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In the beginning of the 1990s, most of the developed democracies went through

soon became, clear, however, that national practices and institutions would not be refashioned easily. Policies and programs were embedded in broader patterns of social regulation, they were deeply anchored in national traditions and values, and they continued to be strongly supported by social and labour market actors.⁴ Adjustments were made, but most were cautious and incremental.⁵ In fact, these changes preserved “the prevailing regulatory framework while introducing elements of flexibility at the margin.”⁶

the other side of the coin so to speak, is to consider federalism in light of labour market policies and, more broadly, of varieties of capitalism, a perspective seldom used in the comparative study of federations. To do so, the book presents case studies of five federations: the United States, Germany, Switzerland, Belgium, and Canada. These cases include countries that can be characterized as liberal market economies (the United States and Canada) and others that have coordinated market economies (Germany, Switzerland, Belgium), as well as federations that are majoritarian (the United States and Germany) and others that are plural or multinational (Switzerland, Belgium, Canada).¹² The fact that these differences do not overlap is particularly helpful to see the various institutional arrangements at play.

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Peter Hall and David Soskice distinguish two broad types of advanced capitalist societies, the liberal market economies (LMEs) and the coordinated market economies (CMEs). In liberal market economies, “firms coordinate their activities primarily via hierarchies and competitive market arrangements,” whereas in coordinated market economies, they “depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies.”¹³ These behavioural patterns and the social arrangements, informal rules, and cultures that sustain them are anchored in a country’s history, but they are also continuously tested and must often be “reaffirmed.” Over time, institutions develop to sustain these choices and practices. In liberal market economies, these institutions give rise to an open market for corporate shares, deregulated labour markets where hiring and firing is easy, and an education and training system oriented toward general, transferable skills. In coordinated market economies, firms have access to more “patient” capital through dense networks where information and reputation are important, they rely more on a skilled labour force that is organized, stable, and represented within the firm, and they count on an elaborate education and training system that produces workers and employees with industry-specific or even firm-specific skills.¹⁴

In liberal market economies, public policies tend to favour measures that “sharpen market competition,” because coordination is achieved primarily through market mechanisms. Efforts to do otherwise, to promote concerted actions between business and organized labour for instance, are likely to fail. In coordinated market economies, on the other hand, policies “that reinforce

the capacities of actors for non-market coordination” are more likely to be pursued and to be successful. Hence, social and labour market policies will be more developed in the latter, and constantly questioned and challenged in the former. Trade unions will also be in a more precarious position in liberal market economies.¹⁵

There are obviously important differences within these two broad cat-

has had almost no place. Federations are either contrasted globally to non-federations, or they are treated one by one, in detailed case studies that do not lend themselves easily to comparative analysis. Federalism scholars interested in public policy, note Jonathan Rodden and Erik Wibbels in a recent article, have tended to place “too much emphasis on differences between federal and unitary systems and not enough on the institutional, political, and cultural diversity within these two types.”²⁰ To a large extent, this is the case because the driving hypothesis behind this research tradition is the idea that federalism and decentralized decision-making tend to be “market-preserving” and inimi-

otherwise equal conditions, have a harder time achieving effective political action than single-actor polities, and even though we are impressed by the fact that appropriately specified hypotheses derived from this theory are able to explain 0.1 percent of the empirical variance in multivariate regressions (Bawn 1999), we are still confronted with the fact that multi-actor Germany was better able to respond to the crises of the 1970s than were single-actor Britain, France, or New Zealand.²⁶

Paying close attention to the diversity of federal arrangements is necessary if we are to explain the interactions between labour market policies and federalism.

Three broad distinctions have been introduced thus far: one between liberal market economies and coordinated market economies, one between countries where unemployment is a critical political issue and others where it should be less problematic, and a last one between majoritarian and multinational federations. These distinctions are not very fine; they encompass large groups within the universe of developed democracies. Still, they point at distinct political purposes and different institutional arrangements that should matter for the study of labour market policies and federalism.

In liberal market economies such as the United States and Canada, labour market policies have not been seen, traditionally, as a core domain for state intervention and political debates. Unemployment, of course, has remained an important political issue, especially in Canada where it has been relatively high and unevenly distributed across the country but, beyond income support,

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that continues to be significant, but tends to be perceived as a useful administrative and democratic device more than as a fundamental political condition.

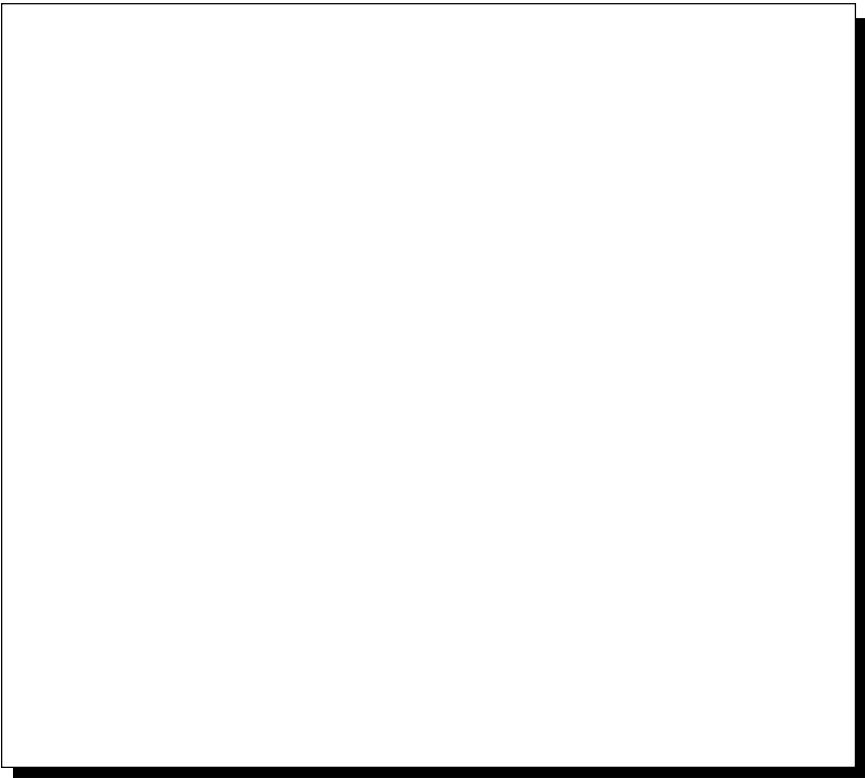


Figure 1 indicates how varieties of capitalism intersect with varieties of federalism, to produce distinct debates, specific to each country. In coordinated market economies, labour market policies tend to be more important politically, and federal questions matter more or less, according to the majoritarian or multinational character of the country. In liberal market economies, labour market policies are lower on the agenda, and the salience of federalism varies in the same fashion. We thus have one case where both dimensions are less salient (the United States), one where federalism is the paramount issue (Canada), one where labour market policies are highly political (Germany), and two where both dimensions appear important (Switzerland and Belgium). The cases have also been positioned in space within their quadrant, to indicate variance among types. Canada, for instance, is placed further than all along the salience of federalism axis, because the question is important enough to threaten the very existence of the federation. Belgium, where reforms were undertaken in the 1980s and 1990s to make the country federal, is not far behind, further on the right than Switzerland. Likewise, within each variety of capitalism, countries with higher unemployment rates (Germany, Belgium, Canada) are located higher than countries with better records on jobs (Switzerland, United States).

The distinctions presented in Figure 1 are qualitative and should not be overstated. One should keep in mind that labour market policy and federalism matter in all these countries. The differences outlined here nevertheless appear significant and they help to contrast, in a coherent and theoretically grounded way, the different cases under study. We are indeed comparing countries where these two political issues occupy very different places in the political debate.

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Two of our cases are unilingual, rather homogeneous majoritarian federations. In these countries, the United States and Germany, federalism was introduced not to manage diversity, but rather to enhance democracy. Not surprisingly, over time these two federations have evolved toward fairly centralized arrangements. In the case of Germany, centralization was reinforced by a widely shared political commitment to equalize as much as possible the living conditions of all citizens. This commitment also required a strong welfare state and elaborate labour market policies. In the United States, the creation of an integrated but free market prevailed over the promotion of social citizenship, and labour

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The Employment Service is also a federal-state system that functions along the lines of unemployment insurance.

With respect to training, the situation is somewhat similar. In the past,

Germany

The German federal system is also very centralized, but in a different way. As Steffen Schneider, of the University of Augsburg, explains in his chapter, Germany's "highly centralized and interlocking" system is "almost completely dominated by the federal government and national institutions," so much so that federalism is not a very important dimension of labour market policy. Key decisions are made at the centre, and uniform policies and outcomes are privileged.

In a sense, Germany could be understood as the model social union. Over the years, the federal government has prevailed on most social policy questions, because the Basic Law allowed it to legislate in areas of concurrent jurisdiction, whenever it was necessary "to establish and maintain the legal and economic union of Germany, as well as to promote and safeguard the equality of living standards throughout the country." The Länder have maintained a role because they implement most federal legislations and participate in the formulation of these legislations, either through intergovernmental bargaining or through the Bundesrat, the federal upper house that is composed of delegates from the Länder. State governments do not question, however, the idea of a closely integrated social union. Often, Länder governments harmonize their policies themselves, horizontally, to achieve uniformity and prevent the

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of unemployment and reunification created difficulties and led to some retrenchment in labour market policy, but this evolution proceeded in the incremental and moderate fashion typical of German politics. Continuity and adjustments characterized both the expansion and the retrenchment periods.

Persistently high unemployment levels have presented a challenge, but they have not reversed the German approach to labour market policy. Even German unification — a formidable task that brought into the country an entire region that was poorer, less productive, and poorly endowed in skills — was achieved with basically the same policy objectives and approaches as before.³² The practices associated with a majoritarian federation and a coordinated market economy are very centralized, not always effective, and often perceived as insufficiently flexible, but they contribute in a significant way to the equality of social conditions, among regions as well as among households. Many of the country's policy instruments have been evaluated as efficient and effective, the system allows for regional inputs and variations, and it gives an important role to stakeholders (business and labour, in particular). Labour market policy remains an important political issue, one of the most important according to Steffen Schneider,³³ but the debate in this case has less to do with federalism than with labour market objectives and instruments. In Germany, federalism is only one aspect of the politics of consensus, and probably not the most difficult one. The problem with federalism, in this case, may be less the maintenance of consensus than the preservation of diversity, in a country that prizes solidarity and equality so highly.³⁴

Switzerland

Like Canada, Switzerland is a multilingual country, where federalism plays an important role in the political management of diversity. Social and labour market policies reflect this situation. Herbert Obinger, of the University of Bremen's Centre for Social Policy Research, presents the country's labour market policy arrangements as a regional and "highly fragmented" system. With about seven million inhabitants, Switzerland has "26 different social assistance and almost as many unemployment assistance laws." Active labour market measures are also primarily defined at the cantonal level. The norm setting and harmonization typical of coordinated market economies may take place horizontally, among private actors and cantons, but interventions from above tend to be resisted by canton governments jealous of their prerogatives.

Swiss federalism has been built on the basis of a loose confederation. Today, canton governments maintain a high degree of autonomy, which is

reinforced by their influence at the federal level. Inside and outside parliament, cantons play an important role in federal policy-making. Citizens themselves can exercise a veto over major reforms, through popular initiatives and referendums. This complex institutional structure is completed by two parallel bargaining arenas, a corporatist one, where public administration, business, and organized labour are involved, and a partisan arena, made necessary by proportional representation and coalition governments. These different arenas, combined with the role of direct democracy, make for a fragmented polity, governed by consensus and incremental reforms more than by clear-cut political alternatives and abrupt policy changes.

In labour market policy, the division of powers remains highly relevant. Unemployment insurance is governed by federal legislation, but implemented, along with related active measures, by the cantons. Unemployment assistance, social assistance, and related activation and reintegration programs are defined and implemented at the cantonal level. The redistributive effect, across regions, appears rather weak and, for some measures, public provision may not be sufficient. Overall, the system nevertheless appears relatively generous, effective, and legitimate. Cantons, argues Obinger, “still act as laboratories of democracy” and have proved able to innovate significantly in active labour market policy aimed at the poor. It should be kept in mind, however, that unemployment and poverty are relatively marginal problems in Switzerland. Up to the 1990s, the unemployment insurance system was hardly tested by an unemployment rate that remained below 1 percent. The more difficult 1990s saw an increase of this rate to levels around 4.5 percent, hardly a crisis situation from a Canadian or even a German point of view. Accordingly, unemployment and social assistance do not have the same importance, in terms of the number of persons concerned, as they have in other comparable federations.

The importance of diversity and of cantonal autonomy makes Swiss federalism somewhat akin to Canadian federalism. In Switzerland, however, the multi-faceted bargaining and compromises typical of coordinated market economies tend to prevail over unilateralism and to foster a certain integration of approaches. Over the years, policy changes have been modest and incremental, and did not alter significantly the model established after the Second World War.³⁵

Belgium

Belgium is a new, still evolving federation, created to accommodate linguistic and regional diversity. Established formally in 1993, the federation is very

young, and evaluating its complex institutions and arrangements is not an easy task. This is why Marianne De Troyer and Valter Cortese, of the Université

Unger and Jelle Visser, the country's social partners have been unable to agree on an adjustment strategy and the federal government had to impose wage restraints. Hemerijck and his co-authors deplore the incapacity of social partners to come to terms with the new imperatives of the 1990s and, more broadly, what they call the "immobilism of Belgian politics":

There is no other country where governments have designed so many pacts, proposals, plans, and schemes to coax unions into accepting wage restraint and employers into creating jobs, and with so little success. There is also no other country where five Ministers of Labor, at the federal, regional, and communal levels, compete for attention and resources.³⁶

Hemerijck, Unger and Visser wonder whether linguistic conflicts and the federalization process contributed to this difficulty in reaching compromises.³⁷ As De Troyer and Cortese suggest, it is probably too early to answer such a question. What is certain is that the institutions and practices of a coordinated market economy survived a thorough process of political reform, often marked by acrimonious conflicts, making clear that varieties of capitalism and varieties of federalism evolve on related but different planes. The question is open, however, as to whether the relative decline of solidarity within Belgium will further undermine the coordination capacities of the social actors, or whether the enduring strength of these coordination mechanisms will contribute to reinforce national cohesion and unity.

Canada

In his presentation of the Canadian case, Rodney C. Haddowmore gned ses of-3.k]TJ unis0 -o

According to Haddow, federalism did shape labour market policy in Canada, but its impact proved more subtle than is often assumed. Overall, there is no evidence of a major and problematic duplication of services, and the division of powers does not prevent labour market policy changes. There are, of course, coordination problems, but these difficulties are probably unavoidable in a federal system. The disconnection between unemployment insurance and social assistance, for instance, undoubtedly creates hardship for many jobless persons.³⁸ One should keep in mind, however, that many of these coordination problems also exist in unitary countries, where unemployment insurance and social assistance are usually managed by different administrations, which often work at cross-purposes.

In his analysis, Haddow stresses the impact of retrenchment and expresses scepticism with respect to the potential benefits of devolution in active labour market policy. The curtailment of passive measures and the relatively low priority given to the active measures now managed by the provinces, he writes, “are quite likely to contribute to a convergence of Canadian labour market characteristics with patterns that prevail in the United States.” In this perspective, Canada would inherit a more unequal and more regionally polarized distribution of income, with perhaps a better employment record. This conclusion is probably too pessimistic. It overlooks the fact, underlined by Haddow himself, that Canada’s distribution of income remained more equal than that of the United States, even during years of retrenchment.³⁹ It seems unlikely that Canada would do much worse in the post-deficit period.

The key labour market policy difficulty for Canada does not stem from federalism, but from the country’s social and institutional arrangement as a liberal market economy. After all, as Haddow notes, in labour market policy there were partial accommodations between Ottawa and the provinces, without Ontario this time.⁴⁰ What proved more difficult in the end was to develop new coordination mechanisms in training and labour market development, in a society with pluralist and liberal values and institutions.⁴¹ As in Belgium, but at the other end of the spectrum, the country’s variety of capitalism proved more resilient than its federal institutions, even though the latter are not particularly easy to change!

This being said, it is important to stress that Canada’s variety of liberal market economy remains quite different from its American counterpart, with more reliance on state intervention, stronger trade unions, and more generous redistributive measures. Because this is the case, and because unemployment

remains a more important economic and political problem in Canada, labour market policies keep more importance in this country than in the United States.

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The study of labour market policies in five federations confirms the importance of institutional arrangements in the contemporary process of adjustment to a more global and postindustrial economy. The economic challenges are the same for the different federations, but the policy responses vary significantly, in accordance with the varieties of capitalism and federalism that prevail in each country. The experiences of the various countries are thus different enough to warn us against sweeping conclusions about the relationship between federalism and labour market policy. At the same time, these national experiences are not incommensurable. They can be interpreted satisfactorily in light of the two dimensions outlined above.

First, there are major differences between liberal market economies and coordinated market economies. As is suggested by Hall and Soskice, these two varieties of capitalism foster distinct forms of industrial relations and of labour market policies, and they govern to a large extent the adjustment process of each country. The failed experiments with labour force development boards in Canada indicate how difficult it is for a liberal market economy to introduce coordination mechanisms that require concerted actions by the social partners. Likewise, liberal reforms in Germany, Belgium, and Switzerland can only be introduced with homeopathic doses, if at all.

Second, the institutions of federalism do not have the same meaning in majoritarian and in multinational societies. In the former, federalism is a less salient feature of political life and it has less influence on political debates and on public policies. Germany, in particular, gives primacy to solidarity and equality, and designs most of its policies in a majoritarian fashion, for the whole country. This is the case because German society is homogeneous and not profoundly federal; whenever a problem appears to be important, all social and political actors tend to converge to seek a nationwide solution.⁴² In Switzerland, by contrast, federalism introduces a number of veto points, through the representation of the constituent units in the central state — as in Germany — but also through a stricter division of powers between the orders of government, as well as through the practices of direct democracy, which can act as a check on federal initiatives.⁴³

Third, when the two dimensions intersect, the variety of capitalism seems to prevail over the variety of federalism, at least in labour market policy. In Belgium, notably, the practices and institutions of market coordination proved remarkably resilient in a period of profound upheaval in the country's political life and of thorough institutional renewal. The social actors' capacity for com-

and globalization. The studies in this volume confirm this point of view, and show how significant the varieties of capitalism can be.

In federal countries, one often hears arguments about the necessity to adjust institutions and practices to the policy demands of the time. These demands of the time change regularly, but the general call in favour of more efficient and collaborative practices remains the same. In today's complex and interdependent world, goes the typical exhortation, we should leave aside old divisions and boundaries and settle for what works, regardless of what the constitution may say. In the 1950s, for instance, Canadian scholars argued that "modernization" made centralization imperative, and they even entertained the possibility that federalism itself would disappear.⁴⁴ The argument is now expressed in more prudent and nuanced terms, but the view remains that the complexity and interdependent character of contemporary problems calls for new and better forms of collaboration.⁴⁵ Collaborating is always good. It should be kept in mind, however, that federations can respond to policy problems in very different ways, in accordance with their specific history and character. Policy requirements need not dictate institutional or intergovernmental arrangements. In fact, if they are driven solely by perceived policy necessities, decisions about federal institutions and practices are likely to be ill-advised. Likewise, labour market policies are not determined primarily by the workings of federal institutions. They belong to an institutional and discursive universe that intersects with, but is not defined by, federalism.

The politics of federalism and the politics of labour market policy are closely intertwined, but they respond to distinct logics and should be understood on their own terms, and then as complementary. There is no need to sacrifice the social frameworks and understandings embodied in one to better serve the other. Indeed, it is probably not possible to do so.

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¹Fritz W. Scharpf, "Economic Changes, Vulnerabilities, and Institutional Capabilities," in *Welfare and Work in the Open Economy*; Volume I, *From Vulnerabilities to Competitiveness*, ed. F.W. Scharpf and V.A. Schmidt (Oxford: Oxford University Press, 2000), pp. 68 and 341; OECD, *OECD Employment Outlook 2002* (Paris: OECD, 2002), p. 303.

²Scharpf, "Economic Changes, Vulnerabilities, and Institutional Capabilities," pp. 51-71.

³OECD, *The OECD Jobs Study: Facts, Analysis, Strategies* (Paris: OECD, 1994).

⁴Jean-Claude Barbier, "Les politiques publiques de l'emploi en perspective: pour un cadre de comparaison des politiques nationales de l'emploi," in *Les politiques de l'emploi en Europe et aux États-Unis*, ed. J.-C. Barbier and J. Gautié (Paris: PUF, 1998), pp. 394-400.

⁵Paul Teague, "Reshaping Employment Regimes in Europe: Policy Shifts Alongside Boundary Change," *Journal of European Public Policy* 19, 1 (1999):48-49.

⁶Manuela Samek Lodovici, "The Dynamics of Labour Market Reform in European Countries," in *Why Deregulate Labour Markets?* ed. Gøsta Esping-Andersen and Marino Regini (Oxford: Oxford University Press, 2000), p. 45.

⁷Martin Rhodes, "The Political Economy of Social Pacts: 'Competitive Corporatism' and European Welfare Reform," in *The New Politics of the Welfare State*,

Our Way: Rethinking Ethnocultural Relations in Canada (Toronto: Oxford University Press, 1998), p. 2; Alain-G. Gagnon and James Tully, eds., *Multinational Democracies* (Cambridge: Cambridge University Press, 2001).

²⁰Jonathan Rodden and Erik Wibbels, "Beyond the Fiction of Federalism: Macroeconomic Management in Multitiered Systems," *World Politics* 54, 4 (2002):495.

²¹Keith G. Banting and Stan Corbett, "Health Policy and Federalism: An Introduction," in *Health Policy and Federalism: A Comparative Perspective on Multi-Level Governance*, ed. K.G. Banting and S. Corbett (Montreal and Kingston: McGill-Queen's University Press, 2002), pp. 4-5.

²²Alain Noël, "Is Decentralization Conservative? Federalism and the Contemporary Debate on the Canadian Welfare State," in *Stretching the Federation: The Art of the State in Canada*, ed. Robert Young (Kingston: Institute of Intergovernmental Relations, Queen's University, 1999), pp. 195-219.

²³Banting and Corbett, "Health Policy and Federalism," p. 5.

²⁴Duane Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States* (Cambridge: Cambridge University Press, 2002), pp. 46-51, 60, 77 and 118. Lijphart himself ends up giving the same quantitative scores (5.0) to federations that he describes as very different, namely Australia, Belgium, Canada, Germany, Switzerland, and the United States. His primary purpose is also to contrast federations and non-federations; *Patterns of Democracy*, p. 189. These scores have been used unchanged by other scholars. See, for instance: Markus M. L. Crepaz and Ann Moser, "The Impact of Collective and Competitive Veto Points on Public Expenditures in the Global Age." Paper presented at the annual meeting of the American Political Science Association, Boston, 29 August-1 September 2002.

²⁵Rodden and Wibbels, "Beyond the Fiction of Federalism," p. 495.

²⁶Fritz W. Scharpf and Vivien A. Schmidt, "Introduction," in *Welfare and Work in the Open Economy*, Volume I, ed. Scharpf and Schmidt, p. 17.

