plus the additional funding made available in response to the economic downturn have different funding allocation formulas. Moreover, there is no multilateral federal-provincial negotiation process open for citizens to discern how much federal money is on offer or how these funds are distributed between provinces. Indeed, there is very little public information available on any part of this process. Determining how much money is being transferred to each province requires a detailed review of federal and provincial press releases, that have been issued over various points in time. Since this is federal money, the Government of Canada determines the rules according to their priorities and available funds, both in the EI account and in the federal Consolidated Revenue Fund.

Despite devolution of federal programming to provinces that began in 1996, some incoherence remains. Although the 2007 federal budget outlined a new labour market training architecture that “clarified roles and responsibilities and recognized that provinces were best placed to design and deliver [labour market] programming” (Canada Department of Finance, 2007: 212-15), the federal government continues to directly design and deliver their own programs for youth (through the Youth Employment Strategy) and disabled persons (through the Opportunities Fund). There is no formal process for federally-funded programs for aboriginal persons through the Aboriginal Skills and Employment Strategy program to be coordinated with provincial programming, drawing on the expertise of provincial governments which are now substantially responsible for the policy domain.

Although the 2007 budget offered to explore the feasibility of transferring federal youth, older worker and disability programming to the provinces, there has been no action to date nor, according to federal officials, are any plans underway (Wood 2010). In the same vein, provincial governments have been unwilling to discuss a greater federal role in non-devolved areas, for example facilitating improved labour market information and research, and promoting consistency of programming across the country. While decentralization enhances many programme outcomes, not everything needs to be decentralized. Mosely (2009) highlights potential negative effects of decentralization, such as problems in performance accountability due to the number of organizations involved, and difficulties in achieving standardization in labour market and performance data. Decentralization may also conflict with notions of equal citizenship and equal application of the law, especially within countries with a strong tradition of social rights. Despite devolution, in some matters federal and provincial actors, in effect, remain competitors (not collaborators) as they continue to seek jurisdictional supremacy, tax resources, and the approval of the public as it relates to employment and training policy.

In summary, the governance areas that need to be addressed are: i) reducing executive (especially federal) dominance and providing a place for other actors to provide input; ii) increasing transparency, research and opportunities for mutual learning; and iii) reducing fragmentation and the remaining incoherence in the sector.

## Alternative Governance Models

Governance is not synonymous with ‘government’ and much recent scholarly attention—especially in the context of the deepening integration underway in the European Union—has been paid to examining different modes of governance, that is different types or styles of coordination and control (Bahr and Treib, 2007). An examination of governance calls attention to: i) the actors involved, ii) the rules governing the behaviour of actors, iii) the processes in place to facilitate interactions between actors, and iv) the mechanisms used to influence the policy making process (Zeitlin, 2009). We will use these four components as an analytical framework to assess and compare the governance of employment and training policy in Canada with other political systems and policy areas. Specifically we examine how employment and training are governed in the European Union and the United States, and also how the Canada Pension Plan and public health are governed in Canada.

### 1. European Union

From six founding members in the early 1950s to 27 member states today, the European Union (EU) has been slowly moving toward a fully federal system of governance. For governing such a large territory composed of different economic and social structures, creative governance solutions—beyond command and control from the centre—needed to be found. In 1993 an influential *White Paper on Growth, Competitiveness and Employment* stimulated political consensus around the structural nature of Europe’s employment problem. This led to voluntary agreement among member states to coordinate their policy responses at the European level. The European Employment Strategy (EES) was officially launched in 1997 at the Amsterdam European Council, with its governance supported through a framework called the Open Method of Coordination (OMC). The EES and OMC are outlined in Articles 126 and 128 of the Treaty establishing the European Community.

OMC governance involves five stages, all of which impose deadlines, obligations, and common agendas that facilitate dialogue, progress and convergence among member states. First is the development of *Employment Guidelines and Indicators*, adopted by the Council (comprised of Employment Ministers from each member state) based upon a proposal from the European Commission (EC), the EU executive. Next, individual member states report on how they have integrated the guidelines into their national policies through the release of *National Reform Programmes*, allowing for cross-national comparisons and evaluation. On the basis of these plans, the Commission and Council issue a European-wide *joint employment report* that reviews progress made at both the member state and EU level in response to the employment guidelines. Fourth are *country-specific recommendations*, proposed by the Commission and adopted by the Council, suggesting policy initiatives to address country-specific problems. The

publicizing of best as well as worst practices is intended to foster, with the support of public opinion, internal competition among the member states. The fifth component is a *mutual learning* process where member states, with the financial assistance of the EC, host peer review processes including study visits to member states focused around specific problem issues.

From the very beginning the EES called for the involvement of a variety of actors. Ministers from member states usually meet around four times a year, supported by the Employment Committee (EMCO), a group made up of two civil servants per member state as well as the European Commission. The European Parliament is expected to give an opinion and issue an annual progress report. There is also a structured process for the Council and the Commission to consult regularly with the Economic and Social Committee and the Committee of the Regions. The European social partners have a treaty-based mandate to be consulted on the EES, and meet with EMCO twice a year. In 1998 and again in 2001, the EES Employment Guidelines were amended to bring civil society actors as well as regional and local governments into the process.

There are mixed views on the effectiveness of both the European Employment Strategy and its OMC governance model. Certainly the involvement of non-state actors has increased significantly, as European social partners are formally consulted on the EES and meet regularly with Council and Commission officials. This has also stimulated increased participation at the national level, where most member states have established new processes to involve their social partners, civil society representatives, and local and regional governments in the preparation and implementation of their National Reform Programmes (Zeitlin, 2005). OMC governance has pushed individual member states to upgrade their statistical monitoring and evaluation capabilities as they seek to provide comparable data for many key indicators, so that comparisons can be made and mutual learning take place (Kluve et al., 2007). New bodies and expert networks for monitoring and evaluation have been created, including the European Employment Observatory, which provides information, comparative research and evaluation on employment policies and labour market trends.<sup>10</sup> Transparency has improved significantly as ministers' and committee meeting opinions, reports and outcomes are now posted on public websites.<sup>11</sup> However, whether the OMC is just a 'talking shop,' or has delivered on fundamental change remains very much open to debate among academics (Hughes, 2001; Moller, 2010; Tommel, 2010). On the other hand, policy-makers generally view the OMC as a success, and certainly better than 27 uncoordinated approaches (Begg et al., 2010).

## 2. **United States**

Like Canada, the United States reformed the governance of many of its training programs in the late 1990s by decentralizing responsibility away from the federal level. This was partly due to the concern that there were inefficiencies and less than effective outcomes among many separate programs. The overall thrust of the reforms was to make employers, rather than unemployed workers, the primary customer of services (Troppe et al., 2007). This was possible because in the United States, unemployment insurance premiums are paid only by employers (that is, there is no worker contribution).



The reforms—specifically the *Workforce Investment Act* (WIA) of 1998—consolidated more than 60 Federal workforce-related programs into four grants to states and local workforce areas: Adult Employment and Training grants; Dislocated Worker Employment and Training grants; Disadvantaged Youth Employment and Training grants; and Adult Education and Literacy grants. These grant programs are administered by the federal Department of Labor, primarily through its Employment and Training Administration. Statutory formulas distribute funds to states based on measures of unemployment and poverty status for youth and adult allocations, and unemployment measures only for dislocated worker allocations. States in turn distribute funds to local workforce investment boards. WIA attempts to encourage productivity through a ‘high performance bonus,’ have been the subject of much criticism (Wiseman, 2010).

A central aspect of the reform was to establish more than 600 local Workforce Investment Boards (WIBs). Each of these organizations is responsible for administering the programs in its jurisdiction and for contracting with local organizations to provide the services. The WIBs typically contract with local community colleges, secondary school districts, and private companies to provide the training. Private employers must comprise a majority of each Workforce Board and the chair must be elected from the private sector membership. Additionally, states themselves can enter into contracts with institutions of higher education, such as community colleges, or other eligible training providers to facilitate the training of a group of individuals.

Evaluations of the reforms have been generally positive, especially in pointing to the engagement of the private sector and the promotion of local flexibility (Social Policy Research Associates, 2004). As well, cooperation between agencies has increased in many locations (Mason, 2008). At the same time, results have not been consistent across the nation and criticisms have been raised about accountability measures that encourage meeting numerical targets rather than enhancing employability.