²⁷Linda Hancock, "Australian Intergovernmental Relations and Health," in *Health Policy and Federalism*, ed. Banting and Corbett, pp. 107-42; Herman Schwartz, "Internationalization and Two Liberal Welfare States: Australia and New Zealand," in *Welfare and Work in the Open Economy*, Volume II: *Diverse Responses to Common Challenges*, ed. Fritz W. Scharpf and Vivien A. Schmidt (Oxford: Oxford University Press, 2000), pp. 69-130.

²⁸Timothy Conlan, *From New Federalism to Devolution: Twenty-Five Years of Intergovernmental Reform* (Washington, DC: Brookings Institution Press, 1998), pp. 304 and 312. Bruce A. Wallin, "Forces Behind Centralization and Decentralization in the United States," in Commission on Fiscal Imbalance, *Texts Submitted for the International Symposium on Fiscal Imbalance* (Quebec: Commission sur le déséquilibre fiscal, 2002), p. 30. At <www.desequilibrefiscal.gouv.qc.ca>.

²⁹Hall and Soskice, "An Introduction to Varieties of Capitalism," pp. 49 and 58; Margaret Levi, "Organizing Power: The Prospects for an American Labor Movement," *Perspectives on Politics* 1, 1 (2003):45-68.

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Policy in Canada, ed. McIntosh, p. 56; Rodney Haddow and Andrew Sharpe, "Labour Force Development Boards: A Viable Model?" in *Social Partnerships for Training: Canada's Experiment with Labor Force Development Boards*, ed. Andrew Sharpe and Rodney Haddow (Kingston: School of Policy Studies, Queen's University, 1997), pp. 291-318; Rodney Haddow, "Reforming Labour Market Policy Governance: The Quebec Experience," *Canadian Public Administration* 41, 3 (1998):343-68; Denis Saint-Martin, "Guichet unique et reconfiguration des réseaux de politiques publiques: le cas d'Emploi-Québec," *Politique et sociétés* 20, 2-3 (2001):117-39.

⁴²Jan Erk, "Federal Germany and its Non-Federal Society: Emergence of an All-German Educational Policy in a System of Exclusive Provincial Jurisdiction," *Canadian Journal of Political Science* 36, 2 (2003):300-03.

⁴³Herbert Obinger, "Federalism, Direct Democracy, and Welfare State Development in Switzerland," *Journal of Public Policy* 18, 3 (1998):241-63.

⁴⁴See Richard Simeon and Ian Robinson,

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Policies to regulate and support labour markets in the United States have mainly been an initiative of the federal government. Historically, states and localities were reluctant to act independently to build up worker rights and protections, for fear of competitively disadvantaging resident industries with added costs. Federal leadership has permitted states to address important labour market issues with a diminished risk of job loss to competing states. Furthermore, in many cases federal law permits states to establish practices that adapt to the economic and cultural conditions of the region. The interplay of federal, state, and local partners in labour market policy has resulted in a system that varies greatly at the local and state level, but maintains important federal standards nationwide.

Federal constitutional authority to raise revenue and control commerce among the states governed development of labour market policy in the United States. The history of this process is mainly a twentieth-century story.¹ The rights of workers to organize, conditions of employment, and policies to address unemployment are concerns of an industrial society where the majority of people live in cities separated from the subsistence naturally provided by the land in agrarian cultures.²

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To set the economic context for employment policy, this section presents data describing the labour market and employment program use in the United States during the last half of the twentieth century. For 1999, which is the most recent year for which data are available, information is given for the whole country and for each individual state.¹¹ National data are also given for each of the 52 preceding years.

Table 1 presents data on unemployment, labour force participation, and the size of the civilian labour force in 1999 for the nation and the states. Table 2 gives data on the same variables for the nation in each year dating back to 1947.

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A		10.2	1.		10.		2.				
	.2		1.		1.0						.1
	2.	A	12.0		11.			0.1			
	.2		10.0		A						1.
			11.1		1.		.1	.1			1.
			2.		2.0			1.			
		.0	1.0		12.		2.	0.			
	.0		1.		12.						.1
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		A	1.		.1						2.0
		10.	12.		1.						.0
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		.0	11.		1.2			.1			
	.2				10.1						.0
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			1.		1.		.1				
			21.1		1.		2.0				
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	.2		12.		1.		.2				0.
		A	.1		.1		0.	.1			.2
			1.		11.			.1			0.
			11.		1.		.1	2.			
		A	1.0		1.		.2	.2			0.
			1.		1.			2.1			
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			1.2					2.			.2
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			1.		10.						0.
		A	11.				2.	1.			
	.0	A			A		2.1				
	2.		12.		A			.1			0.
		.0	1.1		12.		.0.2				
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	.0	1.1	10.1		.1		2.				.2
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unemployed job-seekers are more difficult to reemploy. Within states there is, however, a direct relationship between the rate of unemployment and the pro-

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TABLE 1. THE EFFECTS OF A UNIT INCREASE IN THE PRICE OF A UNIT OF LABOR ON THE EQUILIBRIUM

	A	R		A		D		UI()		P		S		UI		S		
		A	B	A	UI	A	P	A	A	R	S	U	R	A	P	S	A	L
	UI(\$)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1	212	0.1	0.1	2.	1.	.2	.0	11.	1.	0.22	0.1	0.1	0.1					
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in caseloads fostered by the booming US economy of the late 1990s. Simultaneously, there has been a modest decline in the proportion of the population living below the poverty line. Over a longer time frame, the poverty rate has

mobility within the country are also examined. Our aim is to elucidate how the intergovernmental and economic context of program evolution has influenced the nature and effectiveness of service delivery.

Unemployment Compensation

The federal-state system of unemployment insurance (UI) was established in the United States by the *Social Security Act* of 1935. Title III of the Act established federal grants to the states to perform administrative functions for UI, and Title IX established the federal unemployment tax and related provisions.²¹ The tax provisions established incentive conditions that showed federal genius for initiating the system among states with varying degrees of unemployment and concern about worker hardship. While principles for the financing of benefits are now widely accepted, the financing of administration remains an area of federal-state contention in UI policy.

The UI system was a key element of President Franklin D. Roosevelt's social policy initiative entitled the *New Deal* that aimed to lift the country out of the Great Depression. The federal-state UI system has five main goals: (i) to provide temporary partial wage replacement during involuntary unemployment, (ii) to prevent dispersal of employers' workforce, (iii) to promote rapid return to work, (iv) to limit business downturns by maintaining aggregate purchasing power, and (v) to encourage stabilization of employment in enterprises through experience rating.

Prior to the *Social Security Act*, there were several attempts to establish a single federal system for unemployment compensation.²² In 1932, Wisconsin enacted the first state UI law. In 1934, President Roosevelt appointed the Committee on Economic Security to study how best to establish an unemployment compensation system.²³ Ultimately the committee recommended a federal-state system for UI. The recommendation was probably influenced by the knowledge that President Roosevelt favoured such a system. Furthermore, the Great Depression led many to believe that unemployment is due to national rather than local economic events. However, Congress did not wish to usurp all state authority on such matters, and feared that the courts might find a wholly federal system to be unconstitutional.

The federal-state UI system represented an entirely new model for intergovernmental relations. It was not a federal system like the old age insurance provisions of the *Social Security Act*. Neither was it a system of federal grants to the states like public assistance matching grants. A clever incentive structure

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A [Illegible text]

Original conformity requirements set in 1935 were minimal, and said states must:

[Illegible text]

Reasonable additional federal requirements were added in the 1940s and 1950s regarding:

[Illegible text]

states have claimed that federal holdings for administration are state entitlements that should be distributed. Davidson and Martin have viewed the standoff as a classic principal-agent problem.³³ The federal partner is the principal seeking to administer a high quality UI program through its agents, the state employment security agencies. Davidson and Martin argue that to encourage high quality service, efficient low-cost administration, and continuous quality improvement the administrative funding mechanism should be based on the quality of service as measured through a simple monitoring system operated by the federal partner to assess state practice, and should permit states to retain unspent financial grants. Special administrative grants could also be made to states with high unemployment or low population density where administrative costs are higher because of these factors, but not because of inefficiency. Such a system will also have the effect of encouraging UI taxpayers to monitor administrative efficiency at the local and state level, so as to increase the share of administrative grants retained for other uses, including benefit payments.

In recent years, federal-state conflict about the issue of fund solvency has been waning. The federal government holds 53 separate state unemployment trust fund accounts for payment of benefits. Federal guidelines recommended by the US Department of Labor and federal advisory commissions on UI have advocated forward funding of benefits. That is, reserves in state unemployment trust fund accounts should be sufficient to pay benefits if unemployment were to rise dramatically. In recent years states have generally not met the reserve adequacy standards, preferring instead to restrain tax rates and leave money in the hands of the private sector where jobs might be created. States have been content to rely on their possibility to borrow from the

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when states feared handicapping competitive possibilities for resident employers by imposing taxes. Economic theorists like William Hoyt have shown the structure of federal-state relations: (i) induces higher UI tax rates in states with more labour force members, (ii) causes a positive relationship between taxes in neighbouring states, and (iii) has bigger spillover UI tax effects from larger neighbouring states.³⁹

Kent Weaver has asserted that interstate competition for jobs has resulted in states trying to provide minimal UI protection while often shunting low-wage workers toward public assistance programs which receive sizeable federal funding supplements.⁴⁰ He has labelled this phenomenon a "race to the bottom." Bassi and McMurrer estimate that such interstate competition has resulted in a federal-state program only about two-thirds the size it would be other

employment. The belief was that the major employment problem of the disadvantaged was their lack of marketable job skills. Consequently, it was agreed that the federal government needed to provide a full range of services for the poor including remedial education, occupational skill training, work experience, and counselling.

Under the MDTA, training was viewed as an anti-poverty program, and the federal government took a centralized and categorical approach to eradicating poverty. Funding from the federal government was targeted to specific groups. Funds were available on a formula basis to communities, based on population and estimates of the proportion below the poverty income level. The federal government managed funding through 12 regional offices, each of which supervised activity in between four and six states. Often times competing agencies within localities bid against each other for federal funding by submitting separate proposals to regional offices for review. This despite pre-established criteria which included ensuring a "geographically equitable" distribu -0.0vie(por)lc

program operators was that the federal government promoted solutions, but failed to provide sufficient funding to truly address the problems. More pronounced in the 1960s was recognition at the local level that there were gross inefficiencies due to the categorical nature of programs and the centralized control by the federal government.

The 1970s brought a more comprehensive approach to addressing the problems of the economically disadvantaged. The bureaucratic buzz words “de-categorize” and “decentralize” became the theme of the decade. Decentralization meant the transfer of authority from federal to state and local government. Authority given was defined in the legislation and regulations, it often included the responsibility for designing, implementing, and to some extent, evaluating program activities. De-categorization meant that federal appropriations were no longer earmarked for specific programs. A local determination could be made after analyzing the needs of the disadvantaged population.

In addition, the

to ensure that their interests were taken into consideration. By 1982 CETA-type public service employment programs were considered taboo because they were expensive and the media had extensively documented instances of fraud and abuse. More important to shaping employment policy were the large and growing federal budget and foreign trade deficits. These concerns created a policy environment ripe for a conservative swing.

It was the involvement of the private sector that promised to make a major difference in the lives of the poor by providing access to jobs that existed in local areas. While there have been many employers who have hired clients from the program, most individuals on these boards either have a personal commitment to helping the poor or their company considers it a corporate responsibility to volunteer. Seldom did advisory board members themselves recruit employees from among those enrolled in the program.

The natural evolution of programs seemed to call for a range of services and programs based on individual needs. Careful assessment and a holistic, family-centred case-management approach were the logical next steps, particularly if complemented by what we had learned about locally designed programs, driven by the local labour market and supported by the local private sector. However, economic conditions of the mid-1990s had improved to the point where full employment existed in most of the United States.

The more than 30 years of searching for ways to reduce poverty through employment policy has evolved into a new approach that shifts responsibility from government to the individual, and divests authority from the federal government to the states. It exchanges an emphasis on skill training that will lead a family out of poverty, for an emphasis on job placement that will quickly reduce the cost of public assistance payment.

Two pieces of legislation signed into law by President Clinton, the *Personal Responsibility and Work Opportunity Act* (PRWORA) of 1996 and then the *Workforce Investment Act* (WIA) of 1998 illustrate the intended change in federal human resources policy toward self-sufficiency and local control.

PRWORA reformed the nation's welfare laws. A new system of block grants from the federal government to the states called Temporary Assistance for Needy Families (TANF) was created, changing the nature and provision of welfare benefits in America. These block grants were given with many fewer restrictions on state use. The fundamental requirement is for states to have most recipients working within two years of first receiving TANF benefits. States are largely free to choose means to this end. PRWORA has a strong

the tools they need to manage their careers through information and high quality services, and to help employers find skilled workers. WIA embodies seven key principles:

1. Streamlining services through a one-stop system. Programs and providers will co-locate, coordinate and integrate activities and information.
2. Empowering job-seekers through Individual Training Accounts (vouchers) and centralized information on job seeking, skills, education, and related materials.
3. Unrestricted universal access to core employment services is available to all job-seekers.
4. Increased accountability monitored through performance indicators for both state and local entities managing the workforce investment system. Performance indicators include entered employment and job-retention rates.
5. Strong role for the workforce investment boards and the private sector, with local, business-led boards acting as "boards of directors" focusing on strategic planning, policy development, and oversight.
6. Increased flexibility for the states and local workforce boards.
7. Improved youth programs that link with community youth programs and recognize local labour market needs.

The success of the new workforce investment system depends on the development of true partnerships and honest collaboration between all stakeholders.

As was the case for previous employment policy legislation, PRWORA and WIA were achieved through legislative compromise. This time the political consensus was that entitlement programs were not working, taxes were too high, and low unemployment meant that anyone who really wanted to work could find a job. In addition, morality slipped into the preamble of the PRWORA indicating a bias toward marriage, families, and the interests of children.

Funds under WIA are allocated to states with governors enjoying much more discretion than they had in prior legislation. This is the devolution of the federal role. Although a more direct relationship between taxpayers and tax-supported programs has not yet materialized, many believe that the shift to the states presages an eventual shift to local government. Taxpayers may soon have the opportunity to decide program funding at the local ballot box.

Thirty-seven states enacted welfare reform programs before the federal Temporary Assistance to Needy Families program was approved. In fact,

currently, all states have *work-based welfare*. This is a shift from the skill development approach of previous programs to a “work-first” approach that makes quick job placement the top priority. This transformation to a work-based system assumes that the best training is a job, and that suitable jobs paying sufficient wages are available.

Not unlike earlier policymakers, many current legislators apparently believe that it is only a matter of getting the right match in the labour market. The opinion that a good match and workplace experience will result in stable employment has little support from employment policy practitioners. Recent research suggests that low-wage jobs with few fringe benefits and no career path tend to have high turnover.⁴⁵

The specific components of programs vary across states, and even within states, but the desired outcome is clear. Work-first emphasizes work as the objective for nearly all individuals receiving public assistance.⁴⁶

All new applicants for public assistance and all current recipients are assessed to determine if any of the exempt classifications apply. If not, the individual is referred to a work-first service provider. Once referred to work-first the individual must participate in work and/or job-seeking activities for at least 25 hours a week until they stop receiving benefits. Failure to participate in job-seeking activity or work is grounds for reduction or loss of public assistance payments.

Once eligibility is satisfied, regulations establish the activities that are allowable. These activities are:

- *Unsubsidized Employment*. This is the ultimate goal of all activities and it is encouraged from the beginning since it is believed by some that the sooner it is accomplished the lower the cost.
- *Subsidized Private Sector Employment*. The individual is an employee of a private sector employer.
- *Subsidized Public Sector Employment*. The individual is an employee of a public sector employer. The wages are supported by grant funds.
- *Work Experience Program*. This is an unpaid training assignment for individuals who lack previous employment experience and/or job readiness and who are, therefore, difficult to place in unsubsidized employment. The goal of work experience is to improve skills, attitudes, and general employability of these individuals.
- *On-the-Job Training*. The individual is an employee of the employer and training is conducted on the job. Reimbursement of the extraordinary

training cost is provided to the employer with grant funds. The employee is expected to retain employment with the employer.

- *Job Search and Job Readiness Assistance.* These include activities that help participants become familiar with general workplace expectations and learn behaviour and attitudes necessary to compete successfully in the labour market. Job search includes job clubs, counselling, and job-seeking skills training.
- *Community Service Program.* Community service programs are projects that serve a useful purpose for the community or the public interest in fields such as health, education, urban and rural development, welfare, recreation, public facilities, public safety, and other purposes identified by the state. The Community Service Program must comply with the minimum wage requirements and other laws related to employment.
- *Post-Employment Training (vocational education).* Post-employment training is defined as an occupational training component that may combine classroom, laboratory and other related activities, and is directly related to a specific occupational field or specific job.
- *Job Skills Training.* This is a classroom activity for recipients who have a specific barrier to employment opportunities resulting from an identified need for skill training. The skills being taught must be in demand by local employers. This is only for recipients who have received a high school diploma or equivalency; example: English as a second language, remedial education, basic math.
- *Education Directly Related to Employment.* This is a classroom activity (a non-occupational training activity) for recipients who have received a high school diploma.

There have been some early studies on the impact of the WIA and PRWORA. What we know is that all states and the District of Columbia have met the overall work participation rate targets for all families in 1998, the first full year of the welfare reform law. We also know that work requirements and welfare time limits have focused attention on hard-to-serve welfare recipients who experience multiple barriers to employment. The hard to serve include recipients with physical or mental disabilities, substance abuse problems, learning disabilities, and criminal records. Environmental stresses such as housing instability, extreme poverty, lack of transportation, and care-giving responsibilities are also significant barriers to employment.

C J. O'L R A. S

Technical Preparation. Re-authorization of the *Vocational Education Act* during the mid-1980s created a new curriculum called

funding sources to substitute for federal money. Among the eight first-wave states, Michigan has done by far the most. It has pledged to support STW with the same level of funding as that devoted to vocational education.

Employment Service

Ever since the UI system was established by the *Social Security Act* of 1935, there has been a close relationship between UI and the United States Employ-

mainly of the most hard to place in jobs.⁴⁸ A major renewal of the ES is now underway as a consequence of the Worker Profiling and Re-employment Services (WPRS 1994) system and the new *Workforce Investment Act* (WIA) of 1998. The ES is being reinvigorated by the WPRS system which refers to ES services UI beneficiaries who are most likely to exhaust UI.⁴⁹ WPRS refer-
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no more than 50 occupations which amounted to about 3 percent of the labour force.⁵¹ The growth in state licensing has mushroomed since then. Licensing was limited mainly to lawyers, dentists, physicians, and accountants in the first half of the twentieth century. Licensed occupations remain concentrated in service occupations such as architecture, child care, chiropractic, cosmetology, counselling, nursing, optometry, pharmacy, real estate brokerage, and social work. The Council on Licensure, Enforcement and Regulation (CLEAR) reports that state and provincial agencies oversee more than 800 professional and occupational categories. In the United States, 25 professions are regulated in all 50 states. A like number is regulated by almost all states; the greatest percentage is regulated by fewer than half. Substate political divisions regulate several other occupations.

The stated aim of occupational and professional regulation is to guarantee that minimum standards are met by all licensed, certified, and registered practitioners so as to protect the health, welfare, and safety of the populace. Since the majority of occupational regulation in the United States is done at the state level, the system also has the effect of impeding the free mobility of labour services across state borders. Some states grant licences to practitioners licensed in certain occupations in certain other states. Such reciprocity arrangements vary by state and occupation. They are sometimes based on the notion of common regional custom and respect for neighbours, and sometimes are structured in hierarchical ways with states sometimes endorsing licences granted in states having more stringent standards. Frequently, an experienced, licensed professional will be permitted to practise in another state on a short-term temporary project. Particularly appealing states and those with high densities in certain occupations, such as Hawaii and California, have strong restrictions on granting licences to practitioners in other states. Often times, states share common standards for the right to sit for licence examinations, such as academic training and work experience requirements. As a practical matter, licence exams are difficult to pass several years after academic training has been completed. Considering all the occupational restrictions taken together, state-regulated credential systems are significant barriers to the free flow of labour services within the United States.

years have witnessed a variety of federal initiatives to promote employment. Nearly all of these efforts have been influenced by the ideologies from the full political spectrum. One common feature of most employment programs has been provisions for program evaluation to identify if funded activities are sufficiently cost effective. This is particularly true for training programs, but evaluation research has also greatly shaped the evolution of unemployment insurance (UI) and youth employment programs.

Effects of Unemployment Insurance

The federal-state unemployment insurance system acts as a built-in stabilizer for the national economy. It injects spending through unemployed workers consumer purchases when the economy is contracting, with the injections being reduced as the economy expands and unemployment declines. As shown in Table 4, UI benefits constitute a non-negligible portion of total spending in the economy with the total value hovering between one-quarter and three-quarters of 1 percent of the nation's gross domestic product since program inception. However, Burtless has argued that "changes in the system over the past decade have eroded the value of unemployment insurance both as income protection for the unemployed and as an automatic stabilizer."⁵² Bassi and McMurrer attribute declining reciprocity in recent years to be a consequence of interstate competition for business location.⁵³ Wheaton estimated that UI taxes are the second most important factor influencing business location, but Vroman failed to find significant impacts on employer decisions about the choice of state for operations.⁵⁴

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however, many of the selected program participants may already possess the skills and abilities to get re-employed themselves. By comparing their success to all unemployed, the positive impact on re-employment is high, but comparing their success to others with similar characteristics the program impacts may be much smaller.⁶⁹ To assure an objective net impact evaluation, Congress authorized a major national evaluation of JTPA based on methods of field experimentation with random assignment of subjects both to training and to comparison groups in 16 sites across the country. Orr *et al*

Effects of Programs for Youth

In the United States, between 20 and 35 percent of secondary (grades 9 to 12) students pursue a vocational track for their studies. Evaluation studies have found that secondary vocational education yields generally improved labour market outcomes for girls relative to girls not in the vocational track, and for boys, improved labour market success accrues only when employment is related to the area of vocational training.

To date there has been no evaluation of federally funded technical preparation programs for youth. The federal government is currently considering instituting a system of performance monitoring to encourage positive outcomes for tech-prep programs.

It is too early to examine long-term net impacts of school-to-work (STW) programs, and evaluations of short-term impacts have yielded mixed results. Mathematica Policy Research, which is conducting a national evaluation, has identified many excellent programs around the country. However, STW services are not reaching as many students as planned. Currently there is a well-financed conservative political group working hard against STW. They argue that there is too much federal control and that career dr gr3 Tc -0.0tPeD 0 Tw8ewd

state-administered public ES programs. State reporting is a condition of federal *Wagner-Peyser* grants for the ES.⁷⁵ A new system for monitoring performance of ES delivery was developed by the Federal-State Labour Exchange Performance Measures workgroup and set in place in 1998. Compliance was required of the states by the federal government so that the United States ES could conform with the *Government Performance and Results Act* (GPRA) of 1993. GPRA was enacted “to improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results”⁷⁶ Initial measurements under this new system are only now being taken. Results have not yet been published.