Although there has been decentralization, the federal level remains paramount in making decisions with the state governments playing little role beyond service delivery in accordance with federally mandated requirements. However, unlike Canada, federal legislators assume a much larger role (Congressional Research Service, 2009).

### 3. **Canada Pension Plan**

The Canada Pension Plan (CPP) created in 1966 is, like EI, funded entirely by contributions from workers and employers. Constitutional amendments in the 1950s and 1960s established pensions as a concurrent federal-provincial jurisdiction. As a result, provinces were entitled to reject the federal government’s plan for a national pension scheme and establish their own contribution-based pension. However, only Quebec did so, creating the Quebec Pension Plan (QPP) at the same time, which is largely similar to the CPP. While primarily a retirement plan, the CPP also provides disability, death, survivor and children’s benefits, and assists some disability beneficiaries’ return to the workforce through vocational rehabilitation services and return-to-work supports.

The governance of the CPP requires that substantive amendments receive the agreement of two-thirds of the provinces that participate in the CPP as well as any with comparable plans. As such, Quebec participates in decision making regarding changes to the CPP legislation, even though it administers its own plan. This is critical to ensure the portability of QPP and CPP benefits. Reforms are supported by the analysis and advice of a small group of experts drawn from the academic and the financial services sectors who work closely with government bureaucrats. These experts, either individually or in small groups, are used as a means to evaluate options and seek the perspectives of key stakeholders.

There is considerable public reporting for the CPP. Annual reports for both the CPP and the CPP Investment Board (which invests funds collected from workers and employers), detailing their activities, finances, and future objectives, must be submitted to Parliament and the public. Every three years, there is also an automatic review of the CPP and the Investment Board by the federal and provincial finance ministers. Commonly referred to as a Triennial Financial Review, this is an opportunity for policy shifts to be considered and approved. This review is partially based on the triennial reports of the Chief Actuary of the Office of the Superintendent of Financial Institutions which provides a detailed examination of the sustainability and other factors related to the CPP.

Significant reforms of the CPP in 1997 added two important governance elements in the CPP legislation. First, an incremental full funding requirement now requires any new increases to benefits to be fully funded. In other words, their costs must be paid as the benefit was earned and any costs associated with benefits that were paid but not earned would be amortized and paid for over a defined period of time. This reform was to avoid reforms that increase benefits without also at the same time ensuring that there were funds available to pay for these benefits. Second, a fail-safe mechanism was enshrined so that if Ottawa and the provinces cannot agree on reforms to keep the plan financially sustainable in the long-term, contribution rates will increase automatically to meet half of the anticipated deficiency (phased in over three years) and indexation of the CPP will be frozen for the next three years (Weaver, 2004). Both of these reforms were designed so that if decision makers are unable to agree on reforms, the financial sustainability of the CPP is not jeopardized (Little, 2008: 248-50).

However, the CPP has a decades-long history of little federal-provincial tension, as governments have generally agreed on required reforms and adjustments. The governance regime has been able to accommodate the desire of Quebec for a separate pension scheme, yet also maintain a system that provides workers with the same benefits regardless of province of employment. From an international perspective, the CPP and QPP are lauded as maintaining a high degree of policy coherence and stability when many other developed nations have seen significant reforms in their pension schemes (Béland and Myles, 2005). This is particularly noteworthy since the CPP—unlike the other policy areas examined—is a specific program administered by the Government of Canada, rather than an intergovernmental agreement or framework that governs a program. A key feature of the CPP, which has been enhanced over the decades, is that data (on premiums, benefits, projections for the future, etc.) is available to all stakeholders.



#### 4. **Pan-Canadian Public Health Network**

Over the past decade, a number of new institutions and processes have been established to improve the governance of Canada's health system. Formed in 2004, the Public Health Agency of Canada (PHAC) is charged with developing national plans and systems for influenza pandemic and other infectious disease outbreaks in conjunction with provinces and territories. Federal/provincial/territorial (F/P/T) collaboration, as well as the development of new ways for government and experts to work together, is accomplished through the *Pan-Canadian Public Health Network*, established in 2005 by Canada's Federal, Provincial and Territorial health ministers. Designed specifically to accommodate the principle of collaborative federalism, the mandate of the network is multi-faceted, ranging from facilitating information sharing among all jurisdictions in Canada, to working with and providing policy and technical advice to F/P/T deputy ministers of health on public health matters, to supporting the public health challenges jurisdictions may face during emergencies and/or crises. The development of collaborative public health strategies is another important area of focus for the network.<sup>12</sup>

The Network is governed by a council, co-chaired by the chief public health officer of Canada (the federal co-chair) and a provincial co-chair. Each province or territory is represented on the council, usually by an assistant deputy minister of health or a chief (or associate) medical health officer. The council is accountable to the federal, provincial and territorial deputy ministers of health, and through them to the Council of Health Ministers. The network itself is comprised of academics, scientists, public servants and members of non-governmental organizations who together form six expert groups on the following topics: communicable disease control; emergency preparedness and response; Canadian public health laboratories; surveillance and information; chronic disease and injury prevention and control; and health promotion. In each of their areas of expertise these groups coordinate activities, conduct research and facilitate the sharing of information. The expert groups are supported as needed by issue groups. Fierlbeck (2010) identified twenty-three permanent and five temporary issue groups. While there is a public website, there does not appear to be a permanent secretariat associated with the network or centralized contact information. Anyone seeking additional information is encouraged to contact their provincial representative on the Council or the respective expert group.

Assessment of the effectiveness of the network is mixed. While Fierlbeck reports that "there is ... unanimous agreement that the Pan-Canadian Public Health Network is far superior to the system that existed previously," she also notes problems with the failure to facilitate and develop the main coordinating institution, the Public Health Agency of Canada (2010: 14). In her view there is little evidence of the political will and political leadership necessary to make the agency as effective as it could be using tools that are already present. In its 2008 review of PHAC, the Auditor General highlighted the difficulty PHAC experienced in securing provincial cooperation, noting that the agency must rely on the goodwill of the provinces and territories and did not necessarily receive accurate, timely and complete information.

McDougall (2009) also highlighted how the preservation of existing jurisdictional roles and responsibilities continues to trump policy effectiveness and respect for democratic principles. He is particularly scathing in his assessment of the work of the expert groups which, in his view, have achieved little substantive progress and "appear to be falling prey to much the same

forces: the recurring pattern is that provincial and territorial ministers of health grow weary of such structures due to the lack of results, and gradually withdraw” (McDougall, 2009: 27). He highlights problems of missed deadlines and the failure to reach F/P/T accords.

## Analysis

We turn now to a comparison of the key features of the five governance models examined to extract elements that might be utilized in designing an improved governance model for employment and training policy in Canada. Table 2 summarizes the key features of employment and training policy in Canada, as well as the other jurisdictions and domains studied in this paper.

**Table 2 Comparison of Governance Models**

<b>GOVERNANCE ELEMENT</b>	<b>EMPLOYMENT &amp; TRAINING POLICY IN CANADA</b>	<b>EMPLOYMENT &amp; TRAINING POLICY IN THE EU</b>	<b>EMPLOYMENT &amp; TRAINING POLICY IN THE US</b>	<b>CANADA PENSION PLAN</b>	<b>PAN-CANADIAN PUBLIC HEALTH NETWORK</b>
<b>Key Actors</b>	Ministers & bureaucrats; no formal role for legislators or stakeholders (other than EI Commission).	Ministers & bureaucrats; formal role for EU parliament, EU institutions, social partners & civil society at EU and member state levels.	Congress and related agencies. State and sub-state agencies. Employers are given a privileged position at the delivery level.	Ministers and bureaucrats, with a separate role for Quebec. Active participation of experts.	Ministers & bureaucrats; formal involvement of academics, scientists, non-government organizations.
<b>Rules</b>	Constitutional division of powers; EI legislation; federal-provincial and federal-aboriginal conditional transfer agreements; federal contracting rules.	EU Treaties define roles. Supported by 5 stage formal OMC process. Limited financial transfers except through European Social Fund.	Congress remains paramount in allocating overall budgets and determining rules, but local agencies have flexibility in design and delivery.	Concurrent constitutional powers; CPP legislation provides overarching framework; understanding to keep the CPP similar to the QPP (and vice-versa). Program is delivered by Government of Canada.	Constitutional division of powers; rules set by Ministers of Health, not legislation. No formal agreements or transfer of funds.