Effects of Factors Influencing the Geographic Mobility of Labour

For policymakers interested in promoting flexible labour markets that foster the most efficient use of human resources in the economy, systems that permit the free flow of labour among geographically separated labour markets are preferred to systems that hinder efficient job matching. The federal-state system for unemployment insurance (UI) in the United States has developed interstate UI benefit arrangements which support the free flow of labour.

The UI system has also been the context for an experimental evaluation of worker geographic mobility. Cash relocation assistance was part of a treatment in the New Jersey UI re-employment experiment conducted in 1985–86. “The potential relocation assistance consisted of two components: (i) payments for out-of-area job search if job interviews were prearranged and (ii) payments for moving expenses.”⁷⁷ For employment prospects at least 50 miles away, job-search expenses up to \$400 and relocation costs of up to \$1,000 were paid. However, as found in earlier studies, the use of available relocation assistance was minimal.⁷⁸ The participation rate was less than 1 percent among those offered assistance. Therefore, while the UI system accommodates those with a desire to relocate across state borders, it is unlikely that any new federal legislation will permit additional cash payments beyond UI weekly benefits to support relocation.

Several years ago Friedman and Kuznets found that occupational regulation of physicians by states drives up prices paid by consumers and has a potentially negative impact on the quality of services.⁷⁹ Most recent research on occupational regulation has been consistent with these findings.⁸⁰ For physicians, Leffler found sizeable income gains due to regulated training and

licensure. Rottenberg reported that television repair prices are higher in states requiring licensure. Bond *et al.* found eye exam and eyeglass prescriptions to

Employment Research or the directors of the W.E. Upjohn Unemployment Trustee Corporation.

¹Seventeenth-century labour shortages were first addressed by indentured ser-

¹¹The most recent data available on long-term unemployment at the state level are for 1998.

¹²See, for example, the papers in Richard Layard and Lars Calmfors, eds., *The Fight Against Unemployment* (Cambridge, MA: The MIT Press, 1987).

¹³Summers emphasized that dislocated adult married male workers suffered as greatly as any group, and despaired at the lack of macro policy tools available to address the situation because of huge federal budget deficits and persistent threats of inflation. See Lawrence H. Summers, "Why is the Unemployment Rate So Very High near Full Employment?" *Brookings Papers on Economic Activity* 2 (1986).

¹⁴Robert W. Fairlie and William A. Sundstrom, "The Emergence, Persistence, and Recent Widening of the Racial Unemployment Gap," *Industrial and Labor Relations Review* 52, 2 (1999).

¹⁵Massachusetts and Washington offer up to 30 weeks. uAd0.0117 Tw [(influ)12.(d aa1 Tw7

C.J. O'Leary and S.A. Wandner (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1997), for details.

²⁰Employment policy spending as a percent of GDP is quite modest in the United States compared to other Organisation for Economic Co-operation and Development (OECD) member countries. Among 22 OECD countries in 1992, only Japan had a lower share of GDP devoted to employment policy. In 1992 the Japanese unemployment rate was about one-quarter the rate in the United States. Nearly all other OECD countries spent 2 percent or more of GDP on employment policy. Organisation for Economic Co-operation and Development, *The OECD Jobs Study: Evidence and Explanations, Part II: The Adjustment Potential of the Labour Market* (Paris: Organization for Economic Cooperation and Development, 1994).

²¹Saul J. Blaustein, *Unemployment Insurance in the United States: The First Half Century* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1993), pp. 151-53.

²²A history of the process is given by Blaustein, *Unemployment Insurance in the United States*, pp. 107-29.

²³Much of this material is drawn from Thomas E. West and Gerard Hildebrand, "Federal-State Relations," in *Unemployment Insurance in the United States*, ed. O'Leary and Wandner.

²⁴Failure to conform or comply with the *Federal Unemployment Tax Act* (FUTA) provisions means state employers lose tax offset credits, and the state will not receive an administrative grant. Failure to conform or comply with *Social Security Act* provisions means the state will not receive an administrative grant.

²⁵Further detail is given by Blaustein, *Unemployment Insurance in the United States*, pp. 157-58; and James Rosbrow, *Fifty Years of Unemployment Insurance: A Legislative History, 1935-1985*, Unemployment Insurance Occasional Paper No. 86-5 (Washington, DC: US Department of Labor, Employment and Training Administration, 1986), pp. 7-8.

²⁶Institutional relations are explained by West and Hildebrand, "Federal-State Relations," and Murray Rubin, *Federal-State Relations in Unemployment Insurance* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1983) while the incentive structure is described by Paul L. Burgess and Jerry L. Kingston, *An Incentives Approach to Improving the Unemployment Compensation System* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1987).

²⁷This analysis was developed by West and Hildebrand, "Federal-State Relations," pp. 593-96.

²⁸In 1939 federal law moved UI tax provisions to the *Federal Unemployment Tax Act* as part of the federal Internal Revenue Service (IRS) code. A 1940 federal law required that pay rates for employees of state employment security departments be merit based.

²⁹See Randall Eberts and Christopher J. O'Leary, "Profiling and Referral to Services of the Long-Term Unemployed: Experiences and Lessons from Several Countries," *European Employment Observatory: Policies*, inforMISEP No. 60 (Berlin:

Institute for Applied Socio-Economics, 1997) for a discussion of profiling in the US and elsewhere.

³⁰UI Performs is the current system for such monitoring. An overview is pro-

the National JTPA Study. An Abt Associates Study (Washington, DC: The Urban Institute Press, 1995), p. 109.

⁷¹Ibid., p. 189.

⁷²Balducci, Johnson and Gritz, "The Role of the Employment Service."

⁷³Terry R. Johnson, Katherine P. Dickinson, Richard W. West, Susan E. McNicholl, Jennifer M. Pfister, Alex L. Stagner and Betty J. Harris. 1983, *A National Evaluation of the Impact of the United States Employment Service*. A report to the US Department of Labor (Menlo Park, CA: SRI International, 1983).

⁷⁴Balducci, Johnson and Gritz citing evidence from Walter Corson, David Long and Walter Nicholson, *Evaluation of the Charleston Claimant Placement and Work Test Demonstration*. Report to the US Department of Labor (Princeton, NJ: Mathematica Policy Research, 1984); and Terry R. Johnson and Daniel H. Klepinger, "Experimental Evidence on Unemployment Insurance Work Search Policies," *Journal of Human Resources* 29, 3 (1994):695-717.

⁷⁵The *Wagner-Peyser Act* requires that "each state receiving funds under this Act shall (1) make such reports concerning its operations and expenditures in such form and containing such information as shall be prescribed by the Secretary [of Labor], and (2) establish and maintain a management system in accordance with guidelines established by the Secretary." US Congress, *Federal Register* 63, 113 (1998):32564.

⁷⁶Ibid.

⁷⁷Walter Corson, Paul T. Decker, Shari Miller Dunstan and Ann R. Gordon, *The New Jersey Unemployment Insurance Reemployment and Demonstration Project: Final Evaluation Report*, Unemployment Insurance Occasional Paper No. 89-3 (Washington, DC: US Department of Labor, 1989), p. 118.

⁷⁸See studies by Jane Kulik, D.A. Smith and Ernst Stromsdorfer, *The Downriver Community Conference Economic Readjustment Program: Final Evaluation Report* (Cambridge, MA: Abt Associates Inc., 1984); and by Corson *et al.*, *The New Jersey Unemployment Insurance Reemployment and Demonstration Project*.

⁷⁹Milton Friedman and Simon Kuznets, *Income from Independent Professional Practice* (New York: National Bureau of Economic Research, 1945).

⁸⁰Kleiner and Young, "What the Licensing of Occupation Does."

⁸¹Keith B. Leffler, "Physician Licensure: Competition and Monopoly in American Medicine" *Journal of Law and Economics* 21 (April 1978):165-86; Simon Rottenberg, *Occupational Licensure and Regulation* (Washington, DC: US Department of Labor, Employment and Training Administration, 1986), pp. 7-8; and Ronald S. Bond, John Kwoka, Jr., John J. Phelan and Ira T. Whitten, *Staff Report on Effects or Restrictions on Advertising and Commercial Practice in the Professions: The Case of Optometry* (Washington, DC: Federal Trade Commission, Bureau of Economics, 1980).

⁸²Morris M. Kleiner and Daniel Petree, "Unionism and Licensing of Public School Teachers: Impacts on Wages and Output Quality," in *When Public Workers Unionize*, ed. Richard Freeman and Casey Ichniowski (Chicago, IL: University of Chicago Press, 1988), pp. 305-22; William D. White, "The Impact of Occupational

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⁸³Sidney L. Carroll and Robert J. Gaston, “Occupational Restrictions and the Quality of Service Received: Some Evidence,” *Southern Economic Journal* 47, 4 (1981):950-76; Kleiner and Petree, “Unionism and Licensing of Public School Teachers; Morris M. Kleiner and Robert Kudrle, “Does Regulation O3h-ers; M1.88 019813721 and Lacrease.8(lics? an5(es ECase..4(D Unithey) /C7nsi75 1 T1e,)NBER

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The following excerpts from the Constitution for the United States of America pertain to federal-state relations. Intergovernmental relations concerning labour and employment policy have been shaped by constitutional provisions regarding federal government authority to raise revenue and regulate commerce. Material in this appendix is taken from the WorldWideWeb site of the US House of Representatives (<www.house.gov>).

Preamble

We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.

Article. I.

Section. 8.

Clause 1: The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;

Clause 3: To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;

Section. 9.

Clause 1: The Migration or Importation of such Persons as any of the States now existing shall think proper to admit, shall not be prohibited by the Congress prior to the Year one thousand eight hundred and eight, but a Tax or duty may be imposed on such Importation, not exceeding ten dollars for each Person.

Article. III.*Section. 1.*

The judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish. The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.

Section. 2.

Clause 1: The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority;—to all Cases affecting Ambassadors, other public Ministers and Consuls;—to all Cases of admiralty and maritime Jurisdiction;—to Controversies to which the United States shall be a Party;—to Controversies between two or more States;—between a State and Citizens of another State; (See Note 10)—between Citizens of different States, —between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.

Historical Notes

The Delegates who convened at the Federal Convention on 25 May 1787, quickly rejected the idea of revising the Articles of Confederation and agreed to construct a new framework for a national government. Throughout the summer months at the Convention in Philadelphia, delegates from 12 states debated the proper form such a government should take, but few questioned the need to

last state to accede to the Articles in 1781, a number of Americans, particularly those involved in the prosecution of the Revolutionary War, recognized the inadequacies of the Articles as a national government. In the 1780s these

Proposal and Ratification

The fourteenth amendment to the Constitution of the United States was proposed to the legislatures of the several states by the Thirty-ninth Congress, on the 13th of June 1866. It was declared, in a certificate of the Secretary of State dated July 28 1868 to have been ratified by the legislatures of 28 of the 37 States.

Article XV.

Section 1. The right of citizens of the United States to vote shall not be denied or abridged by the United States or by any State on account of race, color, or previous condition of servitude.

Section 2. The Congress shall have power to enforce this article by appropriate legislation.

Proposal and Ratification

The fifteenth amendment to the Constitution of the United States was proposed to the legislatures of the several states by the Fortieth Congress, on the 26th of February 1869, and was declared, in a proclamation of the Secretary of State, dated March 30 1870, to have been ratified by the legislatures of 29 of the 37 States.

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states. States may use *Reed Act* money to finance either regular UI benefits or administrative costs.

1958 The *National Defense Education Act* promoted higher education in science and

the eastern part.² Long-term unemployment and regional disparities have considerably increased, while the employment chances of certain social groups have diminished in recent years. These figures were alarmingly close to the ones experienced during the end of the Weimar Republic and hence perceived as a serious threat to the democratic legitimacy and stability of the German political system. Two years after the 1998 election, and supported by a modest economic upturn, the figures were not quite as bleak anymore, 3,684,790 people were out of work; the unemployment rate had fallen to 10 percent.³ But concern about the labour market situation has not subsided. The recent improvement has so far been confined to the western part of the country (with an unemployment rate of 8.1 percent), while the situation remains dramatic in the former GDR (17.8 percent). Mass unemployment also puts financial strains on existing welfare-state institutions at a time when rising costs of social transfers and programs themselves, together with the nature of German industrial relations, are more often identified as causes for the alleged competitiveness problem of *Standort Deutschland*, Germany as an investment location, and thus for

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perspective would suggest a potential comparative

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The democratic, federal, and social nature of the German political system is enshrined in one and the same clause (article 20 [1]) of the *Grundgesetz* (GG, Basic Law). Despite this direct juxtaposition, and hence contrary to what one might expect, the Länder have almost no legislative competences in the field of social policy, whose main parameters are set by the federal Social Code. The intergovernmental dimension of the field is to a large extent complemented or even superseded by other principles of organization; the most important transfers and programs of the German welfare-state regime are channeled through various separate insurance funds.⁶ But high levels of national integration are by no means restricted to social policy. A range of specific features, most of which encourage centralization and joint decision-making, distinguish the German system both from other federations such as Canada and from the standard disentangled model of federalism with its underlying idea of a neat separation of resources and powers. Epithets such as unitary, administrative, executive, and intrastate federalism have been used to capture these peculiar characteristics.⁷

According to the Basic Law, functions not explicitly assigned to the national government belong to the 16 (before 1990: 11) Länder (articles 30, 70 [1] GG). Yet the constitutional entrenchment of the subsidiarity principle is more apparent than real. The distribution of legislative competences is highly asymmetrical. The national government is not confined to its areas of exclusive legislation such as trade and monetary policy (articles 71, 73 GG). It can also implement framework legislation (article 75 GG), for instance on postsecondary education, and move into almost 30 enumerated areas of concurrent legislation, which comprise major aspects of social and economic policy such as industrial relations, unemployment insurance and vocational training (articles 72, 74, 74a GG). The conditions under which the federal government is entitled to legislate in these fields (and to pre-empt or replace Länder regulations) are broadly defined by the Basic Law and notably include the mandate to establish and maintain the legal and economic union of Germany, as well as to promote and safeguard the equality of living standards throughout the country (article 72 GG). Where intergovernmental conflicts arise, federal law takes precedence over state law (articles 31, 37 GG). Most concurrent areas are now occupied by federal legislation while residual Länder powers have become largely irrelevant. The competences of the Länder have been greatly reduced

since 1949 even though state governments remain to a certain extent active in crucial fields such as industrial or research and development policy.⁸

National harmonization is further increased by the tendency of Länder governments to coordinate legislation among themselves by way of treaties or agreements, even in fields like culture or primary and secondary education, where they have exclusive responsibilities. This voluntary horizontal cooperation, often (semi-)institutionalized in arrangements such as the Conference of

to vertical or horizontal bargaining and coordination. The intergovernmental links between national and subnational actors are manifold and dense. The Länder have traded off an increasingly negligible role as policymakers in their own right against a growing influence on federal legislation through the Bundesrat. They do not yield a lot of individual powers, but do so together, as collective veto players. Yet the federal government also has a strong vested interest in these structures of joint decision-making. On the one hand, they enhance federal dominance, while on the other, their inherent lack of transparency and accountability greatly facilitates exercises in “log-rolling and passing the buck,” credit seeking and blame avoidance.

Politikverflechtung is further complicated by the fact that the administrative and fiscal autonomy of local authorities is anchored in the Basic Law (article 28 [2] GG). Municipalities therefore play a relatively important, if clearly subordinate, role in social policy and other fields. European integration has added a continental layer with quickly expanding responsibilities, even in the fields of social and labour market policy, to the German multi-level system of governance. While continental integration has further eroded the autonomy and legislative competences of Länder parliaments, the constitutional response to this trend — formulated in 1992 and enshrined in a 1994 reform act — strengthened the logic of executive federalism. The new article 23 of the Basic Law guarantees the participation of Länder governments in federal decisions on European issues and stipulates their mandatory consent, through the Bundesrat, to any further transfer of competences to Brussels.¹¹

The *Reform Act* of 1994 had become necessary in the wake of German reunification, whose impact on the intergovernmental balance and its context variables can hardly be exaggerated. Along with the described institutional features and constitutional provisions, a variety of factors had pushed in the direction of ever growing *Politikverflechtung* after 1949, among them, a homogeneous society whose political culture does not tolerate pronounced regional and social disparities and hence gives considerable weight to the equality-of-livvfre8phriicile,ae tion of the ste Germanspaety sy(tem with itsblurir)-7.8vrfreional andspaetyecol-

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in the East German Länder and emerging regional differences in voting behaviour have somewhat reduced the integration of the party system. The constitutional adjustments of 1994 acknowledged this reality through a subtle change in the wording of article 72 of the Basic Law: the *equality-of-living* standards principle has been replaced by an *equivalence-of-living* standards objective. There is no doubt that the regional solidarity that was both a prerequisite and an outcome of successful joint decision-making between 1949 and 1990 is now threatened. Yet the expectation that differences in wealth, service, and benefit levels should be minimal throughout the country goes unabated, and the extent to which the former GDR has to catch up is enormous. This is why contrary to what one might presume, reunification, like European integration, has strengthened rather than watered down elements of joint decision-making and centralization. The federal government has set the pace and defined the key parameters of both processes.¹²

Fiscal arrangements both reflect and further exacerbate the characteristics of German federalism. According to the Basic Law, the three tiers of government are in general responsible for expenditures within their assigned spheres of competence and hence should have sufficient taxing powers and revenues to meet their policy and spending responsibilities; the Länder are to be reimbursed for the administration of federal programs and services (article 104a [1, 2] GG). Yet once again, this stated principle is more apparent than real. The disentangled and transparent arrangements suggested by the constitution have largely been replaced by mixed and intertwined forms of income generation.

Articles 105 and 106 of the Basic Law distinguish between federal, state, municipal, and joint taxes. Tax legislation, even for revenue sources that accrue to other tiers of government or are shared with them, has virtually become a federal prerogative, beginning in 1955, when a first major financial reform centralized the responsibility for the personal income tax; a second reform in 1969 consolidated prior changes and made the VAT a joint tax. As a consequence, Länder (and municipal) discretion with regard to tax bases and rates is almost completely restricted to minor taxes. The federal level has, in addition to its own exclusive competences, pre-empted the wide area of concurrent tax legislation, notably personal and corporate income tax and the VAT. It does, however, strongly depend on the Länder for collection (article 108 [2]), and Bundesrat consent is required for the bulk of tax legislation, particularly when exclusive subnational or joint taxes are concerned. The relative importance of

growing over the years. In 1998, only 29.1 percent of the combined tax revenues accrued to one tier of government alone: federal taxes represented 15.7 percent of the overall volume, Länder taxes 4.5 percent and municipal taxes 8.2 percent. The most profitable revenue sources (income tax and VAT) are divided between the federal, state, and municipal levels on the basis of negotiated allocation formulas or constitutional provisions; they amount to roughly 40 and 30 percent of the overall volume, respectively. The horizontal distribution of revenues among the Länder follows a locational principle for the personal and corporate income tax, a per-capita formula for the VAT.¹³

The ensuing dynamics of federal, state, and municipal revenues nicely illustrate the ambivalent character of *Politikverflechtung*. Federal dominance in tax legislation is mediated by Länder participation through the Bundesrat and therefore does not lead to an equally pronounced centralization of tax income. The federal share has even kept diminishing from 56.4 percent to 41 percent between 1952 and 1998 (most recently as a result of changes to the

received by the small Länder as a federal contribution to their higher political and administrative costs, by the financially weaker states in the western part of the country as a compensation for extra burdens caused by reunification, by two Länder (Bremen and Saarland) with massive debt problems, by Bremen and Hamburg for the costs of port operations, and by the eastern Länder in support of their particular investment needs.¹⁵ Until 1990, the Länder financed approximately 65 percent of their expenditures through exclusive and shared tax revenues, but the ratio has fallen under 60 percent since reunification (and it is a mere 35 percent for municipalities).¹⁶

Reunification had initially made special arrangements necessary. The five East German states, whose financial capacity stood at about a third of the West German average, could not be made part of the horizontal equalization system right away. Otherwise, all the old Länder (with the exception of Bremen) would at once have become contributors to the interstate pool, and would have lost 7 percent of their revenues. Faced with the opposition of the old Länder against the immediate extension of the horizontal and vertical transfer mechanism, but urgent investment needs in East Germany, the federal and state governments decided to channel the bulk of financial support through a German Unity Fund whose resources came from the federal government (31 percent), the old Länder (10 percent), and capital-market loans (59 percent). Between 1990 and 1994, the Fund redistributed a total of DM160.7 billion, or annually 1 percent of the GDP, to the former GDR. A separate, but marginal equalization system for the five eastern states was established. This solution, however, proved inadequate. In 1993, the national and state governments therefore agreed on the above-mentioned Solidarity Pact and Federal Consolidation Program that integrated the eastern states, with only minor adaptations, into the established transfer arrangements and abolished the Unity Fund. A higher VAT share for the Länder and guaranteed federal supplementary payments of DM14 billion over ten years for the five new states (together with other sub-

81.8 percent of the vertical transfers were received by the five new states in 1998. The combined equalization mechanism currently achieves almost complete harmonization of revenues. Even the weaker Länder can expect their financial capacity to reach at least 99.5 percent of the average. The distributive effect turns into over-compensation if special-purpose federal supplementary payments are taken into account. In 1996, for instance, the tax revenues of the poorest Land were 80.1 percent of the reference measure before distribution and exceeded it by 8.7 percent thereafter.¹⁸

In addition to these transfer arrangements, German federalism also uses the more conventional instrument of grants. Since the 1969 reform, the Basic Law has allowed the co-financing of Länder expenditures. Three kinds of co-financing exist. Shared tasks are federal-state projects in the areas of postsecondary education, university construction and expansion, the improvement of regional economic structures, agricultural development and coast

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Labour market trends in Germany can be divided into two phases. After 1949, West Germany quickly recovered from the war and experienced 25 years of virtually unabated growth and unprecedented prosperity. The economic miracle ushered in an era of full employment from the late 1950s on. The demand for labour expanded at such a pace that the federal government started recruiting foreign workers from southern Europe and Turkey. While the average unemployment rate between 1950 and 1959 was a relatively high 5.5 percent, it shrank to 0.8 percent between 1960 and 1973.²⁰ The first, albeit moderate, postwar recession of 1966–67 shortly pushed the number of persons without work over one million, signaling a regional and sectoral need for adjustment, particularly in ship-building and the coal, iron, and steel industries.

The second phase of labour market development, however, did not begin in earnest until the 1970s. Just like elsewhere in the OECD, the 1974 and 1979 oil shocks and ensuing recessions marked the shift to an era of vast economic change in West Germany. Its underlying causes were structural rather than cyclical, tied to the forces of globalization and European market integration, as well as to demographic and behavioural change in the population. The economy of the Federal Republic continued to perform relatively well in the 1970s, but the factors threatening its ability to compete became more apparent in the 1980s and 1990s (Table 1). And while there was considerable success in keeping inflation down and the trade balance positive, sluggish economic growth and insufficient job creation emerged as central problems. The country endured a transition from full employment to mass unemployment. The reunification of West and East Germany in 1990 further exacerbated the crisis of economic adaptation and its most serious consequence, structural unemployment.²¹ Unemployment rates started rising after 1973, reaching ever new heights during recessions, yet failing to drop back to previous cyclical lows in recovery periods (Table 2). Average rates increased from 1.2 percent (1973) and 4.3 percent (1973 through 1982) to 8.7 percent (1983 through 1990) and 10.4 percent (1991 through 1998); they reached 11.7 percent in 1999. The number of people without work for the first time surpassed one million in 1975, two million in 1983, three million in 1993, and four million in 1997.²²

A thorough analysis of the factors contributing to this development is beyond the scope of this chapter. A couple of aspects are, however, fairly obvious. The German economy has so far not been able to balance the growth of its

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labour force (for instance, through immigration and rising female participation rates) with adequate employment creation. The adult population (persons aged 15 to 64) and the total labour force as a percentage of it peaked at 70.1

1973 and 13.4 percent in 1983; it has risen to 11.8 percent (1983 through 1990) and 14 percent (1991 through 1998) since then. Between 1987 and 1997 alone, the number of persons with insignificant employment (for which there is a legal definition because it was exempt of social-insurance contributions until 1999) doubled from 2.8 to 5.6 million. A growing number of persons are self-employed, many in name only, or resort to casual jobs and moonlighting. Hence the “work orientation” of the German welfare-state regime, as described below in the context of labour market policy, increasingly clashes with the fact that fewer people actually have (substantial) paid employment.²³

One of the main reasons for this dismal performance seems to be a gap between wages and productivity growth that emerged in the 1970s and narrowed in the 1980s, only to reappear after the reunification of West and East Germany. Another contributing factor is that the creation of both low-end and

percent and 19.2 percent in the east. The very young are less strongly hit by unemployment than in many other countries, the rates for persons aged 15 to 20 are consistently below the percentages for the whole population. This is due to the fact that a rising number of people in this age group either stay in school longer than in the past or are absorbed by Germany's dual vocational-training system. The majority of persons between 15 and 20 are now outside the labour market, while the participation rate of this age group was over 80 percent in the 1950s. The employment situation is already less favourable for persons between 20 and 24, yet it is much bleaker for older people. The participation rate of persons over 60 shrank from 45 to 23 percent between 1970 and 1995, while the share of persons between 25 and 55 rose to 82 percent. Blue-collar and foreign workers are overrepresented among the unemployed, two-thirds of which are now older than 55, have disabilities and health problems or do not have a complete formal education; these groups make up four-fifths of the long-term unemployed. In September 2000, 48.5 percent of all unemployed persons were women, 60.8 percent workers, 21.5 percent more than 55 years old, 4.9 percent disabled and 11.9 percent foreigners.²⁶

Rising unemployment has also coincided with increased regional disparities over the last 25 years. In the 11 Länder of the old Federal Republic, the levels and spread of unemployment have grown together: average Länder unemployment rates were 4.4 percent (1973 through 1982), 9.7 percent (1983 through 1990) and 10 percent (1991 through 1998), average variation coefficients were 23.1 percent (1973 through 1982), 29.4 percent (1983 through 1990), and 26.1 percent (1991 through 1998). The corresponding figures for 1999 and September 2000 are 11.2 percent and 9.4 percent (unemployment rates), 28.4 percent and 36.9 percent (variation coefficients). There is now a clear north-south gap within West Germany, which is largely tied to sectoral reasons: leaving aside fringe and rural areas that exist in most Länder, unemployment is particularly severe in the old industrialized and mono-structural economies of the north (North-Rhine Westphalia, Bremen, Lower Saxony) and in Berlin (including the former East Berlin), while the south (Baden-Württemberg, Bavaria) profits from more diversified and innovation-oriented economies (Table 3).²⁷

Reunification, however, did not only add 16 million new citizens to a total of almost 80 million, but also created a massive east-west gap in eco-

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Germany. The shift from an outdated, labour-intensive socialist economy centred around heavy industries to a market economy proved to be an enormous challenge. Transitional unemployment quickly became endemic in the former GDR, as massive deindustrialization and layoffs followed privatization and modernization efforts. While unemployment rates in East Germany have consistently exceeded those of West Germany since 1991, regional differences within East Germany are relatively small: the average Länder unemployment rate for 1991 through 1998 was 13.8 percent and the average variation coefficient 7.5 percent in the former GDR, while the coefficient was 31 percent for the entire country. The corresponding figures are 19 percent, 9.8 percent and 32.8 percent for 1999, 17.8 percent, 10.3 percent, and 41.2 percent for September 2000 (Table 3).²⁸

The current devastating situation in East Germany has to be seen against the backdrop of extremely high employment levels in the GDR, where the total labour force participation as a percentage of the total population had reached 59 percent by 1988 (it was 48.2 percent in West Germany during the same year). This rate was down to 49 percent three years after reunification, but has

since then recovered at around 51 percent, while it has remained under 49 percent in West Germany; 88 percent of the adult population in the GDR were in the labour force during the 1980s (the result of high female participation rates and hidden unemployment), yet only 72 percent in 1993, when participation rates started to rise again. As of 1997, the eastern part of the country had 18.9 percent of the overall population, 19.4 percent of the labour force, but only 17.8 percent of employment as opposed to a huge 31.1 percent of all unemployed persons (37.3 percent of all unemployed women).²⁹

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The cooperative federalism described earlier is but one, although central, element of the consensus-oriented “policy of the middle way” that characterizes the “semi-sovereign” German state. It is complemented by the corporatist structures and forms of decision-making that permeate the industrial relations and welfare-state regime of the country’s “social market economy” — the famed model of “Rhenish capitalism.” The remarkable stability of this model and the tradition of social partnership between highly centralized, powerful and ideologically moderate unions and employers’ associations on which it is based are particularly well exemplified by the field of labour market policy. Straddling economic and social policy, it is inextricably linked with various aspects of monetary and fiscal policy, other branches of the German welfare-state regime (such as health and old-age insurance) and industrial relations. These context variables are at least as important for the historical development and impact of labour market policy as federalism.³⁰

The forms of co-determination and wage bargaining practised in Germany are particularly relevant here. Area-wide industrial agreements traditionally cover the vast majority of employees in Germany. Most sectoral agreements are initially signed at the regional level. National coordination and a high degree of conformity are ensured by sectoral associations on both sides and through the widespread adoption of pilot agreements. The federal government has no role in collective bargaining per se (*Tarifautonomie*), but may extend provisions to non-contracting parties. It plays an important role in public-sector wage bargaining, though. The federal minister of the interior acts as chief negotiator for the employer, federal and state governments. This system obviously prevents independent public-sector wage policies in the *Länder*.³¹

The seven distinct phases of German labour market policy after 1949 coincide with shifting unemployment trends and changes in the party composition of federal government coalitions. They can be subdivided into an expansionary period (up to 1974), during which the foundations of labour market policy were laid, and a period of crisis and adaptation (after 1974), which has been mainly characterized by retrenchment.³²

The Formative Years of German Labour Market Policy: 1949 Through 1974

The central institutions, transfers, and programs of German labour market policy were established by three different federal government coalitions. Right-wing coalitions under the leadership of Chancellors Konrad Adenauer (1949–63) and Ludwig Erhard (1963–66) presided over the formative phase of Germany’s “social market economy” and its federal regime in the immediate aftermath of the war (the CDU-CSU also dominated the Bundesrat in this period). The

of macroeconomic goals — price stability, a positive trade balance, growth, high employment rates — and to fight regional disparities within the limits of a market economy. This strategic reorientation and its redistributive goals seemed to necessitate increased cooperation between federal, Länder, and municipal governments and a stronger concentration of financial resources. So far only a small fraction of public investments had been made by federal governments, while state and local authorities had typically spent their monies in a cyclical way. The above-mentioned financial reform of 1969 therefore created a more solid basis for federal participation in state and local investment projects; the combination of new responsibilities and tools henceforth allowed federal governments to actively pursue the equality-of-living standards principle stipulated by the Basic Law and gave an additional boost to *Politikverflechtung* in the German federation.

These constitutional and policy changes were complemented by new

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social-assistance recipients into the workforce. The fact that UI benefits as a percentage of overall social transfers could be reduced from 11.6 percent to 1.1 percent between 1950 and 1966, and social-assistance payments from 5.2 percent to 1.3 percent, serves as an indicator for the success of German labour market policy, itself sustained by the economic miracle, during its formative years.³⁶

In light of the extremely low unemployment rates between 1949 and 1973, it is not surprising that active labour market policy — measures whose objective it is to influence the quantity and structure of labour demand and supply — was initially not a central BAA function if one leaves aside traditional information, job counselling, and placement services. Nevertheless, an increasingly differentiated range of instruments, most of them administered by the BAA, was created during this period. These early efforts were consolidated in, and their scope was broadened by, the 1969 *Arbeitsförderungsgesetz* (AFG, *Employment Promotion Act*), a companion to the above-mentioned *Stability and Economic Growth Promotion Act* and “the landmark legislation of the era,” which replaced the 1927 *Job Placement and Unemployment Insurance Act* in its 1957 version.³⁷ The law shifted the focus of intervention from the passive and compensatory to the active and anticipatory component of labour market policy and was an integral part of the economic strategy pursued by the grand coalition. The individual measures under the umbrella of the AFG, some already existing, some newly established, were to achieve and maintain a high degree of employment; prevent structural unemployment and underpaid work, as well as labour shortages; improve social and geographical mobility, as well as the overall qualification of the labour force; promote the integration of disabled and elderly persons, as well as equal chances for women; counter sectoral and regional problems in the labour market, as well as adapt it to technological innovation and structural change. Thus, the AFG defines both economic (allocative) and social (integrative) objectives for German labour market policy. Expenditures in the wake of the AFG increased dramatically until 1974.

The AFG provides for three bundles of instruments. The first group aims at steering the labour supply through information, job counselling and placement, but also through programs that encourage the mobility and stimulate the workforce integration of unemployed persons (for instance, various forms of wage subsidies, especially for hard-to-place workers). An array of more specific rehabilitation programs for disabled persons can be subsumed under this category.³⁸

A second group of instruments, which is characterized by intense union and business participation, is devoted to employment maintenance and job

can build on Germany's acclaimed dual vocational-training system, which relies on strong business participation for the supply of apprenticeship positions and has greatly contributed to relatively high overall skills levels in the population. The year 1969 also saw the passing of a

with the CDU-CSU Bundesrat majority, were quietly laid to rest and replaced by a politics of pragmatic crisis management. Regional and sectoral problems now tended to be addressed through short-term special investment programs. Corporatist experiments like the *Konzertierte Aktion* became dysfunctional and were terminated by the social partners in 1975–77. Beginning with the 1975 *Budget Restructuring Act*, a strong accent was put on austerity measures and inflation control. The left-wing Schmidt government would ultimately prove more successful in the battle for price stability and other economic objectives than in the defence of full employment. In an attempt to compensate for shrinking federal expenditures, the Länder increasingly established their own

BAA, in 1993, funded 80 percent of all labour market expenditures in the west, it was 90 percent in the east. This transfer greatly exceeds “usual” levels of equalization within Germany’s UI system, which does not have any built-in regional or sectoral differentiations. There was, for instance, an estimated transfer of DM4 billion from the wealthy states of Baden-Württemberg, Bavaria and Hesse in 1989, while BAA deficits in the east, including federal grants, were between DM25 and 38 billion (an average of DM29 billion) from 1991 to 1997.⁴⁵

Growing expenditures and foregone revenues of the BAA were accompanied by major shifts between programs. The rising incidence of long-term unemployment has resulted in additional strain on unemployment assistance, social assistance, and old-age insurance (through a strong flow into early retirement, which was itself encouraged by policy measures). The number of people receiving UI benefits has declined relative to those collecting unemployment assistance. In 1975, the percentage of UI-benefit recipients peaked at 65.8 percent; it shrank to 35.9 percent in 1986 and has now — due to the influx of new East German recipients — climbed back to 47.5 percent (1999) and more. Conversely, the percentage of unemployed persons receiving unemployment assistance grew to 27 percent until 1986, fell to 15.9 percent after reunification and now stands at an even higher 38.2 percent. In the field of active labour market policy, participation in the main programs oscillated around 548,000 (1973 through 1982) and 842,000 (1983 through 1990), reaching maxima of just above one million. In 1991, participation was massively expanded as a reaction to the situation in East Germany, but quickly fell back to normal levels thereafter, resulting in an average of 1,640,000 for the 1991–99 period (Table 5).

Despite overall (nominal) expenditure and revenue growth, these figures already indicate the main direction of adjustment efforts after 1974, “a blend of conservative austerity policies and welfare-state promoted dis-employment of older workers.”⁴⁶ While there were initial attempts to tackle rising unemployment through Keynesian countercyclical measures and an increase in active labour market policy expenditures, strong pressure from the central bank and the business community to start and maintain consolidation efforts soon gave a more prominent role to fiscal and monetary objectives than to the full-employment goal, and very early on led to a more restrictive approach in labour market and overall social policy.⁴⁷

Retrenchment had several components, implemented in a series of measures by ensuing governments. On the revenue side, BAA reserves were exhausted

by 1973, and federal grants, for instance, DM7.3 billion in 1999, are normal. As other sources of BAA income are marginal, the adjustment of contribution rates (and maximum contributions) was just about the only means left to cap ever increasing federal transfers — rates were, once again in a quasi-cyclical fashion, raised from 1.7 percent in 1973 to over 4 percent throughout the 1980s and the current 6.5 percent. Another typical reaction of federal governments were benefit reductions and the tightening of eligibility criteria, both in the subfields of passive and active labour market policy. The above-mentioned 1975 *Budget Restructuring Act* brought the first cuts to social programs. Federal government subsidies to the BAA were scaled down, eligibility restrictions introduced and criteria for the refusal of job offers tightened; access to retraining, which had been very open until then, became a discretionary privilege for unemployed and unqualified persons. In the early 1970s, only 15 percent of participants in these programs had been unemployed, but 80 percent in 1980.⁴⁸ Further reductions to manpower programs and unemployment insurance followed throughout the 1970s and early 1980s, for instance, as a result of the 1981 *Labour Market Promotion Consolidation Act*. The Kohl government even stepped up the restrictive approach of its predecessor. The 1983 *Labour Market Promotion Consolidation Act*, as well as the 1983 and 1984 *Budgetary Supplement Acts*, brought new cuts to active labour market policy — including job creation and retraining, stricter eligibility criteria for UI benefits and unemployment assistance, as well as reductions to social assistance. There were also efforts to introduce stronger elements of workfare for welfare recipients. Several Länder have used these new instruments to reintegrate employable persons into the workforce since the mid-1980s. The current low replacement rates for UI benefits and unemployment assistance were enacted in 1994.

Cost-shifting and passing the buck between the different branches of the social-security system have become increasingly popular. Thus, tightening eligibility criteria for UI benefits meant to push even more individuals into (tax-financed) unemployment assistance and social assistance (financed by the municipalities) than the rising share of long-term unemployed alone would have effected. This development implies that the relevance of the insurance principle has declined in favour of the (less-generous) welfare elements of the social-security system, especially for those groups that are overrepresented among the long-term unemployed or less likely to qualify for UI benefits (women, young people). Moreover, passing the buck can also take the form of cost-shifting from the UI system to other branches of social insurance, notably old-age insurance, and/or entail cuts to other social programs in favour of labour

market policy expenditures. The short-sighted and unstable habit of pushing costs around between the different social budgets and funds has long been a characteristic feature of financing labour market policy in Germany, but has now become even more widespread.

These trends are closely tied to the second major adjustment strategy applied by federal governments after 1974: efforts to reduce the labour supply, once again first used (instead of demand-oriented approaches) by the SPD/FDP administration. The recruitment of workers from outside the European Community was stopped in 1973, repatriation incentives were offered. Early retirement schemes became increasingly popular. Qualification programs which keep young people in school longer, and a conspicuous absence of efficient measures against the anti-female employment bias in Germany's conservative welfare-state regime and tax code were also part of this strategy. The Kohl government pursued efforts to reduce the labour supply through further repatriation incentives for foreign workers and early retirement schemes immediately after its rise to power, and then again after reunification. One of the first measures of the 1989–90 democratically elected GDR government, continued by the federal government after 1990, was to send back foreign contract workers hired by the socialist administration. Instead of costly early retirement schemes, phased-in transitions to retirement were now favoured.

Reunification meant only a breather, not a reversal, for this two-pronged retrenchment strategy. As bleak as they are, the labour market figures quoted earlier indicate both a vast destruction of jobs in the five new Länder and an enormous amount of emergency and support measures that prevented an even worse situation. After 1990, expenditures for labour market policy were massively increased and special programs for the East were introduced. Active measures were stepped up, but *de facto* transformed into yet another kind of social transfer or income maintenance program. Spending for active labour market policy was raised from 1 percent to 1.6 percent of the GDP, UI expen8 Tw m 107sv

taking up elements of the neo-conservative agenda. It suggested measures to support research and development and to provide more venture capital; it also called for tax cuts, deregulation, and the streamlining of administrative processes, as well as financial consolidation and a lowering of the high German public-expenditure-GDP ratio through a stability pact with all orders of government.

On the social and labour market policy side, the program urged the restructuring of Germany's welfare-state regime and more severe means-testing for tax-financed services and transfers such as unemployment and social assistance. With regard to Germany's weak employment performance, the document stressed the connection between high labour costs and insufficient job creation. More flexibility, both in collective bargaining and in the organization of labour, was therefore demanded and a full-blown revision of the

and apprenticeship placement were to be opened to the competition of private service providers. The fight against UI fraud and abuse was to become a third pillar of BAA responsibilities. In the field of education, adjustments to Germany's proven dual system were suggested.

The Alliance for Employment did not, however, survive growing tensions between the government, opposition, and social partners. In the wake of this failure, the coalition, whose junior partner, FDP, had been relatively successful in a few Länder elections during the spring of 1996 and increasingly portrayed itself as a neo-conservative tax-reduction party, started a much more confrontational course against the SPD and unions, and so did the employers' associations. A savings package added to the Program for Economic and Employment Growth illustrated this new approach; the package was expected to result in savings of DM4.7 billion until 2000 for the BAA alone. At the same time, employers, particularly in East Germany, began to push through even more decentralized forms of wage-setting outside industry agreements and reneged on labour contracts, thus initiating greater wage differentiation and a substantial departure from the German model of industrial relations. The federal government was able to implement some of the reforms described here, while others were blocked in the Bundesrat. Besides partisan considerations, a majority of the Länder feared that the changes advocated by the government would increase pressure on social assistance and hence ultimately the municipalities and their budgets.

In 1997, the *Labour Market Promotion Reform Act* made some of the changes proposed a year before more explicit. The *Reform Act* itself had to be rewritten several times before it could be passed without Bundesrat consent. Despite the tensions surrounding its formulation, the law, which heavily drew on principles of new public management, called for the increased consultation both of state authorities and employers' associations before the distribution of

programs can be complemented by state or municipal funding. Various other, albeit moderate, decentralization efforts allowed local offices to choose active labour market policy instruments and spend resources more freely than in the past. Beginning in 1998, local governments also received more competences to initiate public-works programs and to stimulate workfare efforts for social-assistance recipients. The general objective of the law was to facilitate the reinsertion of unemployed persons into the primary rather than the secondary job market.

insurance reforms that would make energy more expensive and work cheaper, as well as more efficient measures against illegal employment and wage dumping.

Yet the core of the new government's employment strategy is a renewal of the Alliance for Employment, Training and Competitiveness with the social

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of financial consolidation after the resignation of Oskar Lafontaine as minister of finance and his replacement by Hans Eichel seems to have strengthened its position both with regard to the second chamber, whose right-wing majority failed to vote down the coalition's corporate tax reform in the summer of 2000, and with regard to the social partners, who have made public their intention to continue, through the Employment Alliance and in good faith, trilateral discussions on a wide range of macroeconomic, incomes, and labour market policy issues.

If pursued, the Employment Alliance might indeed be able to stop the erosion of Germany's "Rhenish capitalism" and become the arena of an alternative corporatist reform project based on redistributive solidarity. Yet its success will also depend on the integration of so-far neglected interests (like the tertiary sector), on the organizational capacity of employers' associations and unions (whose membership has been declining), and of course on the mutual trust of participants and their willingness to engage in meaningful cooperation and strategic agreement (the conflict of bargaining versus membership logic plays a role here), otherwise the renewal of corporatist arrangements might produce no more than lowest-common-denominator solutions and hence itself become an element and symbol of the German reform deadlock. The social partners, as well as Länder and municipal governments, will have to be included in regional and sectoral dialogues and ensuing implementation efforts below the level of Berlin roundtable discussions (there has already been some movement in this direction over the last couple of years both in SPD and CDU-CSU governed Länder). None of these factors can obviously be legislated by the federal government, which can at best create the right kind of legal framework. The Employment Alliance will need further short-term positive results in order to establish its credibility, but would have to become a long-term institution in order to have a sizeable impact on the German labour market situation.

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and interlocking nature of decision-making, as well as the larger pattern of consensus politics it is embedded in, are demonstrated. Thus most legislation

plant-level needs and mirror regional, sectoral, and qualification disparities. The acceptance of wage growth below productivity gains, increased wage differentials, and social polarization along the lines of the American labour market regime is seen as crucial. These reforms are notably expected to improve employment growth in the underdeveloped German tertiary sector, thus creating both low-end and high-end jobs.

Changes to the UI system would combine unemployment and social-assistance payments; closer links between retraining, job creation, and workfare programs would be established. The system would be split into a contribution-financed core (UI) and a tax-financed section (active labour market policy). Administrative reforms leading to more decentralization and a more efficient fight against fraud and abuse would be added. The education system would be adapted to the human resources needs of a knowledge-based society. Perhaps surprisingly, the report further suggests the strengthening of a public-goods-oriented third sector of voluntary work.

The most widely debated aspect of these proposals has, however, been the call for a drastic overhaul of German federalism and for the regionalization of social insurance funds. According to the report, globalization has ushered in an era of severe competition not so much among national, but regional economies, and hence among subnational government units that attempt to secure competition-enhancing market conditions in their respective jurisdictions. The authors of the document criticize the unconditional mechanisms of horizontal and vertical equalization in Germany's fiscal arrangements and social insurance funds that level off living standards and competitive advantages between jurisdictions no matter if these advantages are "natural" or politically engineered. Conversely, they argue that most regional disparities (e.g., the number of sick days and unemployment rates, differences in economic structures and varying debts) are politically induced. The "equality of outcomes" caused by these arrangements allegedly punish the state governments that implement competition-enhancing reforms, while discouraging the governments of states with competitive disadvantages from stimulating necessary changes.

The report urges an end to centralization and joint decision-making in order to improve transparency and accountability. Federal and state legislative powers and financial resources would be separated, the principle of subsidiarity reinstated. Competences lost to Berlin or Brussels, particularly in the fields of economic and social policy, would be given back to the Länder, thus re-establishing their autonomy and capacity. The document also embraces the new, downscaled constitutional goal of equivalent instead of equal-living standards.

they would mean a significant departure from established institutional structures and policy contents. While the implementation of the entire set of proposals made by the Bavarian-Saxonian future commissions seems unlikely in the current political situation, at least some of its elements might, however, play a certain role in upcoming intergovernmental negotiations and federal reforms.