*Table cont.*

<b>Interactions</b>	FLMM involves executives only; otherwise interactions are primarily bi-lateral; limited reporting or transparency. No arm's length agents.	OMC process controlled by Ministers and EMCO. Extensive multilateral interaction. Transparency through websites, reporting and external agents.	Mostly focused on program delivery and ensuring greater coordination at the local level. High level of program evaluation.	Reliance on a small group of experts with Ministers of Finance given primary responsibility to manage this program.	Council reports through to Ministers of Health. Six expert groups plus issue groups undertake work. Public website provides some information.
<b>Major Causal Mechanism(s)</b>	Conditional federal grants; informal mutual learning.	External pressure using benchmarking; structured mutual learning; policy diffusion based on information exchange & comparison.	Conditional federal grants including performance bonuses; Congressional oversight and results from evaluations; feedback from employers.	Desire to ensure CPP and QPP are complementary. Long-term and largely predictable trends (fiscal sustainability, retirement patterns, etc.)	Mutual learning; pilot projects; policy diffusion based on information exchange.

The table makes clear that governance structures and processes vary considerably across policy domains and jurisdictions. In terms of the actors involved, Canadian governance tends to be executive-centred, much more so than in the United States and Europe where employers and other stakeholders have defined formal roles. The rules for the Canada Pension Plan, Canadian active measures under EI, and workforce investment in the US are outlined in formal acts of the national legislatures, although in the case of CPP concurrent jurisdiction ensures that provincial governments are part of the decision-making process. This formal legislative approach contrasts with the rules that govern both the European Employment Strategy and the pan-Canadian Health Network. These are much softer, with greater ability to adapt and change. In all the cases examined—except for employment and training policy in Canada—the institutional structures that facilitate interactions between actors or ensure transparency and public reporting are multilateral (not bilateral) in nature and include actors beyond just government executives.

The governance models examined in this paper stress evidence-based policy making with considerable dissemination of information to the public and to stakeholders, a situation which does not exist with employment and training policy in Canada. Finally, it is only in the employment policy domain in Canada and the United States that the main causal mechanism to influence behaviour and action is money. Most of the European Union techniques such as benchmarking, policy diffusion, and formal mutual learning receive little consideration in employment and training policy in Canada. Unlike the United States, in Canada there are no defined processes for feeding evaluation results or employer views into active labour market programming, other than on a province-by-province basis.

## **Alternative Governance Model for Active Labour Market Programs in Canada**

As identified above, in other countries as well as other policy areas in Canada there are robust governance models that formally involve stakeholders beyond the executive, and also include greater transparency in accountability and reporting. The governance model we propose reflects the nature of the Canadian federation, the outcome of past reforms in employment and training policy, and the lessons learned from our examination of other political systems and policy fields.

Our objective below is not to design all the specific elements of a new governance regime, but rather to sketch the key reforms. These reforms to governance will lead to stronger policy that can sustain Canada's workforce development. Our governance model has four features:

### **1. The creation of a national agency: The Canadian Labour Market Information Agency**

This body would be charged with identifying, maintaining and disseminating labour market information; data gathering and analysis for comparative research across provinces/territories; monitoring and sharing best practices; assessing trends and policies across Canada and internationally; evaluating labour market program results (both Canadian and internationally) and comparative research. Its role would be to improve the quality, transparency and usefulness of labour market reporting and analysis. The agency would work with Statistics Canada, the Council of Ministers of Education Canada (CMEC), as well as federal departments, provincial governments and international bodies, such as the OECD.

To some extent, the role of this agency has historically been within Human Resources and Skills Development Canada (HRSDC) and continues today with federal officials in Ottawa as well as labour market analysts present in most regional Service Canada offices across the country. The agency would take on these functions, as well as providing overall direction and support to the national sector councils currently under the control of HRSDC. Now that most labour market programming has been devolved, it is imperative that relevant data and information—presented in a format that can be used by all (the federal government, provinces, business and labour groups, sector councils, etc.)—be made widely available. As such this agency, in part, could be created by transferring resources and staff that currently exist within HRSDC.<sup>13</sup> The agency would be supported by a core team of government officials from all jurisdictions, as well as a network of correspondents from key stakeholders, including business, labour, experts, ASETS holders, universities and colleges, private networks of employment service providers, etc. It would perform a similar function with regard to employment and training to that performed by the Canadian Institute of Health Information (CIHI) in the health sector and the Canadian Education Statistics Council in the education sector.