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Exploding costs, stubbornly high unemployment, and insufficient job creation: there can hardly be a doubt that the current labour market policy instruments in Germany have substantial deficits. Centralized and corporatist arrangements, which seemed to be working and were conducive to full employment in the 1950s through the 1970s, have come under intense scrutiny because of these failures even though the new government is trying to revive them. The BAA and AFG were created and formulated in a context of economic growth, and were designed to fight momentary disturbances, often shortages, in the labour market. Despite the current relaxation of the labour

responsibilities to a considerable extent, thus further disguising cost-benefit effects. Some observers consider these financial structures, rather than the nature of transfers and programs offered, as the main weakness of German labour market policy.⁵⁷

More broadly speaking, the excessive “work orientation” of the German social-security system is a major problem in the face of declining or at least stagnating employment participation and the diminishing percentage of normal employment histories. An ever-decreasing number of people with jobs profit from the small income differentials and high wages afforded by the German labour market. The shrinking workforce, however, makes it more and more difficult to sustain the welfare-state regime, and hence to support the growing number of people who are left out of the labour market. This vicious circle will have to be broken in several ways. Reforms that drastically redistribute work are needed as much as more adequate tax-financed elements of minimal income support and active labour market policy. Stakeholder representation in the BAA should also take the declining importance of “normal” employment histories, and the large number of people without work, into account. So far, the fact that the unions are supposed to represent the unemployed and people in precarious jobs has led to a strong version of the insider-outsider problem in the German context.⁵⁸

Yet an undifferentiated criticism of German labour market policy would be as inappropriate as complacency. Together with other federal, state, municipal, and EU programs, the BAA and AFG provide for a wide range of instruments, many of which have been proven to work efficiently and effectively in evaluations. This framework ensures at least some regional and local flexibility, offers channels of stakeholder (union and business) participation and even uses the knowledge and resources of private and non-profit service providers. The necessity of passive and active labour market policy as such remains largely uncontroversial among political actors of various stripes and their social partners. The political and financial commitment to the full-employment goal of the 1960s and early 1970s, or even to a more realistic low-unemployment objective, has, however, diminished over the last 25 years. For instance, Germany now has a middle position in the list of industrialized countries in terms of active labour market policy expenditures. This lack of commitment, and not so much the shortcomings of the BAA and AFG framework itself, is a crucial variable in explaining the disappointing German labour market performance. What the scope and impact of active labour market policy

Thus, changes to the funding of passive and active labour market policy might free money for federal, state, and municipal investment programs and job-creation subsidies to the private and non-profit sector. The tools of the BAA and AFG could be better coordinated among themselves and with other federal, state, and municipal economic and social policy measures. Improved harmonization with economic policy at all levels would in fact be a prerequisite for the stimulation of labour demand. On the other hand, further steps of administrative decentralization and flexibility such as increased budget au-

neo-conservative thinking, are hardly panaceas for each and every policy challenge. The discourse of competitive federalism has its own flaws. The question of a rational allocation of policy responsibilities between the tiers of government is a complicated and ambiguous one, which remains ultimately tied to normative standards and political objectives. It is even more difficult to answer in the field of labour market policy, which entails an economic (developmental) and a social (redistributive) component. Recent work by authors such as Paul Pierson and Paul E. Peterson suggests that the former should be decentralized, the latter centralized in order to achieve efficiency and effectiveness, while at the same time avoiding “races to the bottom” and social dumping. Hence the regionalization of a passive labour market policy could only be qualified as a viable and desirable option if the erosion of the welfare-state regime at large is the intended goal. The discourse of competitive federalism becomes even less convincing if one concedes evaluation criteria beyond the efficient and effective allocation of resources, criteria such as the integrative capacity and regional solidarity of a federation. Based on these performance indicators, and against the backdrop of the huge reunification challenge, the German political system still has to be considered a remarkable success.⁶¹

Any formal test of the hypotheses on which decentralization proposals are based would have to rely on more theoretically sophisticated and comparative research. For a quick glance at the strongly divergent labour market situations and unemployment rates of OECD countries, even in a globalized world, makes it plausible to search for nation-specific patterns of multiple causation, including a range of political variables. Despite reduced economic-policy options, unemployment is not a necessary outcome of structural change today. Among other variables, future comparative, neo-institutionalist studies could analyze the internal organization, priorities, and relations of unions and employers’ associations, the autonomy and orientation of central banks, etc. Obviously, federalism would be an important factor to take into account. Studies both of federal versus unitary systems and of different federal systems are necessary if one is to understand why, for instance, the Netherlands, a unitary system, and the United States have been more successful at keeping unemployment down than Germany and Canada.⁶² By the same token, this research could shed light on the role of corporatist arrangements, for despite neo-conservative opposition to these arrangements, their theoretical reevaluation in a competing stream of thinking certainly makes it premature to sound the knell of consensual forms of bargaining and decision-making. The alleged

inflexibility of industrial relations in Germany, then, remains a disputed claim. As for the welfare-state regime and politics writ large, the superior performance of consensual, as opposed to majoritarian, democracy has been corroborated by much recent empirical and comparative work.⁶³

A look at Canada and Germany is certainly instructive in this respect. The two countries represent, as I have attempted to illustrate, largely contrasting experiences — interstate versus intrastate models of federalism, combined

The Treaty on the European Union (Maastricht Treaty) does state high levels of employment and social protection, social cohesion, and harmonization as EU goals; the European Social Fund and a few other instruments aimed at

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¹CDU-CSU = Christian-Democratic/Christian-Social Union (Conservatives), FDP = Liberal Party, SPD = Social-Democratic Party.

²Monthly press release (February 1998) of the Bundesanstalt für Arbeit (Federal Employment Office) at <<http://www.arbeitsamt.de>>; unemployment rates here and elsewhere in the text are percentages of the dependent civilian labour force.

³Monthly press release (September 2000) at <<http://www.arbeitsamt.de>>.

⁴One influential variant of this perspective, which includes (but is not restricted to) neo-conservative versions, is based on the economic theory of federalism and public choice, thus stressing the beneficial role of intergovernmental competition; by contrast, the other (arguably more progressive) variant, which has developed around the industrial-district model, highlights the role of trust and cooperation. Barry R. Weingast, "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development," *Journal of Law, Economics, and Organization* 11 (1995):1-31; Paul E. Peterson, *The Price of Federalism* (Washington, DC: Brookings Institution, 1995); Charles F. Sabel, "Flexible Specialisation and the Re-emergence of Regional Economies," in *Post-Fordism: A Reader*, ed. Ash Amim (Oxford/Cambridge, MA: Blackwell, 1994), pp. 101-56; see also Udo Bullmann, ed., *Die Politik der dritten Ebene: Regionen im Europa der Union* (Baden-Baden: Nomos, 1994); Udo Bullmann/Rolf G. Heinze, eds., *Regionale Modernisierungspolitik: Nationale und internationale Perspektiven* (Opladen: Leske & Budrich, 1997).

⁵Fritz W. Scharpf, *Optionen des Föderalismus in Deutschland und Europa* (Frankfurt/M.: Campus, 1994).

⁶Ursula Münch, *Sozialpolitik und Föderalismus: Zur Dynamik der Aufgabenverteilung im sozialen Bundesstaat* (Opladen: Leske & Budrich, 1997).

⁷Arthur Benz, "Der deutsche Föderalismus," in *50 Jahre Bundesrepublik Deutschland* Thomas Ellwein/Everhard Holtmann, ed. Thomas Ellwein and Everhard Holtmann (Opladen: Westdeutscher Verlag, 1999), pp. 135-53; Charlie Jeffery and Peter Savigear, eds., *German Federalism Today* (Leicester and London: Leicester University Press, 1991); Heiderose Kilper and Roland Lhotta, *Der Föderalismus in der Bundesrepublik Deutschland* (Opladen: Leske & Budrich, 1996); Heinz Laufer and Ursula Münch, *Das föderative System der Bundesrepublik Deutschland* (Opladen: Leske & Budrich, 1998); for comparative views see Michael Burgess and Alain-G. Gagnon, eds., *Comparative Federalism and Federation: Competing Traditions and Future Directions* (Toronto: University of Toronto Press, 1993); Ronald Watts, *Comparing Federal Systems in the 1990s* (Kingston: Institute of Intergovernmental Relations, 1996); Charlie Jeffery, ed., *Recasting German Federalism: The Legacies of Unification* (London and New York: Pinter, 1999) offers a compilation of Basic Law articles regarding federalism in English.

⁸Klaus H. Götz, *Intergovernmental Relations and State Discretion: The Case*

Bundesrepublik Deutschland (Opladen: Westdeutscher Verlag, 1998 [Stuttgart, Kohlhammer, 1976]).

¹³Bundesministerium der Finanzen, *Finanzbericht* (Bonn: Verlag Dr. Hans

1978-1998 (Paris: OECD, 1995, 1999); Josef Esser and Wolfgang Schroeder, "Neues Leben für den Rheinischen Kapitalismus. Vom Bündnis für Arbeit zum Dritten Weg," *Blätter für deutsche und internationale Politik* 1 (1999):54.

²⁴OECD, *Labour Force Statistics 1978-1998* (Paris: OECD, 1999).

²⁵Wolfgang Glatzer *et al.*, *Recent Social Trends in West Germany: 1960-1990* (Frankfurt/M.: Campus, 1992), p. 146; Bundesanstalt für Arbeit, *Arbeitsmarkt 1998* (Nuremberg: Bundesanstalt für Arbeit, 1999), p. 21; Bundesanstalt für Arbeit, *Strukturanalyse* (Nuremberg: Bundesanstalt für Arbeit, various years), monthly data at <<http://www.arbeitsamt.de>>.

²⁶Kommission für Zukunftsfragen..., *Erwerbstätigkeit und Arbeitslosigkeit*, pp. 9, 12-13, monthly data at <<http://www.arbeitsamt.de>>.

²⁷Bundesanstalt für Arbeit, *Arbeitsstatistik* (Nuremberg: Bundesanstalt für Arbeit, various years).

²⁸*Ibid.*

²⁹Bundesanstalt für Arbeit, *Arbeitsmarktanalyse 1997* (Nuremberg: Bundesanstalt für Arbeit, 1998), pp. 15-23; more detailed annual reports on labour market trends can be found in the journal *Beiträge zur Arbeitsmarkt- und Berufsforschung*.

³⁰Manfred G. Schmidt, "West Germany: The Policy of the Middle Way," *Journal of Public Policy* 7 (1987):135-78; Peter J. Katzenstein, *Policy and Politics in West Germany: The Growth of a Semi-Sovereign State* (Philadelphia: Temple University Press, 1987); Esser and Schroeder, "Neues Leben für den Rheinischen Kapitalismus," pp. 51-61.

³¹Klaus Armingeon, *Staat und Arbeitsbeziehungen: Ein internationaler Vergleich* (Opladen: Westdeutscher Verlag, 1994); David Knoke *et al.*, *Comparing Policy Networks: Labor Politics in the U.S., Germany, and Japan* (Cambridge: Cambridge University Press, 1996); Kathleen A. Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Ithaca/London: Cornell University Press, 1991).

³²The distinction of historical phases is based on Manfred G. Schmidt, *Sozialpolitik in Deutschland: Historische Entwicklung und internationaler Vergleich*

in Germany (Hemel Hempstead: Harvester Wheatsheaf, 1994); Heinz Lampert, *Lehrbuch der Sozialpolitik* (Berlin: Springer, 1991).

³⁵Jens Alber, "Government Responses to the Challenge of Unemployment: T

⁴⁷Heidrun Abromeit and Bernhard Blanke, eds., *Arbeitsmarkt, Arbeitsbeziehungen und Politik in den 80er Jahren* (Opladen: Westdeutscher Verlag, 1987).

⁴⁸Berndt Keller, *Einführung in die Arbeitspolitik: Arbeitsbeziehungen und Arbeitsmarkt in sozialwissenschaftlicher Perspektive* (Munich: Oldenbourg, 1993), p. 272.

⁴⁹Alfons Barth and Wolfgang Klauder, "Konjunkturschwäche oder Strukturkrise? Aktuelle Prognose zur Arbeitsmarktentwicklung," *Arbeit und Sozialpolitik* 5-6 (1994), p. 9; OECD, *Economic Surveys: Germany* (Paris: OECD, 1996), p. 98; see also Hubert Heinelt, G. Bosch and Bernd Reissert, eds., *Arbeitsmarktpolitik nach der Vereinigung* (Berlin: Edition Sigma, 1994); Renate Neubäumer, ed., *Arbeitsmarktpolitik kontrovers: Analysen und Konzepte für Ostdeutschland* (Darmstadt: Wissenschaftliche Buchgesellschaft, 1993).

⁵⁰Keller, *Einführung in die Arbeitspolitik*, p. 325; see also Wilhelm Adamy, "Deregulierung des Arbeitsmarkts - Zwischenbilanz des Beschäftigungsförderungsgesetzes," *WSI-Mitteilungen* 8 (1988):475-82; G. Bäcker and B. Stolz-Willig, "Teilzeitarbeit - Probleme und Gestaltungschance," *WSI-Mitteilungen* 9 (1993):545-53.

⁵¹Bundesregierung, *Programm für mehr Wachstum und Beschür mehr Wachstum und Beschäftigung*; Bundesministerium für Arbeit und Sozialordnung, *Programm für mehr Wachstum und Beschäftigung: Massnahmen im sozialpolitischen bereich* (Bonn: Bundesministerium..., 1996); OECD, *Economic Surveys: Germany* (Paris: OECD, 1996), pp. 142-43.

⁵²The coalition agreement is accessible at <<http://www.spd.de/aktuell/programmatisches/vertrag.html>>.

⁵³The Employment Alliance has a Website at <<http://www.buendnis.de>>.

⁵⁴On this reform debate, see Uwe Leonardy, "Deutscher Föderalismus jenseits 2000: Reformiert oder deformiert," *Zeitschrift für Parlamentsfragen* 30 (1999), pp. 135-63.41desministerium

⁵⁸Barbara Riedmüller and Marianne Rodenstein, eds., *Wie sicher ist die soziale Sicherung?* (Frankfurt/M.: Suhrkamp, 1989); Thomas Olk and Barbara Riedmüller, eds., *Grenzen des Sozialversicherungsstaates* (Opladen: Westdeutscher Verlag, 1994).

⁵⁹That the German welfare-state regime is comparatively unexceptional with regard to its scope has been demonstrated recently by Jens Alber, "Der deutsche Sozialstaat im Licht international vergleichender Daten," *Leviathan* 26 (1998):199-227.

⁶⁰On the performance and future of the German vocational-training system, see Pepper D. Culpepper and David Finegold, eds., *The German Skills Machine: Sustaining Comparative Advantage in a Global Economy* (New York/Oxford: Berghahn Books, 1999).

⁶¹Paul Pierson, "Fragmented Welfare States: Federal Institutions and the Development of Social Policy," *Governance* 8 (1995):449-78; Peterson, *The Price of Federalism*.

⁶²Francis G. Castles, "Decentralization and the Post-War Political Economy," *European Journal of Political Research* 36 (1999):27-53, finds no statistically significant relationship between political and fiscal measures of decentralization and labour market performance; for examples of comparative labour market policy research, see Gérard Boismenu and Pascale Dufour, "Nouveaux principes de référence et différenciation des arbitrages politiques: le cas des politiques à l'égard des sans-emploi," *Canadian Journal of Political Science* 31 (1999):113-42; P. Chamberlayne, "Income Maintenance and Institutional Forms: A Comparison of France, West Germany, Italy and Britain, 1945-1990," *Policy and Politics* 20 (1992):299-318; Jochen Clasen, *Paying the Jobless: A Comparison of Unemployment Benefit Policies in Great Britain and Germany* (Aldershot: Avebury, 1994); Jochen Clasen, "Motives, Means and Opportunities: Reforming Unemployment Compensation in the 1990s," *West European Politics* 23 (2000):89-112; Günther Schmid, "Beschäftigungswunder Niederlande? Ein Vergleich der Beschäftigungssysteme in den Niederlanden und in Deutschland," *Leviathan* 25 (1997):302-37; Günther Schmid and Bernd Reissert, "Do Institutions Make a Difference? Financing Systems of Labour Market Policy in International Comparison," *Journal of Public Policy* 8 (1988):125-49; Paul Teague and John Grahl, "Institutions and Labour Market Performance in Western Europe," *Political Studies* 46 (1998):1-18.

⁶³Keller, *Einführung in die Arbeitspolitik*, p. 326; Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca/London: Cornell UP, 1985); Markus M.L. Crepaz, "Consensus versus Majoritarian Democracy: Political Institutions and their Impact in Macroeconomic Performance and Industrial Disputes," *Comparative Political Studies* 29 (1996):4-26; Vicki Birchfield and Markus M.L. Crepaz, "The Impact of Constitutional Structures and Collective and CompetitivabouSf 38 r7(P)76(o

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Recently, Paul Pierson has noted that comparative work on federalism is rare and comparative research on the consequences of federalism for social policy is non-existent.¹ Looking at the contemporary literature reveals that several approaches and ways have emerged in which social scientists examine the relationship between federalism and social policy. There seems to be a consensus that federalism affects social policy-making: federalism not only splits responsibilities between the federation and the constitutional units and increases the number of relevant actors in the policy field, but it also modifies their preferences, perceptions and strategic options. It is therefore reasonable to assume that vertical power-sharing contributes to a different mode of politics and therefore to different policy outputn Tc 0.[ged r26 Tc -(u)9

can exert influence on federal policy-making), and finally, the extent of commitment to fiscal equalization across constituent units, that is, the distribution of financial resources among political jurisdictions.¹⁰ Moreover, one has to take into consideration the connection between federalism and other institutional veto-points within the political system as well as the distribution of power within the partisan arena. With respect to Switzerland it is important to consider the prominent role of direct democracy for public policy-making.¹¹

I will argue with respect to Swiss labour market policy that we observe several of the policy effects attached to federalism by the different schools of thought. Federalism indeed left its mark on Swiss labour market policy. We not only see considerable innovation effects stemming from federal power-sharing, policy solutions which are sensitive to local circumstances and problems, implementation that responds to local preferences, but also inefficiencies, heterogeneous social standards and, finally, a strong veto-power of the cantons against a stronger involvement of the federation in the field of labour market policy resulting in suboptimal policy outcomes. As a result, the ways in which social protection of the unemployed is organized partly deviates from the mode of governance in unitarian states. This merely applies to the income support for the long-term unemployed and to the implementation of active labour market policy. However, no major effects of labour market policies on Swiss federalism can be found. Despite recent troubles in the labour market, unemployment figures are still extraordinarily low by international standards. Although unemployment rates vary considerably across different regions, these rates are too low either to represent a major threat to the cohesion of the federation or to induce severe tensions between the constitutional units. However, combating (long-term) unemployment varies along regional lines. Analyzing Swiss labour market policy in the 1990s provides some interesting insights into how federalism in Switzerland works.

I start by briefly describing the main characteristics of Swiss federalism and continue by sketching the distribution of responsibilities between the central state and the constitutional units in the field of social and labour market policy. This section also sheds light on the main developmental stages of labour market policy in Switzerland. The next section presents key figures with respect to the performance of the Swiss labour market in the 1990s. Moreover, this section examines both the factors determining the Swiss labour market miracle lasting until 1991 and the reasons behind the unprecedented upsurge of unemployment in the early 1990s. The unexpected and sudden rise of unemployment propelled a series of reforms in the labour market. These are

analyzed in more detail in the third section. The final section evaluates these reforms and gives conclusions.

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In 1998 Switzerland celebrated the 150th anniversary of the federation. After a short civil war between Catholic and Protestant cantons, 25 sovereign states (the cantons) — which had been part of a loose confederation — decided to form a federation in 1848. A federal constitution was adopted by the people in the same year, shifting only limited responsibilities to the federal state. In 1874, the constitution was revised and the competencies of the central state were

a major role in the pre-parliamentary decision-making process. Together with the business organizations and trade unions they have a right enshrined in the constitution in 1947 to be heard in the pre-parliamentary consultation process (*Vernehmlassungsverfahren*) to which many federal bills are submitted. Finally, cantons have a veto-power with respect to direct democracy. To be successful, both obligatory referenda and constitutional initiatives require a so-called double majority. Not only a majority of the people but also a majority of the cantons must vote in favour of the issue at stake in order to amend the constitution. Again this gives small cantons a pivotal role in the decision-making process.¹⁶

This fragmented polity with its broad diffusion of power largely contributed to the process of nation-building in Switzerland. In the beginning, Switzerland's political system enshrined in the constitution from 1848–74 was a majoritarian democracy with several institutional checks and balances built in. Parliament and the federal government were dominated by the Radical Party which was heavily committed to liberal ideas. However, by making use of several institutional veto-points, the Catholic minority (and later the Social Democratic Party) was able to veto many reforms proposed by the Radicals.¹⁷ To avoid a dead-lock of political decision-making, these minorities were integrated step by step into the federal government. Accelerated by institutional reforms (proportional representation for the National Council was introduced in 1918) and party splits (small business and farmers separated from the Radical Party and formed the Swiss People's Party in 1929), this process of "paradigmatic integration" culminated in the magic formula of 1959 which is the cornerstone of Switzerland's consociational democracy.¹⁸

cantons had to be compensated for giving up their right to legislation. This was solved either by non-interference in certain policy areas like social assistance, unemployment assistance, and regulation of family allowances for non-agricultural employees or, and more important, by shifting the implementation of federal social security legislation to the cantons which now play an important role in this field.²³ Table 1 highlights the current division of responsibilities between the cantons and the federation in the field of social policy. Today's task-sharing between the federation and the constitutional units resembles the concept of cooperative federalism. Norm-setting with respect to insurance-based entitlements and benefits is the responsibility of the federation, while implementation of these programs is overwhelmingly a matter shared by the cantons and the federal state. In contrast, legislation and implementation of means-tested income support programs is merely the responsibility of the 26 cantons. As the table makes clear, social protection of the unemployed is a joint matter between the federation and the cantons.

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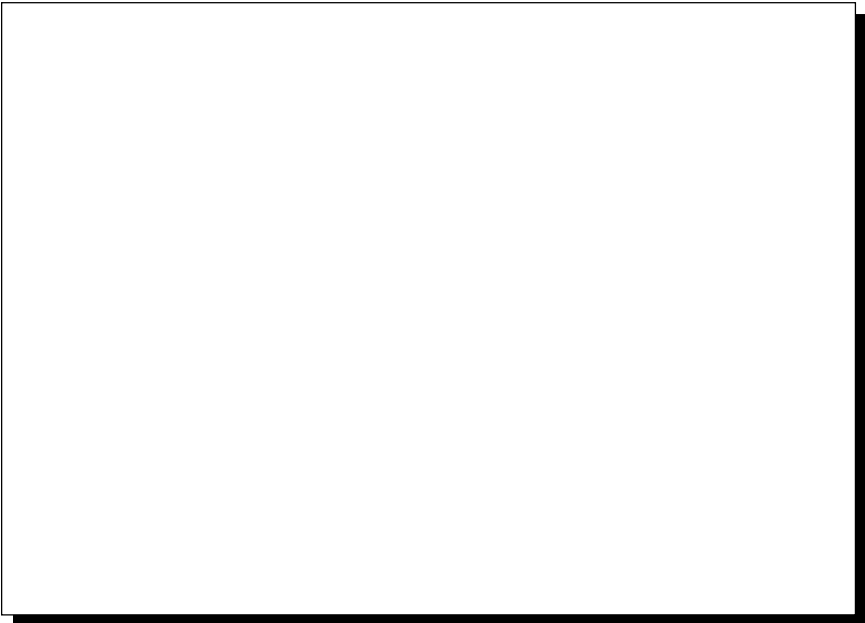
Table 1. Division of responsibilities between the Federation and the Cantons in the field of social policy, 2000

<i>P</i>	<i>E</i> <i>P</i>	<i>C</i>	<i>L</i>	<i>F</i>	<i>I</i>
Unemployment Insurance	Employment-related		0	1	1
Unemployment benefits	Employment-related		0	1	1
Unemployment benefits	Means-tested	/	0	1	2
Unemployment Assistance	Means-tested		2	2	2
Unemployment assistance	Means-tested		2	2	2

²³ For a detailed discussion of the process of social security reform, see the report of the Commission of Experts on Social Security, 'Report of the Commission of Experts on Social Security', 1994, pp. 10-12. The Commission of Experts was established in 1989 to study the possibilities of reforming the Swiss social security system. The Commission's report was published in 1994. The report is available in German, French, and Italian. The English translation is available in the report of the Commission of Experts on Social Security, 'Report of the Commission of Experts on Social Security', 1994, pp. 10-12. The Commission of Experts was established in 1989 to study the possibilities of reforming the Swiss social security system. The Commission's report was published in 1994. The report is available in German, French, and Italian. The English translation is available in the report of the Commission of Experts on Social Security, 'Report of the Commission of Experts on Social Security', 1994, pp. 10-12.

As already described, unemployment insurance was the last social insurance branch that was transferred to the central state in 1947. This late engagement of the federation in the field of unemployment insurance can be explained by a

empowered the federation to set up a federal unemployment insurance. However, this constitutional amendment obliged the federation to stick to the Gent system and prohibited the central state from declaring unemployment insurance compulsory.²⁸ Based on this amendment a federal law regulating unemployment insurance was enforced in 1952. In light of the exceptional labour market performance after 1945, this law never gained great importance. Throughout the whole postwar period unemployment figures remained at a very low level (Figure 1) while the employment-to-population ratio at least for men was extraordinarily high by inter-



During the postwar period, the Swiss Federal Council probably was the only government in the western world that counted unemployment percentage rate in per mille rather than in percent.²⁹ For instance, between 1964 and 1974 no more than 6,000 persons annually received unemployment benefits. This exceptional and unique labour market performance together with the weak compulsory character of the insurance was the main reason why the extent of coverage of the unemployment insurance was about 20 percent in the mid-1970s. The first oil shock, however, caused a considerable decline of gross domestic product (GDP) that was mirrored by a temporary increase of unemployment. The same happened after the second oil shock 1979–80 (Figure 1). The rising unemployment figures have been the mainspring for making unemployment insurance compulsory by a provisional decree in 1976–77. This provisional regulation was replaced by the federal *Unemployment Insurance Act* (AVIG) in 1982. This Act, still in force, combined tight controls with relative generous benefits which were contingent upon sufficient previous contribution payments. The insurance is funded by equal contributions of employers and employees. Since the unemployment rate was less than 1 percent during the 1980s, the new law worked well. However, the situation should change considerably in the early 1990s.

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At the beginning of the 1990s, Switzerland belonged to a very small group of countries that could look back on several decades of full employment. The Swiss labour market performance was even more than a success story: it was, from a comparative point of view, a miracle. However, the Swiss miracle suddenly came to a (preliminary) halt in the early 1990s. In the aftermath of a severe recession that affected Switzerland in 1991 unemployment figures exploded dramatically. In 1997, the rate of unemployment was 5.2 percent compared to 0.2 percent in 1990. What was responsible for this high level of unemployment since the Great Depression? To understand this recent development in the labour market, one has to examine the forces behind the postwar labour market miracle. Switzerland's full-employment policy was based upon two pillars that jointly regulated labour supply.³⁰ First, female participation was pro-cyclical so that in times of recession women left the labour market. Second, Switzerland traditionally has a high number of foreign workers. The

current group of foreigners is 19.3 percent of the total population. There are several categories of foreign workers, depending on different working and resi-

On the other hand, the female participation rates increased in the last two decades (Table 3). Female labour market participation rate has ceased to be pro-cyclical. The higher share of foreign workers with long-term residen-

The incidence of unemployment is relatively stable during the 1990s

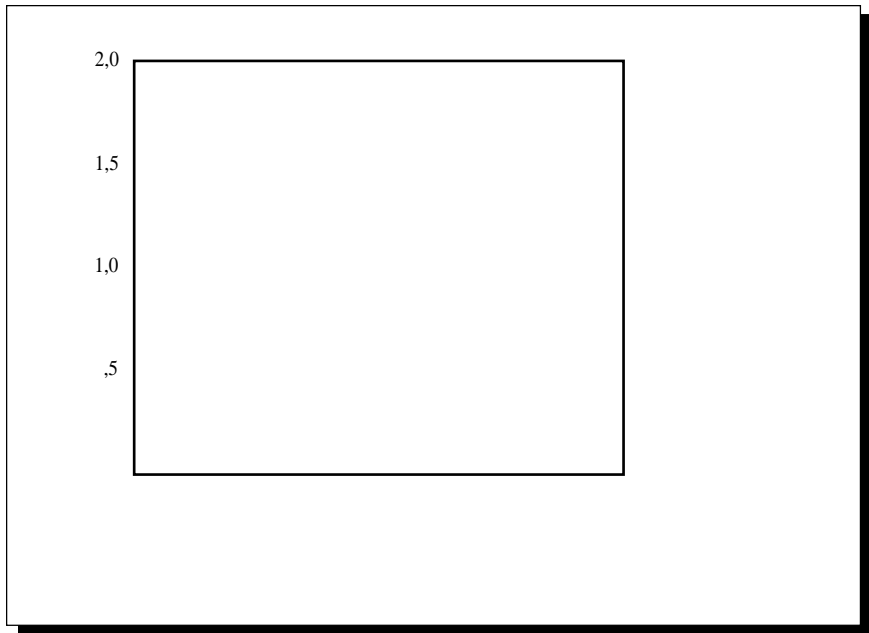
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of beneficiaries, unemployment insurance accumulated a huge deficit which amounted to seven billion Swiss Francs in 1997. Figure 2 reveals that social spending on unemployment benefits naturally jumped from 0.36 percent of GDP in 1990 to 2 percent of GDP three years later.

Second, an increasing number of beneficiaries exhausted their benefit entitlement and were taken off unemployment insurance since the maximum number of benefits was 250 days, whereas the average duration of unemployment steadily increased. Financial consolidation and improving income support of the long-term unemployed headed the reform-agenda. In the beginning, these problems were tackled by a series of urgent federal resolutions (*dringliche Bundesbeschlüsse*). To cover the deficit, contributions shared by employers and employees were increased from 0.8 percent to 2 percent of payroll in 1993

Figure 2: Social spending on unemployment benefits as a percentage of GDP, 1990-1993



Source: Federal Office of Statistics, *Statistik der Schweiz* (1993, 1994).

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and then to 3 percent (until 2003) in 1995. Table 5 reports the development of

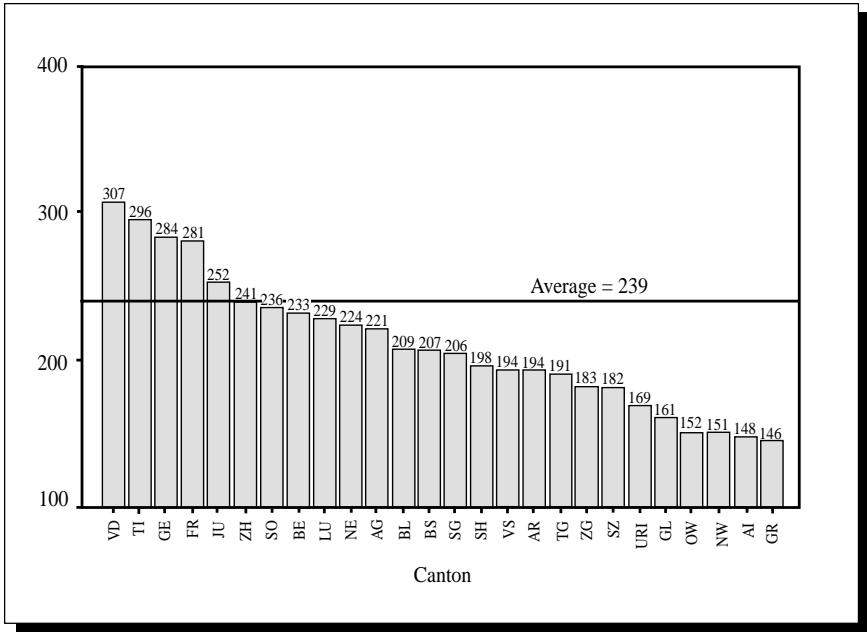
support to promote self-employment. The federal government is also empowered to introduce a temporary early retirement scheme if a region, an industry or the whole country is affected by severe and persistent unemployment (AVIG, article 65a). In addition, the unemployment insurance provides cash benefits to foster mobility of the labour force within the country. In this context the insurance covers residential costs and travelling costs if an unemployed person cannot find a job in his or her region so takes a job abroad. Benefits are restricted to a maximum of six months and are only available if the new job pays less than the previous work. Pressure on mobility results from a more stringent definition of "suitable work" enshrined in AVIG, article 16 (2). According to this, those who are unemployed (unless they have dependants) are forced to take a job if travelling to and from work does not exceed four hours a day. However, other mobility programs have played and still play a marginal role: only 0.05 percent of total expenditures on labour market programs was devoted to mobility support in 1994. In 1985, the corresponding share amounted to 0.036 percent.⁴⁶ This negligible proportion spent on mobility programs is probably due to the small size of the country.

Finally, the activation measures comprise temporary employment programs in the non-profit economy. Cantons are responsible for providing the positions for the programs. Instead of the 66,000 positions suggested by the National Council, the cantons are only obliged to supply 25,000 slots and to fund each slot by a lump-sum amount of 3,000 SFr.⁴⁷ The federal government allocates minimum quotas each year between the cantons by taking into account a canton's size and the number of insured. If cantons deviate from the quotas by offering less slots, they have to pay 20 percent additional passive unemployment daily benefits. If more additional slots are offered, then the cantons do not have to contribute at all

individual success in the labour market that are due to these programs. According to this study, the effectiveness of ALMP is rather mixed. Whereas measures of temporary wage subsidies show a positive effect, traditional employment programs in the sheltered sectors show a negative performance.⁵⁰ This finding is shared by the OECD which states that work-experience programs in the public sector “are unlikely to increase significantly future employment prospects.”⁵¹ The evidence for vocational training and other training measures is inconclusive, depending on the sub-program under consideration. These findings partially coincide with the evidence derived from the international comparative literature.⁵²

Since the local labour offices are primarily staffed with part-time workers and were overburdened in the wake of the recession, the organizational basis of the job-placement system was restructured. Cantons were to establish Regional Employment Services (RES) which were assisted by tripartite commissions serving as advisory boards. Each canton establishes at least one RES which serves as the intermediary between local and cantonal labour offices. RES were subject to evaluation by a management consulting agency. The study evaluated 125 RES between 1997 and 1998 and revealed ample regional y1B. S3.7hg mea

TABLE 6
 Duration of unemployment benefits (in days)



Source: *Journal of Applied Social Economics*, RA-E, 1990, 1(1), p. 0.

established means-tested, income-support schemes for the long-term unemployed. In the mid-1990s, 19 out of 26 cantons had enacted unemployment assistance, with substantially variable eligibility rules, levels, and kinds of benefits available. A few cantons, like Graubünden, lack such intermediary benefits prior to social assistance.⁵⁴ Sixteen cantons have established cash benefits that are needs-based and earnings-related, while in 1994 Geneva, Neuchâtel, and Jura offered employment programs. In the cantons providing income support the average duration was 125 days and the average benefit level amounted to 88 percent of previous insurance benefits. Judged by international standards, level as well as duration of benefits of these schemes are generous, especially if previous insurance-based benefits are taken into account.⁵⁵ Level and duration of benefits are reported in Table 6.

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However, the data reported in this table refer to the situation in the mid-

increased from about 130,000 (1990) to about 300,000 in 1996.⁵⁸ Not surprisingly, the unemployed make up the largest group of social-assistance beneficiaries.⁵⁹

Social assistance (*Sozialhilfe*) is regulated, administered and funded by 26 cantons and approximately 3,000 local communes. Social assistance evolved from traditional poor relief in accordance with federalist power-sharing and the subsidiarity principle. Subsidiarity shifts the main responsibility in the field of social policy to social insurance and the family. Apart from varying inter-cantonal agreements (*Konkordate*), the home community and the home canton were responsible for supporting their citizens until the 1970s. Article 48 of the Swiss federal constitution, which was approved by citizens and cantons in a referendum in 1975, definitely shifted the responsibility from the home to the resident canton, which delegates social assistance to the municipalities. Much of the cantonal legislation (especially the German one) has delegated social assistance to the

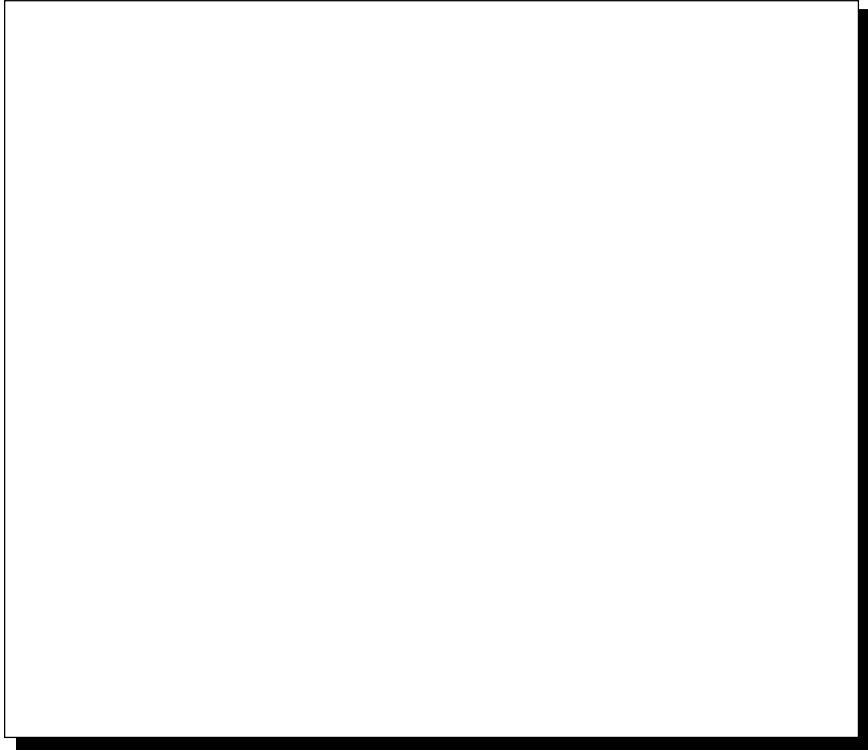
municipalities is associated with stigma and tight social control.⁶⁴ As a result, take-up rates are low since these institutional features “contribute to the impression that social assistance is not a right.”⁶⁵ Ditch *et al.* report that take-up rates of social assistance in rural areas is about 20 percent.⁶⁶ Generous benefits and a low take-up rate enforced by social control, rigid asset-tests and support responsibilities of the family are two sides of the same coin. As a result, “the overall cost of the system is kept low despite the high benefit rates.”⁶⁷

Owing to cantonal responsibility, the regulation of social assistance is split into 26 cantonal laws so that social assistance is characterized by an outstanding diversity concerning eligibility conditions, benefits and procedural rules.⁶⁸ These 26 cantonal laws stem from different historical periods and focus on distinct priorities. Due to individual administrative and fiscal capacities determined by the size of communes, the quality, mode of benefit provision, and procedural rules substantially vary between urban agglomerations and rural areas. Höpflinger and Wyss, who have examined 1,776 of approximately 3,000 communities, distinguish four different systems of social assistance arrangements which show ample variety according the degree of professionalization and equipment with social services.⁶⁹ The Swiss social-assistance scheme is probably the most fragmented system within the OECD.⁷⁰ Moreover, social assistance in Switzerland is characterized by an outstanding combination of public and private initiative. Yet it is not the federation but rather a semi-public organization and representatives of the cantonal governments which are engaged in norm-setting and harmonization. Coping with regional disparities is subject to horizontal self-coordination rather than vertical norm-setting from top down. Owing to the heterogeneity of social assistance, the Swiss Conference for Social Assistance (SKOS) provides recommendations and guidelines for the calculation of benefits.⁷¹ A semi-public organization, staffed with experts and representatives of the cantonal administration, is setting standards and general rules in order to improve efforts to harmonize the 26 cantonal laws with respect to procedure, scope, and level of benefits. From a Canadian point of view this might be remarkable, but this important role played by a semi-private organization has historically deep roots and can be explained by Switzerland’s federal polity. The central state is traditionally weak and there is a widespread mistrust against centralization of state authority. In the nineteenth and early twentieth centuries, the central state lacked competencies and administrative capacities to run major social programs by itself. When the federation got involved step by step in regulating social affairs, administration and implementation were often shifted to the cantons or to interest groups of

business and labour as well as to private welfare organizations.⁷² Consequently, the third sector was integrated into the system of social security.⁷³ In the field of social assistance for instance, efforts at horizontal coordination date back to 1905 and SKOS-guidelines for benefit calculation were set up in the early 1960s.⁷⁴

SKOS-guidelines provide recommendations for monetary support and were given a new basis in 1998.⁷⁵ About 68 percent of the German-speaking communes employ the SKOS-guidelines for benefit calculation, 25 percent 0.0213ply benefit rates below the SKOS-guidelines and 7 percent of the communes calculate benefits according to their own criteria.⁷⁶

In some cantons (Ticino, Valais, Neuchatel) these programs that provide a re-



concerning the ways in which they provide means-tested income support. The recent reforms in the Latin cantons not only have increased the segmentation between the German and the Latin cantons with respect to social assistance and other means-tested programs, but there also exist ample variation within the Latin cantons themselves in how they have restructured income support for the poor. Owing to the many co-existing anti-poverty programs, problems of coordination have emerged even within cantons. In Ticino, attempts have therefore started to harmonize those different programs.⁸⁵ Similar efforts are going

paths adopted by the cantons have increased the fragmentation within the so-called secondary social safety-net in the 1990s.

In the early 1990s, problems in the Swiss economy led to a steep increase in unemployment. This unexpected deterioration of the Swiss labour market performance fuelled a series of reforms to the programs related to income support for the unemployed. These programs are a joint responsibility of the federation, cantons, and local authorities. Switzerland responded immediately to this crisis in the labour market with a pragmatic and compromise-based reform package, including several innovations that were highly approved by the OECD.⁸⁶ Owing to an economic upswing in 1997, unemployment figures began to fall. The unemployment rate significantly declined from 5.2 percent in 1997 to 2.7 percent in 1999. However, it is difficult to disentangle whether the decline is a result of the recent policy reform, economic growth or both. The OECD suggests that the recovery of labour market performance is primarily driven by economic growth, but is also a result of a slight labour market deregulation, high wage flexibility and the reform of federal unemployment insurance, fostering tight controls and active labour market policy.⁸⁷

How did federalism influence labour market policy in the 1990s? Analyzing these reforms reveals that there is no unique or one-sided effect associated with federalism. Rather, we can see different effects according to the arguments briefly sketched in the first section. Federalism has advantages and disadvantages in the policy field under consideration. There is some evidence that federalism caused sub-optimal outcomes with respect to the provision of sufficient job opportunities for activating measures. Instead of 66,000 employment positions as suggested by the National Council, cantons only have to provide 25,000. Keeping in mind that the stock of job-seekers amounted to 190,000 in 1997 among which 57,500 were unemployed for more than 12 months, makes clear that this number is insufficient.⁸⁸ Hence, this ch 57,514o28 Tw [(p19i.

The corresponding price of such experiments, however, is a regional, highly fragmented system of unemployment and social assistance. The recent developments in the field of unemployment and social assistance have increased the heterogeneity in these policy fields. Thus, the system of means-tested income support became still more complex regarding eligibility rules and the kind of benefits supplied. This marked diversity naturally generates inefficiencies. Even Swiss experts increasingly face problems to keep pace with the reforms going on and to have a profound survey of the whole system. The extraordinary decentralization of means-tested income support programs is mirrored by an inadequate data situation in this policy field. For instance, no general statistics exist on social assistance.⁹⁵ Though efforts to improve data collection have been undertaken, lacking data impedes targeted reforms and efforts of harmonization.⁹⁶ This points to necessary future reforms: improving coordination and harmonization of standard-setting should enjoy top priority. The OECD recommends improving the coordination between cantonal social assistance and federally regulated active labour market policy. For instance, the services supplied by the RES should be made accessible to social assistance clients since the “absence of a strategy to get clients off social assistance and into work is a major failing of the Swiss system.”⁹⁷ Moreover, a discussion of whether a small country like Switzerland needs 26 different social assistance programs and almost as many unemployment assistance laws seems to be necessary.

However, attempts at standard-setting from the top down are likely to not be very successful, since centralized policy solutions would naturally violate the autonomy of the subgovernments. Consequently, attempts to set norms from the top down will provoke resistance from the cantons, which fear the loss of their regulatory power. As the history of Swiss social policy has shown, the cantons’ strong influence on the federal decision-making process enabled them to express resistance and to dilute the extent of interference of the central state in their policy domains. Moreover, among the several interlocked forums of negotiations that characterize Switzerland’s consociational democracy the cantonal-federal forum is only one bargaining pillar.⁹⁸ It is also rather unlikely that a partisan consensus can be reached in favour of centralized policy solutions. Given this widespread resistance against the centralization of public policy, several social assistance experts have proposed creating a federal skeleton law that contributes to harmonization of benefit calculation without limiting the flexibility and elasticity of local policy arrangements and undermining local innovation capacities.⁹⁹ Economic recovery, increasing harmonization efforts undertaken by SKOS, and the now widely accepted new SKOS guidelines

introduced in 1998 (*Neue Zürcher Zeitung*, 14 September 2000, p. 14) have lowered the probability that such a solution will be realized. There is much evidence that Switzerland will stick to its system of horizontal coordination rather than switch to uniform standard-setting from the top down.

Notwithstanding some critical remarks on the Swiss way of fighting poverty, I suppose that the current distribution of social policy responsibilities does not represent a major threat for social citizenship and state legitimacy. This assumption is based upon three arguments. First, Swiss federalism is an institutional device to settle conflicts within a multicultural and segmented society. As several opinion polls reveal, people strongly support the federal system. Although living conditions and social benefits supplied are heteroge-

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¹Paul Pierson, "Fragmented Welfare States: Federal Institutions and the Development of Social Policy," *Governance* 8 (1995):450.