**2. A reformed and expanded FLMM with the mandate to act as a multilateral , pan-Canadian intergovernmental forum responsible for the collective determination of all aspects of employment and training policy in Canada**

The forum, in its structure and *modus operandi* remains largely as it was in 1983 and now needs to reflect the significant shifts that have occurred over the course of several decades. The new FLMM's role would include the development of strategic directions and vision, how this vision would be assessed, and how it would be implemented through the transfer of federal funds to provinces and territories. The FLMM would be the governing body for the Canadian Labour Market Information Agency, and would also be charged with negotiating the new round of comprehensive labour market agreements. It would play a central role in the design of any stimulus packages to combat increasing unemployment, such as that announced in the 2009 budget. It would also act as the mechanism for provinces and territories to provide input into the EI income support program, and coordinate provincial social assistance programs with the federal EI program.

The reform proposed to the FLMM would require that the federal government agree to a loss of its priority-setting prerogative. However, given that the objective of the reform is to strengthen strategic (pan-Canadian) policy—which after all is the aim of the federal government—such a loss does not seem an insurmountable barrier.

Among reforms to the FLMM to meet this new mandate are the creation of a larger and permanent secretariat, the establishment of regular meetings of ministers and deputy ministers, and the enhancement of linkages with other intergovernmental forums, at a minimum the Council of Ministers of Education Canada and Immigration Ministers. The FLMM would be required to produce annual reports that address the accountability and transparency of labour market programs, as well as set in place a defined process to solicit the input of business, organized labour, aboriginal organizations responsible for ASETS programming, and other stakeholders involved in labour market policy in Canada. A key element of that discussion should include a process to discuss with employers in particular the present practice of funding active measures for EI claimants from the EI account.

The reformed FLMM would also be able to determine if there is a role for non-governmental stakeholders in the forum. The experience of the corporatist experiments of the 1990s suggests caution in this regard. However, there may be mechanisms that could ensure a more robust engagement of business and labour in policy formulation. The US and EU experiences might prove of utility in this regard.

**3. A consolidation of the many current bilateral federal-provincial agreements into one comprehensive agreement between the federal government and each province**

In other words, each province would have only one labour market agreement with the federal government. The agreement would have a single funding formula (comprised of EI and CRF components), and a common set of accountability and reporting requirements, regardless of

client groups or program. The agreement should contain flexibility so that a province could re-allocate funds say from disabled to older workers, should conditions dictate. This consolidation process would be a key responsibility of the reformed FLMM and would facilitate strategic policy.

We have not proposed a complete devolution of responsibility to the provinces, such as via a block funding arrangement. Although extracting the federal government altogether from the policy field, and allowing the provinces to proceed autonomously and independently might seem appealing in its simplicity, there is little evidence that it results in superior outcomes. The international experience suggests that both orders of government need to be engaged and involved in labour market policy. Labour market policy is complex and linked, has national as well as regional and local dimensions, and, as we have indicated, requires horizontal coordination with other policy fields from education to immigration. It is also unique in that the Government of Canada has constitutional jurisdiction for unemployment insurance and programs that assist the unemployed get back to work, and collects the necessary funds to operate active employment programs. The degree of conditionality and the use of the different funding sources for a new consolidated agreement are key issues that would need to be considered by a revitalized FLMM with input from important stakeholders.

Such consolidation would not only reduce transaction costs, but more importantly, would ensure that employment and training policy are considered holistically and strategically. A consolidation also reflects the long-term trend of treating all labour force participants equitably, rather than in silos, be these persons with disabilities, older workers or others. The loss of visibility that would occur in respect to specific client groups is minor and would be compensated by the greater attention given by labour market policy via the first recommendation.

4. **As part of the consolidation of agreements, and in keeping with greater multilateral decision-making, federal and provincial governments would finish the work needed to consolidate, affirm and fully operationalize the devolution decision**

This would include negotiating the transfer of responsibilities for programs for youth and persons with disabilities to provincial governments. With the exception of programs for Aboriginal persons, the federal government would no longer oversee direct services provided to the unemployed or employers.<sup>14</sup> It would also include negotiating an enhanced federal role in areas such as research, comparative benchmarking and pan-Canadian reporting, with full provincial support and participation. The reformed FLMM would be utilized to negotiate this final realignment, to occur in the context of the consolidated federal-provincial agreements.