²Fritz W. Scharpf, "Theorie der Politikverflechtung," in *Politikverflechtung: Theorie und Empirie des kooperativen Föderalismus in der Bundesrepublik*, ed. Fritz W. Scharpf, Bernd Reissert and Fr

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¹⁷Leonhard Neidhart,

The Policy Press, 1997), pp. 107-29; Herbert Obinger, "Soziale Sicherheit in der

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⁵⁹Robert Fluder and J

policy (worker placement, occupational orientation, and training). While on the other hand, some of these instruments, such as social security (and particularly unemployment insurance), labour law, and the organization of labour-management relations, are still federal responsibilities.

Furthermore, it is important to emphasize that Belgium's pressure groups have anticipated and followed the institutional evolution in various ways. Thus, for the purposes of this chapter, and given the importance of social concertation in Belgium, one must keep in mind that the unions have maintained a national organization, even if certain specific articulations respond to the regionalization of the economy and of employment. In terms of employer organizations, regional agencies (Flemish, Walloon, and Brussels' employers' organizations)

1. Is the division of powers between the Regions, the Communities and the federal government clear in terms of public policies dealing with employment?
2. Does the existence of mechanisms of cooperation, collaboration, and

The federal state remains responsible for all that concerns the state's general interests such as finance, national defence, justice, social security, foreign policy, public debt, internal security (police), matters dealing with the economic and monetary union, and an important part of public health. The federal government, composed of a certain number of ministers and secretaries of state, exercises the executive power while the legislative power is shared between the House of Representatives and the Senate.

Belgium is composed of three Regions and three Communities. The Walloon Region, the Flemish Region and the Brussels-Capital Region are institutional entities determined by geographic realities and are largely linked to economic interests. Thus, the Regions are responsible for territorial management and urbanism, the environment, employment (excluding matters linked to social security), water policy, etc.; the Regions also control the provinces and the communes. The three Communities are the French Community, the Flemish Community, and the Germanophone Community. They are based on language, which is linked to individuals. The Communities thus treat "individual matters" such as culture, education, communications, certain aspects of preventative and curative medicine, youth protection, etc. These institutions were essentially created by the law of 1979, with the exception of the Brussels-Capital Region, which was created in 1989.

Since the creation of Regions and Communities, these institutional changes have created an *asymmetry* in the executive power between the north and the south of the country. In the Flemish part of the country, the Region and the Community have fused to become a single government, the Flemish Government (*de Vlammse Regering*), which manages both regional and community responsibilities. In the francophone and germanophone part of the country, the distinction between Community and Region has been maintained. As a result, the French Community, the Germanophone Community, the Walloon Region and the Brussels-Capital Region all co-exist. Each of these institutions is managed by its own government: The Walloon Government, the Government of the Brussels-Capital Region, the Government of the Germanophone Community and the Government of the French Community.

In terms of the legislative power: the Community level includes the Council of the Germanophone Community and the Council of the French Community; the regional level includes the Walloon Regional Council and the Brussels-Capital Regional Council. The Brussels-Capital Region adds a particular twist. In order to ensure the management of community responsibilities, three commissions were created, the French Community Commission (COCOF), de Vlaamse Gemeenschapscommissie³ (VGC) and the Common

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Police and security	Way of life	Culture
Justice		
National defence		
Foreign policy		
Social security		Education
	Economy and employment	Personal matters
		Language use
Economic and monetary union	Local powers	
Civil and commercial law		
Labour law		
Tax law	Transportation and public works	
Immigration		
Nuclear energy		
Railroads		
Brussels National Airport		
Language use		
The major cultural institutions in Brussels		

Community Commission (COCOM). As with the executive power, there is an asymmetry between the north and the south since the Flemish Council is the same at both the Community and the Regional level. In other words, Belgium is managed by six governments whose jurisdictions translate three levels of power, namely the Federal, Community, and Regional levels.

To complete the hierarchy of levels of power, two additional levels must be added. These are the provincial level (the five Walloon provinces, the five Flemish provinces, and the bilingual territory of Brussels-Capital) and the communal level (the Walloon commune, the Flemish communes and the 19 communes of Brussels-Capital).

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Table 2. The structure of the Belgian political system

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National Level	Federal Government			
Community Level	Community Government	Community Government	Community Government	Community Government
Regional Level	Regional Government	Regional Government	Regional Government	Regional Government
Linguistic Regime	Community Government	Community Government	Community Government /	Community Government
L P				
National	House		Senate	
Community Level	Community Government	Community Government	Community Government	Community Government
Regional Level	Regional Government	Regional Government	Regional Government	Regional Government
Linguistic Regime	Community Government	Community Government	Community Government /	Community Government

Responsibilities in Policies Dealing with Employment, Occupational Training, and Labour Force Placement Within the Different Levels of Power of the State in Belgium

Responsibilities in employment policy are shared between the federal authority and the Regions. Responsibilities in occupational training are shared between the Communities and the Regions, depending on the case. Responsibility in worker placement is regionalized.

Federal Jurisdiction in Employment Policy. The federal state plays the role of redistributing national resources in the domain of employment policy (employment, insertion and training). In this role, it possesses exclusive jurisdiction over social security⁴ and is principally responsible, at least to date, for the elaboration and management of social security.⁵ It fixes the eligibility rules for income replacement (including unemployment benefits). It determines the content and application of labour legislation and of legislation in unemployment insurance. The federal government is also responsible for workplace health and safety, labour law, collective bargaining, and labour conflicts (and their resolution).

More concretely, the federal responsibilities in employment policy are: (i) federal programs of employment promotion (formerly called “back to work programs”) which seek to place the unemployed in the federal authority’s administration and services (or the administration and services placed under its control); (ii) the financing of regional employment promotion programs (the regions have the power to place the unemployed and can set up back-to-work programs. For every unemployed person receiving full-benefits that the Region places in a back-to-work program, the federal authority will provide a financial subsidy equal to the amount of the unemployment benefits); (iii) employment promotion in the non-market sector which seeks to create new jobs in this sector;⁶ (iv) subsidies paid to regional and community organizations under the Plan for Accompanying the Unemployed (PAC) which foresees a special follow-up of individuals over 25 years old who have received more than 12 months of full unemployment benefits and who meet certain criteria with respect to level of training; (v) exoneration of social security deductions in the context of an employment program (the federal authority remains the only one that can exonerate employer deductions, as these are related to social security); and (vi) coordination between the federal responsibility to provide visitors’ permits and the regional responsibility to provide work permits is overseen by the federal authority.

Institutional Reforms and the New Division of Powers Concerning Questions of Employment, Training and Placement Devolved to the Regions and Communities. Following the constitutional revisions of 1980 and 1988, the Regions and Communities were endowed with executives and deliberative assemblies with their own decision-making powers and responsibilities. The division of jurisdictions between the different levels of power is technically fairly complex and rigid, and it appears so at first sight. The responsibilities of the Regions and the Communities are attributed. In other words, “they are enumerated in a limiting fashion either by the constitution or by the legislator, placing in statute the special majority needed for all the entities or the ordinary majority needed for the Germanophone Community.”⁷

Belgium’s institutional system is founded on the exclusive division of powers as all the responsibilities which are not attributed to the Regions or to the Communities belong to the federal authority.⁸ However, the rigid character of this exclusive division of power is attenuated by a series of mechanisms, most notably the mechanisms of implicit powers, of accessory responsibilities, and of cooperation accords. The new division of power in employment, occupation training and placement matters was determined by the special law of 8 August 1980 dealing with institutional reforms and modified by the special law of 8 August 1988.

Articles 4 and 5 of the 8 August 1980 law specify that the *Communities* are henceforth responsible for:

- occupational upgrading and retraining, with the exception of rules relating to intervention in the spending inherent in the selection, occupational training, and reinstallation of workers recruited by an employer seeking to create, extend, or reconvert his/her firm;
- policies for receiving and integrating immigrants; and
- policies for the disabled in terms of their occupational training, upgrading, and retraining, albeit with some exceptions.

Articles 6 and 7 of the 8 August 1980 law declare that the *Regions* are henceforth each responsible for the following employment policies:

- worker placement;
- back-to-work programs for the unemployed receiving full-benefits or for similar people, other than the back-to-work programs found in the

for the regionalization of worker placement and the communitarization of occupational training, since these now are delivered by regional organizations (FOREM, VDAB, and ORBEM, Bruxelles-Formation).

ONEm's current missions are: (i) to ensure the payment of allowances to the involuntarily unemployed and their families; (ii) to manage the Fund which compensates laid-off workers following plant closures; and (iii) to collaborate in the provision (and revocation) of occupational authorizations and work permits for workers of a foreign nationality.

The Federal Government's Jurisdiction in Social Assistance

The social assistance system in Belgium is founded on the principle of the dignity of the human being.¹² If the system shares this principle with Beveridge's model, it is different because it has a residual character, unlike Beveridge's universal service. Beneficiaries are defined in terms of having exhausted all other resources. They are also defined in relation to the beneficiaries of insurance-based organizations founded on contributory principles.

The level of intervention is local, since it is linked to the commune through Public Social Assistance Centres (CPAS). This is the case even though the federal government's administration reimburses all or part of the minimum existence income paid by the commune.

The state council has nevertheless limited the parties' autonomy within an accord of cooperation by specifying that "the accords of cooperation cannot involve an exchange, an abandonment or a restitution of the responsibilities determined within or by virtue of the Constitution."¹⁴

Accords of cooperation "can be analyzed as internal treaties linking different partners of federal Belgium. These can, depending on the case, take the form of a legislative or a regulatory norm, but in any case, they cannot be modified without the agreement of the parties that adopted them. In other words, in the hierarchy of norms, they are located above norms taken by each authority in their own sphere. They apply in all the juridical orders of the parties to the accord."¹⁵

There are also accords of cooperation in limited domains between the federal Ministry of Employment and Work and the Regions' employment administrations. Here is one example. An accord of cooperation dealing with the occupational transition program was struck in March 1997 between the federal state and the Regions. This accord sought to create an occupational transition program that favoured the labour market integration of job-seekers through participation in an occupational transition program. In this case, the accord of cooperation's signatories were either ministers responsible for employment, presiding ministers, or the secretary of state for social integration. Another representative example is the July 1997 accord of cooperation between the Walloon Region, the French Community, and the Germanophone Community concerning the occupational transition program. In the framework of this program, Walloon employers can henceforth accumulate complementary federal and regional subsidies.

Finally, an accord of cooperation was signed at the end of March 1999 between the VDAB and the ORBEm/BGDA with the objective of, on the one hand, increasing the accessibility of the Flemish job-seekers of Brussels to occupational training, and, on the other hand, intensifying the number of courses in Dutch for the non-francophone job-seekers.¹⁶

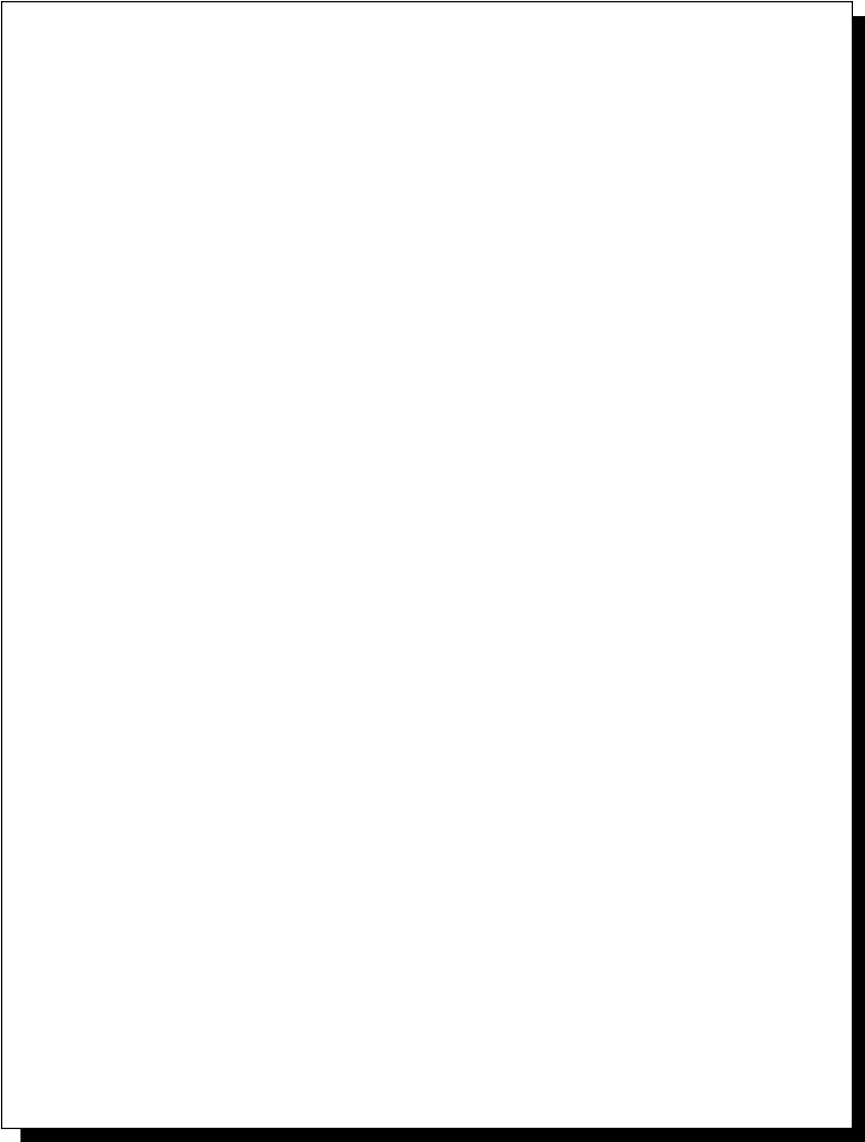
Beyond accords of cooperation, the institutional reform laws have created mechanisms of collaboration, such as information, association, and concertation, which involve both the state and the Regions and Communities. Thus, to facilitate collaboration, a concertation committee was created. This includes both federal ministers and "federated" ministers and must be egalitarian at the linguistic level (Flemish, francophones).

As well, all the federal, Regional and Community ministers having similar responsibilities meet regularly in interministerial conferences dealing with the environment, foreign policy, employment, etc. There are also mechanisms of collaboration²³ Tc 5 Tw9ganizations and institutions. Thus, ONEm and the three regional organizations (FOREm, VDAB, ORBEm/BGDA) meet regularly

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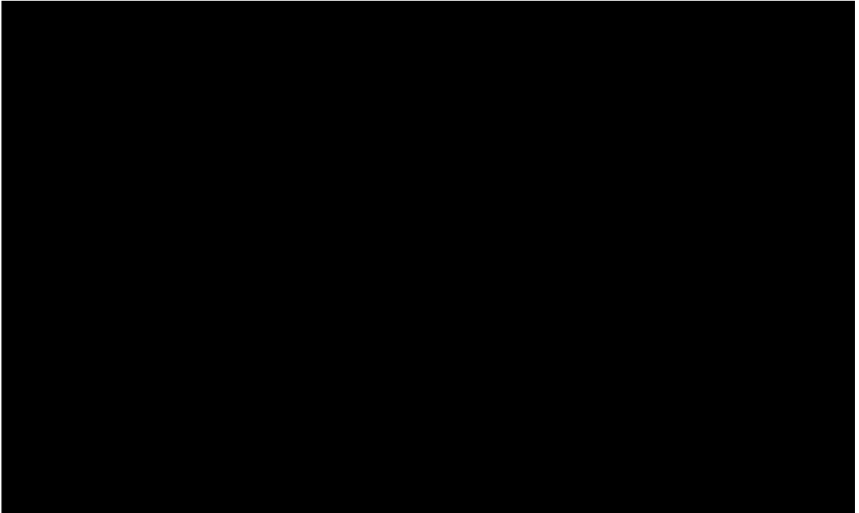


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percent of this cohort is in school in Belgium, as compared to 60 percent for the European Union as a whole. As well, obligatory schooling is longer in Belgium (18 years) than in the other European countries. For adults in the 25

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A J 30	A N					P T				
	1980	1985	1990	1995	2000	1980	1985	1990	1995	2000
Total	2 . . 0	. . 0	1 . . .	0.2 . .	1 . .	100.0	100.0	100.0	100.0	100.0
Sex	10 . . .	1 . 2	12 .101	20 . . .	1 . . 1	. . 1	. . 1	. . .	2 . . .	2 . . .
Age	1	2 . 2	202 . . .	2 2 . .	20 . . 0	. . .	. . .	1.1 . . .	. . . .	. . . .
< 20	21 . . .	2 . . 0	. . . 0	. . . 2	. . . .	. . . .	. . . 2	2 . . .	1 . . .	1 . . .
20 2	. . . .	110.0	. . . .	. . . 20	. . . 1 1	2 . 0	2 . 2	1 . . .	1 . . .	1 . . .
2 0 0	1 . . 0	2	22 . 1	2 . 0	2 . 2 2	2 . . .	. . . .	. . . 2	. . . .	. . . .
0	. . . 2 1	. . . .	. . . 2	. . . 1	2 . . .	1 . . .	11 . . .	11 . . .	12.1 . . .	. . . .
Duration	< 1 . . .	1 . . . 1	12 . . .	1 . . 2	1 0 . 1	2.1 . . .	1 . . . .	. . . .	. . . 0	. . . 2
1 . . .	1 0 . 0	11.11	20 . 01	1 . 002	2 0 . . .	. . . .	. . . .	2 . . . .	. . . 0	. . . .
Education Level	< 25 years	89.522	133.980	66.272	88.812	63.824	100.0	100.0	100.0	100.0
. . . 2	. . . 2	1 . . 0	1 . . 1	1 0 0 0	10 . . .	0 . . .	2 . . .	20 . . .	1 1 . .	1 . . .
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R	F	1976	F	1986	F	1996
		(%)		(%)		(%)
. 01	1 . . 1	2
.	20	2 . . 12
. . . .	1 . . .	1 1	12 . . .	11 . . .	1 . . .
Total	100	100	. . . 0.1	100

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Income Distribution and Poverty: Situation by Region and by Household Characteristics. In this section, we will use research conducted using *panel data* and we will use *two poverty levels*. The first level will be set at 50 percent of the median income (or rate of significant poverty) and the second at 75 percent of the median income (or the rate of precariousness).¹⁸

In the sample of the third wave of the Panel Study of Belgian Households (PSBS) studied by Delhousse and Perelman, the median monthly income was FB75,800 (1.895 euros) for a family with one child.¹⁹ Despite the precau-

Significant poverty hits the youth hardest (9.4 percent). They are followed by the group of 60–70 year olds, who are much harder hit than the more elderly groups. Precariousness, in turn, hits more than a third of the youth under 30 and of those above 60 years of age. For this latter group, Flanders has the highest rates of significant poverty and precariousness. In Wallonia, by contrast, it is the youth that fare worst in these two categories.

The authors of this study also observed that single people or couples without children have lower poverty rates than households with children. They nevertheless note that there is a fairly large income disparity within this last group. At the level of household structure, it is single-parent families that are most affected by precariousness, with rates of 30 percent for Belgium as a

are 50 percent for Belgium, 60 percent for Flanders, and roughly 45 percent in Wallonia.

Inequalities in Income and Wealth. A study of the wealth distribution allows us to clarify certain results concerning Belgian poverty, even if it is difficult to gather the necessary information and data.²⁰ Declared wealth is concentrated among the richest, to an even greater degree than is income. In fact, “while the poorest 10 percent possess a little more than 3 percent of total income, the poorest 10 percent in terms of wealth share only 0.04 percent of total wealth.... At the other extreme of the wealth scale, the richest 10 percent in terms of income hold a little more than 20 percent of overall income, while the richest 10 percent of households in terms of wealth claimed 40 percent of total holdings. This share is 30 percent for the richest 5 percent and 12 percent for the top centile; the corresponding percentages are 13 percent and 3 percent respectively.”²¹

Studying the wealth profile for the poor, using the 50 percent of median income poverty line, Gouyette uncovers two clear categories. The first, the major category, is made up of 55 percent of poor households who hold wealth not exceeding FB100,000. Two-thirds of this group do not even reach the FB25,000 level.

- The socio-professional status of the heads of household belonging to this category, as with that of their partner (where applicable), is unemployment, invalidity or retirement.
- The level of education does not exceed the primary level for 40 percent of this group.
- Among them, 30 percent are of foreign origin.
- Family size is usually larger than average (40 percent have more than two children).
- The housing status is most often that of renter, and only 15 percent benefit from a social rent; for 25 percent, the housing is free; most often, it is insalubrious or poorly maintained dwellings (70 percent of cases).

The second category involves the minority, namely 12 percent, which the author labels the “poor rich.” Here it is a question of elderly household heads who hold wealth in the form of their dwelling and in savings (savings accounts, cash vouchers, life insurance).

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	F		B	
	CE*	CPPT**	CE	CPPT
	0.20	0.0	2.0	2.2
	0.0	0.0	0.0	0.2
	0.2	0.0	0.0	0.20
	1.0	0.0	0.0	1.0
	1.0	0.0	0.0	1.0

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Public Spending on the Labour Market. Public labour market expenditures are presented in the form adopted by the MET, following the OECD's methodology.²⁶ Expenditures are distinguished according to whether they involve so-called active or passive labour market measures. According to this method, "passive expenditures include expenses related to unemployment benefits and to early retirement measures. All other expenditures (occupational training, hiring subsidies...) are considered as active. It is worth noting that these numbers essentially include public spending; private expenditures such as those foreseen by the different funds securing a minimal existence are not included."²⁷

In 1997, public spending dedicated to the labour market reached just

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P	1985	1990	1994	1995	1996	1997
A	0.1	0.1	0.2	0.2	0.20	0.1
	0.20	0.21	0.2	0.2	0.0	0.2
	0.	0.	0.	0.	0.	0.
	0.0	0.0	0.0	0.1	0.2	0.1
	0.0	0.0	0.0	0.0	0.0	
	0.1	0.1	0.1	0.1	0.1	0.1
	2. 1	1.	2.22	2.1	2.12	2.0
E	0.	0.	0.	0.	0.	0. 0
Total	.	.	.2	.2	.2	.
	1.	1.2	1.	1. 2	1. 0	1.2
	.	2.	2. 1	2. 1	2.	2.

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the place of active measures. Active employment policies have been used in Belgium since the early 1980s, particularly with successive unemployment reduction programs. More recently, both the OECD's recommendations and European debates have pushed Belgium to experiment with a new dimension of active employment policies: the activation of social allowances.

Organizations and Actors Intervening on the Labour Market

Organizations and Institutions Intervening in the Labour Market. Numerous national, regional, and community organizations and actors intervene on the labour market to deal with concrete issues of employment, occupational training, and worker placement. We will describe the principal actors below.

First, the federal state's responsibility in employment and labour market matters is largely channelled through the federal Ministry of Employment and Work (MET, Ministère de l'Emploi et du Travail), the National Employment Office (ONem, Office National de l'Emploi), and the organizations that

commonly known as “Bruxelles-Formation” exercises the *occupational training* responsibilities for the French Community Commission (Cocof) of the Brussels-Capital Region.