## Conclusion

Labour market policy, especially for active programs, presents particular challenges for policy makers. Decisions must reflect rapidly shifting economic and labour market conditions, often using limited and invariably incomplete data. Programs seek to intervene in the affairs of private actors—individuals and employers—whose behaviour is difficult to predict or influence.

Active labour market policy in Canada has been the locus of considerable reform in the past fifteen years, with the devolution of programming representing a dramatic change. The governance model we propose, which encompasses both programs funded by EI and those funded from consolidated revenues, seeks to strengthen the positive aspects of the devolution, while addressing its shortcomings, including those identified most recently by the Advisory Panel on Labour Market Information.

The Canadian Labour Market Information Agency which we propose recognizes that decision making is, and will need to become more, decentralized and therefore requires an information base that is available to all. The shift to greater multilateral decision-making with the FLMM recognizes that some elements of labour market policy have pan-Canadian implications and that the current governance arrangements cannot adequately address these. The consolidation of existing agreements into a more comprehensive one is a general direction that governments have been pursuing although there is considerable work that remains. This consolidation needs to be undertaken in multilateral discussions. Lastly, as part of these discussions, the transfer of the remaining client groups (excluding programs for Aboriginal people) to the provinces is the logical conclusion to the devolution process. The governance reforms we propose are realistic and transformative ones that can be implemented in reasonably short order and will have immediate positive impacts on Canadian labour market policy.

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# Endnotes

1. When the term “provincial” is used in this paper, it generally also includes territorial governments.
2. British Columbia, Nova Scotia, Prince Edward Island, Newfoundland & Labrador and the Yukon initially signed co-managed agreements where the federal government retained responsibility for program design and delivery.
3. This does not include Immigration Agreements which often contain a labour market component. In addition, the federal government has retained responsibility for aboriginal persons and youth, as well as pan-Canadian programming.
4. A recent Supreme Court ruling *Confederation des syndicats nationaux vs. the Attorney General of Canada* on December 11, 2008 confirmed that the federal unemployment insurance power must be interpreted generously, and its dual objectives are to remedy the poverty caused by unemployment, as well as maintain the ties between unemployed persons and the labour market. See <http://lexis-nexis.ca/documents/Arvida-en.pdf> for more information.
5. Quebec, Saskatchewan and Newfoundland and Labrador have retained provincial boards, while Ontario has a system of local boards.
6. Between 1985 and 1995, FLMM Deputy Ministers met twenty-one times and Ministers thirteen times. Post-devolution (between 1996 and 2008), federal-provincial Deputy Ministers met twelve times and Ministers only seven, a significant decrease. There has been a seven year gap between Ministers’ meetings (2003-2010).
7. See [http://www.imt-lmi.ca/eng/pdf/final\\_report\\_pdf-eng.pdf](http://www.imt-lmi.ca/eng/pdf/final_report_pdf-eng.pdf) for details.
8. See <http://www.flmm-lmi.org/english/View.asp?x=1103> and <http://www.flmm-cds.ca/english/View.asp?x=1103>
9. Despite provisions for changes to the allocation formula available in the LMDA agreements, this formula has not changed nor has the funding been increased since 1996. The amount of funds that can be allocated to active measures from the EI account is governed by the EI legislation, which imposes a ceiling of 0.8 per cent of insurable earnings that can be dedicated to active measures.
10. See <http://www.eu-employment-observatory.net/index.aspx> for details.
11. See <http://ec.europa.eu/social/main.jsp?catId=101&langId=en> for details.
12. See [http://www.phn-rsp.ca/About\\_e.html](http://www.phn-rsp.ca/About_e.html) for details.
13. A model for such an agency is the European Employment Observatory (EEO). See: <http://www.eu-employment-observatory.net/index.aspx>. The EU also has a separate Mutual Learning Programme, see <http://www.mutual-learning-employment.net/contact-us/>. The secretariat for both of these European Commission funded processes is provided by a private company, GHK Consulting.
14. Given federal constitutional responsibility for Indians and land reserved for Indians, we believe that oversight for aboriginal labour market programming should remain with the Government of Canada.

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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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