The local level structures of these organizations are inherited from the past and are not entirely identical. The FOREM and the VDAB have subregional directorates known as subregional employment services (SSE, services subrégionaux de l’emploi) and subregionale tewerkstellingsdiensten (STDs) as well as local placement offices and occupational training centres. The ORBEM/BGDA in the Brussels Region, by contrast, only has a central placement office and five local information centres.³²

In general terms, FOREM, VDAB, ORBEM/BGDA and IBFFB are the Walloon, Brussels, and Flemish employment and training policy tools. They provide information on social and labour legislation, on hiring subsidies and on employment programs. They also deal with requests for job creation and hiring subsidy measures, disburse bonuses and subsidies within this framework as directed by the Regional ministries, provide advice on training possibilities, and deal with job offers from the point of view of both the employer and the job-seeker (active job-search workshops, modules on job-search techniques, setting occupational goals, etc.).

It is worth noting that parity committees composed of representatives from union and employer organizations manage these organizations (FOREM, VDAB, ORBEM/BGDA, IBFFB). The Regional and Community governments also sit on the management committee, sending commissioners with consultative power to every meeting. The organization’s chief administrator also attends.

These organizations have a pararegional status and are provided with autonomy. They are nevertheless linked to their respective ministry through “management contracts.” As part of these management contracts, the “business plans” submitted each year for approval by the respective management committees must specify the objectives, strategies, and priorities of the ONEM, the VDAB, the ORBEM/BGDA and the FOREM. These organizations have developed their own particularities.³³ Thus, the new management contract of the VDAB places a lot of importance on the concept of the “path to insertion.”³⁴ This involves generalizing the individual’s occupational orientation and creating a specific action plan. In the FOREM’s management contract, above and beyond objectives in terms of activities, there is a provision for annual client satisfaction surveys and an assessment of the organization’s image. The ORBEM/BGDA, in order to better fulfill its mandates as defined in

its management contract (mobilizing job-seekers, providing a positive image, re-organizing internally to emphasize service), is attempting to create an instrument to measure the efficiency of the services provided to job-seekers and businesses.

Fourth, there are many other organizations that intervene in the labour market, such as:

- in the Walloon Region, the subregional employment and training committees (CSEF, *Comités subrégionaux de l'emploi et de la formation*) and the Employment-Training-Learning Commissions (CEFE, *Commissions Emploi-Formation-Enseignement*);³⁵ in the Flemish Region, the subregional employment committees (STCs, *subregionale tewerkstellingscomités*)³⁶ and the STC-working groups for at-risk groups (STC-werkgroepen voor het risicogroepenbeleid);
- local employment information and support services which exist in some Walloon communes and in Brussels;³⁷
- public social assistance centres (CPAS, OCMW);
- local employment agencies (ALE);³⁸
- local training and insertion operators (non-profit organizations, CEFA, social promotion);
- regional³⁹ and local⁴⁰ missions for employment;
- social workshops;⁴¹ and
- sectoral funds.

Institutionalized Model of Industrial Relations. The bases of Belgium's model of institutionalized industrial relations were set in 1945. The social contract cemented at that time permitted the creation of parity structures holding a legal status, backed by a series of framework laws defining their mandate, composition, and criteria for the representation of the organizations called to run them.

Three remarks nevertheless must be made. First, we will only deal here with the parity structures that are linked to our subject, and thus with employment policy and the management of unemployment. Second, with the federalization of the Belgian state, Belgium has committed itself to a process Beower and of fragmenting the public social and economic institutions run by parity management. Third, in aeo, we have not described all of Belgium's industrial relations actors and institutions. After all, industrial relations in Belgium are a complex matter and perpetually evolve with the changing economic and political climate. Despite these remarks, we must underline the persistence of the condition of concertation

inscribed in post-1945 Belgian institutions and preserved in the regional consultative bodies for economic and social matters.

The Economic and Social Councils of the Flemish Region (SERV),⁴² the Walloon Region (CESRW)⁴³ and the Brussels-Capital Region (CESRB) hold an advisory and consultative mandate in relation to the Regional governments' exercise of their responsibilities.

At present, Belgium has not officially regionalized industrial relations, and the federal bodies necessarily limit the initiative of the social partners at the regional level.

Table 10 provides a summary of Belgium's concertational bodies. We have nevertheless modified it with respect to business councils and to the union delegation.

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Table 10. Concertational bodies in Belgium

	E	Q	S	Q
<p>1. <i>Business Councils</i></p> <p>2. <i>Union Delegation</i></p> <p>3. <i>Business Councils</i></p> <p>4. <i>Union Delegation</i></p>	<p>1. <i>Business Councils</i></p> <p>2. <i>Union Delegation</i></p> <p>3. <i>Business Councils</i></p> <p>4. <i>Union Delegation</i></p>	<p>1. <i>Business Councils</i></p> <p>2. <i>Union Delegation</i></p> <p>3. <i>Business Councils</i></p> <p>4. <i>Union Delegation</i></p>	<p>1. <i>Business Councils</i></p> <p>2. <i>Union Delegation</i></p> <p>3. <i>Business Councils</i></p> <p>4. <i>Union Delegation</i></p>	<p>1. <i>Business Councils</i></p> <p>2. <i>Union Delegation</i></p> <p>3. <i>Business Councils</i></p> <p>4. <i>Union Delegation</i></p>
<p>5. <i>Business Councils</i></p> <p>6. <i>Union Delegation</i></p> <p>7. <i>Business Councils</i></p> <p>8. <i>Union Delegation</i></p>	<p>9. <i>Business Councils</i></p> <p>10. <i>Union Delegation</i></p> <p>11. <i>Business Councils</i></p> <p>12. <i>Union Delegation</i></p>			

¹ The following table is based on the information provided in the 'Report on the Concertational Bodies in Belgium' (1998), published by the Belgian Labour Inspectorate (ILM).

² E: Economic Council; Q: Quality Council; S: Social Council; Q: Quality Council. 12: 12.

³ A: Association; N: National; S: Social; Q: Quality.

Occupational and Inter-occupational Collective Bargaining. Occupational and inter-occupational collective bargaining can only take place at the national level. In effect, the interoccupational accords directly involve the federal state's responsibility to the extent that they are susceptible to becoming legal measures and sources of labour law.

Until 1975, the social partners placed a series of new benefits for private sector workers in the national and biannual inter-occupational accords. These benefits dealt with work time, paid vacations, setting an inter-occupational minimum wage, along with other measures of social progress. In exchange, union representatives guaranteed the social peace that the employer representatives valued highly. Until 1975, the social partners held the initiative from the start and freely chose the field of discussion. During the 1976–86 period, the social partners no longer managed to agree on the terms of an inter-occupational collective agreement and the negotiations broke down. After ten years of rupture, the government took the initiative in dealing with matters traditionally within the ambit of the social partners. Freedom of negotiation was re-established as of 1986, but it is far from total. The federal government regularly stresses the necessity of wage moderation and pushes the partners to emphasize employment and the development of occupational training, while leaving them room to define the means and the modalities.

In 1996, for the first time since 1986, the social partners meeting within the National Labour Council were unable to agree on the contents of an inter-occupational accord for 1997–98. The federal government was led to prorogue a certain number of specific measures favouring employment that had been implemented as part of the 1995–96 inter-occupational accord, and which flowed from the Law of 26 July 1996. This was done by royal decree.⁴⁴ For instance, the royal decree adds, for the 1997–98 period, an investment of 0.10 percent of payroll in the hiring of at-risk groups and a contribution of 0.05 percent of payroll to finance the Plan to Accompany the Unemployed.

The Social Partners and Labour Market Institutions. It is worth recalling that the social partners possess a real decision-making power within the four principal institutions of the Public Employment Services (ONEM, FOREM, VDAB and ORBEM/BGDA), particularly with respect to their management. Within the management committees of these organizations, voting rights are limited to representatives of the employer and union organizations, even if government representatives are in attendance. The CAPAC is also managed by a bipartite organization.

policies. Each member state develops a multi-year calendar and a national action plan for employment that takes these guidelines into account. The European Council does an evaluation on the basis of a report presented each year by the member states. The Council can make recommendations to the member states with respect to their employment policy.

In 1998, following the December 1997 Luxembourg summit and the 24 April 1998 Council of Belgian Federal Ministers, the Belgian national action plan for employment was submitted to the European Commission. This national action plan resulted from concertation between the federal, Regional, and Community governments on the one hand and the different governments and their social partners on the other.⁴⁸

For our purposes, it is difficult to identify the new measures that have been added to those that already existed. Overall, this plan involves a labour cost reduction of 3.4 percent (or of FB105 billion per year) over six years, with the objective of bringing employer social security contributions to the levels found in neighbouring countries. To do so, one part of this labour cost reduction will be contractual while the other part will result from the negotiation of employment accords between unions and employers, drawing from a limited menu of choices (individual measures of work redistribution: widening of part-time measures, career sabbaticals, half-time early retirement, parental leave, palliative care leave); incentives will be offered for collective reductions in working time, but on a largely experimental basis (for a limited number of firms); and there will also be experimentation with the four-day work week, but reductions to employer contributions in this case will only apply to new hires.

There are no perceptible innovations concerning professional insertion measures for the unemployed among the measures presented here. At best, they are lightly improved (youth internships, plans to accompany the unemployed, hiring support plan, occupational transition programs, employment services, local employment agencies).

The 1999 National Action Plan for Employment reinforces the 1998 action plan but does not include any major new initiatives.⁴⁹ One can nevertheless note that the Belgian agencies took into account the European Council's evaluation of the 1998 National Action Plan, and that Belgium is trying to meet the new 1999 guidelines, having supported their content.

In order to explain what the European Union's famous guidelines for employment entail, I have fit the 1999 National Action Plan for Employment within them (see Appendix).

Employment Policy at the Regional Government Level

Beyond paying significant attention to job creation, the different Regional governments have each elaborated back-to-work programs adapted to the context and the specific economic and social needs of their region.

The Employment Policy of the Regional Flemish Government.

insertion capacity for youth and the long-term unemployed) and training actions (notably destined for adult job-seekers); increased supply of measures providing work experience in order to ease the reinsertion of the very long-term unemployed; the implementation of training for innovation in the context of continuous training; and the implementation of an affirmative action plan for migrants.

It is fairly difficult to determine which of the Flemish Region's programs, measures, and activities are the specific result of the national action plans for employment. Nevertheless, certain new activities have been developed in terms of occupational training.⁵¹ As well, there are also projects to favour the development of entrepreneurship, to develop the social economy (insertion firms, social wip, to2eainincf eneersss,

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- *Extension* of active measures to unemployed youth and the long-term unemployed (occupational transition programs, coordination of all socio-professional insertion associations with respect to their local missions, and social clauses in public sector markets).

A Particular Characteristic of the Employment Policies: Activation Measures and Social Allowances in Belgium

In concrete terms, the everyday use of the term “active measures” in Belgium dates from only 1997 with the creation of the service jobs. Not all of the back-to-work devices used in Belgium involve “activation of unemployment benefits” unless one considers all waged jobs created by unemployment reduction programs in the subsidized sector as activated jobs. The jobs in this latter category are for the most part regular subsidized jobs. They are often for a set period of

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meet the demands of a structural approach whose contours were defined in the framework of the European Union. The majority of devices that organize our employment system remain the responsibility of the federal government. And, in its central position in terms of controlling the essentials (namely the regulation of work and the system of social concertation), the Ministry of Employment and Work finds itself at the centre of this tempest. In this role, it is interpellated more than others by the implementation of a European policy ... This evolution should also push us to reflect on the distribution of powers over work issues between the federal and regional levels. It is not unthinkable that we would thereby discover that without a return of certain elements of employment policy to the federal level, we will come up short in terms of efficiency. Numerous elements lean in this direction. Employment policy remains particularly opaque for the concerned actors ... Too many measures exist which compete, cancel each other out, or remain clearly under-used, notably by fault of the distribution of powers between the different levels. To this is added the issue of unavailability (of the unemployed) which I evoked above and which is tied to the more general problem of activating the unemployed, that is to say to the search for solutions which integrate the reinsertion mechanisms at the heart of benefit provision in a more dynamic manner. If discussions on homogeneous packets of responsibilities does not hide pure power politics but in fact truly reflect the desire to make our institutions more efficient, we must therefore admit that the question of re-federalizing employment policy should be placed on the agenda.⁵⁶

The splintering and crumbling of responsibility and its negative effects

this poses the problem of the legibility and efficiency of measures that are not necessarily coordinated amongst themselves. The multiplication of measures and devices increases the difficulty of mastering not only their content but also their implementation; and the problems of communication between different actors (beneficiaries of the measures, employers, placement operators, trainers, etc.) increase proportionately with the volume of measures.

Admittedly, the lack of hierarchy in the juxtaposition of federal, Community and Regional responsibilities in the broad field of employment policy is a potential source of confusion and conflict. Nevertheless, the relatively recent character of the institutional reforms is not enough to explain all the difficulties that have cropped up. Some dysfunctions are deeper. Thus, "the current division of powers and the rules which govern the financial flows between the different rungs (of power) are not always "logical" and efficient ... In practice, we note much overlap between the different rungs."⁵⁸ By way of example, Nicaise refers to the federal funds for employment, financed by specific social contributions, whose actions include occupational training.⁵⁹ The root of jurisdictional conflict is clear: Does the source of the means (in this case, federal social security contributions) prevail over the nature of the activities (in this case the responsibility of the Communities)? There are other cases where jurisdictional conflict crops up, such as:

social partners at the different levels of power and their presence on the management committees of public labour market institutions have so far had non-negligible effects on the outcomes of certain employment projects. In this respect, one of the most recent and most striking examples is the law offering a first job contract to youth (sometimes called the “Rosetta Plan”). The first version of this law was introduced without social concertation on 22 September 1999, in a note of the current vice-premier and federal minister of employment and work, L. Onkelinx.⁶⁵ Numerous criticisms rapidly came to the fore both on the form and the content. It was attacked particularly because of the obligatory nature of the device, which was deemed unilateral and unrealistic by the Federation of Belgian Enterprises, to the uniform approach for both Wallonia and Flanders, and to the target group, deemed both too limited

Moreover, other factors that have nothing to do with the institutional reforms to the state, can have an influence on the framework of labour market policies: on the one hand, the loss of the public employment service's monopoly on worker placement will henceforth place the service in complete competition with private sector business services (total deregulation of the market for employment services following the modifications to the principles of the International Labour Organization).⁶⁷ On the other hand, there is the European requirement for modernizing public employment services to keep up with labour market changes. Certain mandates of the Public Employment Services could be strongly shaped by the increasingly strong competition in some of its niches. It will be called to compete with private recruitment, selection and out-placement firms, with headhunters, and with temporary work agencies.

These factors will oblige the plethora of Belgian public employment services organizations to inevitably rethink their functioning and their means of intervening in the labour market.

To conclude, we are aware that we have only scratched the surface of the complexity of a Belgian society engaged, on the one hand, in a process of federalization and institutional reform, and on the other, in the European construction and Europe's very recent adoption of the employment question. Given these commitments, what spaces will exist in the future for engineering certain social policies, most notably with respect to the labour market? It seems to us that this question demands a close and ongoing analysis.

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¹S. Jaumain, ed., *La réforme de l'Etat...et après ? L'impact des débats institutionnels en Belgique et au Canada*, Centre d'Etudes Canadiennes (Bruxelles: ULB, Editions de l'Université de Bruxelles: 1997), pp. 1-9.

²P. Cattoir, "Fédéralisme et solidarité financière en Belgique," in *Fédéralisme et solidarité financière. Etude comparative de six pays*⁶⁸

⁶For institutions and services for handicapped people, see A.R. of 22 September 1989 dealing with job promotion in the non-market sector (M.B. of 12/10/1989), modified by the A.R. of 22/03/1991, the A.R. of 27 August 1993 and the A.R. of 10 August 1998. For the hospital sector: A.R. No. 25 of 24 March 1982, creating a job promotion program in the non-market sector (M.B. of 26 March 1982) modified by the special law of 6 July 1989.

⁷M. Uyttendaele, *Institutions Fondamentales de la Belgique* (Bruxelles: Bruylant, 1997), p. 125 (translated).

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SERV's commissions associate political representatives and the social partners in order to prepare advice and recommendations on issues within the Council's jurisdiction (environment, energy, public investment, training, etc.).

⁴³The CERSW was created by the decree of 25 May 1993. Its activities are centred on regional and sectoral economic expansion and development policies. It is a parity body where the social partners (union and employer) debate the policies of the Walloon Regional government, or respond to this government's requests for advice, recommendations or studies.

⁴⁴The Royal Decree of 22 January 1997 essentially prorogues a certain number of specific measures favouring employment contained under schedule III of the 3 April 1995 law dealing with measures supporting employment (the law that implemented the 1995–96 inter-occupational accord). See E. Krzeslo, *Les relations collectives du travail en Belgique: Acteurs et institutions*, Dossier No. 16 (Bruxelles: Point d'appui Travail-Emploi-Formation, 1996), p. 85.

⁴⁵Commission des Communautés Européennes, *Croissance, compétitivité, Emploi — Les défis et les pistes pour entrer dans le XXIème siècle* — White Paper, Com (93), 700 final, 1993.

⁴⁶Namely, the Global Plan for Employment, Competitiveness and Social Security (1993) [*Plan global pour l'emploi, la compétitivité et la sécurité sociale*]; the Multi-Year Employment Plan (1995) [*Plan pluriannuel pour l'Emploi*] and the Future Contract for Employment (1996) [*Contrat d'avenir pour l'emploi*].

⁴⁷This wage norm sought, on the one hand, to limit the increase of hourly wage costs in Belgium and to align these costs with those of its *principal trade partners* (France, Germany, the Netherlands) through wage ceilings. On the other hand, it tried to prevent any breaches of these *ceilings* both in *inter-occupational accords* (struck every two years by the social partners) which set a wage range and in different sectors of activity.

⁴⁸Ministère fédéral de l'Emploi et du Travail, *Rapport d'évaluation 1998*, p. 49.

Beleid en Federalisme, Staatsrechtconferentie 1998, Vlaamse juristenvereniging, ed. S. Vansteenkiste and M. Taeymans (Louvain-la-Neuve, Belgium: Larcier, 1998).

⁵⁷Ministère fédéral de l'Emploi et du Travail, *Rapport d'évaluation 1999*, p. 17.

⁵⁸Institut de Recherches économiques et sociales (IRES), Université Catholique de Louvain, *Etudes sur le marché du travail, Rapport financé et préparé pour l'usage interne de la Commission Européenne* (Bruxelles: Direction Générale de pour l'Emploi,

- Maintenance of the specific characteristics of the unemployment benefits system, namely the period of unlimited benefits (effective social protection, poverty reduction in Belgium in parallel with work search incentives in the form of net wage supplementation for the lowest-paid workers).
- Measures to keep older workers in work: minimum age for early retirement set at 58; support for part-time formulas.

Training

training firms, tax measures favouring firms with a social finality and insertion firms.

- Experimentation with the cheque-service measure in the house painting and carpeting sector.

Reduction of Labour Costs

- Average wage increase of 5.9 percent (including changes to the index and scheduled increases) determined by the 1999–2000 inter-occupational accord.
- Regime of reduced employer social contributions through the harmonization of the existing Maribel and low-wage measures.
- Increase the net wage of the lowest-wage workers.

C. Encouraging the Capacity of Firms and Workers to Adapt

Modernization of Work Organization

- Individual measures: improving the status of part-time workers and adjustment of the career sabbatical regime (right to a career sabbatical in the private sector for 3 percent of workers with specific rules for small and medium enterprises (SMEs); improved regulation for career sabbaticals in the case of palliative care leave, parental leave, or leave to look after grievously ill family members).
- Collective measures: development of a framework within which the collective reduction of work time is used as an instrument of work redistribution; adoption of the four-day work week for reasons of organization.

Investment in Human Resources

- Improvements brought to the education leave system (education leave for part-time workers and a specific system of education-leave in the SMEs).

D. Reinforcing Equal Opportunity Policies for Men and Women

Fight Against Discrimination Between Men and Women

- Law regarding equal treatment, which stipulates that measures may be taken by Royal Decree in order to bring professional classifications in concordance with this law.

- Commitment by the social partners to revise the classification systems for functions when these systems involve an inequality of opportunity between men and women.

Reconciliation of Family and Work Life

- Extension of possibilities that facilitate a combination between work and family life: career sabbaticals, palliative leave, parental leave, care for grievously ill family members, and part-time work.
- Sufficient supply of domestic services and of work in the caring professions

Facilitating Labour Market Reintegration

- Measures seeking to ease the reinsertion of people re-entering the labour market, such as qualifying to apply for the Hiring Support Plan, and being eligible to replace workers on career sabbaticals.

¹The titles and subtitles refer to the guidelines for employment defined by the European Union. The content of each section corresponds to the actions taken by the Belgian government.

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This chapter examines major trends in Canadian labour market policy, with particular attention to the impact of federalism in this sector. It defines this

measures as governments struggled with budgetary deficits and as the political climate in the country became more conservative; (iii) significant devolution of responsibility from the federal to provincial governments with respect to active measures; and (iv) attempts to strengthen federal-provincial cooperation in those areas where Ottawa remains active.

Finally, the fourth section evaluates the current state of labour market policy in Canada. Two themes are addressed there: What impact has labour market policy-making had on the functioning of the Canadian federation? Conversely, has the complex relationship of federal and provincial authority in this field made labour market policy more or less effective? And second, are Canadian governments delivering the right kinds of initiatives, in light of the evidence presented in the first section about the main characteristics of Canada's labour market? Regarding the first pair of questions, it is clear that the presence of both jurisdictions in the labour market field contributed to friction within the Canadian federation; with respect to labour market programs themselves, it caused some duplication, and made program coordination and policy reform more difficult. It is less clear, however, what the implications of any particular change in the federal-provincial balance, such as an extension of the current curtailment in the federal role, would be. Moreover, any change in the federal-provincial balance of power will have beneficial consequences only if it is combined with a political commitment to effective labour market measures on the part of whichever jurisdiction benefits from the change. With this observation, the analysis turns to the second question. Based on recent policy developments in Ottawa and the provinces, it is not clear that this commitment on the whole exists in the provinces any more than it does in Ottawa. It will be argued that the substantial cuts in passive benefits that were made in the mid-1990s may have had deleterious consequences. While a shift in emphasis to active measures is broadly desirable, this positive effect is likely to be outweighed in Canada by the negative consequences for poverty and income inequality of the sizeable cuts in passive benefits. The shift in emphasis toward active measures has resulted in little new spending on these measures; instead, it is largely a simple by-product of the reduction in passive spending. The direction of some recent active labour market policy initiatives is also questionable.

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This section addresses four specific aspects of Canada's labour market performance during the last half century: aggregate rates of unemployment, labour

market participation and job creation; poverty and inequality; the distinctive labour market experiences of women, the young and those in different Canadian regions; and the premium that accrues to education in the Canadian labour market.

Unemployment, Participation and Job Creation

During the postwar era (1945–75), Canada's unemployment rate persistently was much higher than the average for Organisation for Economic Co-operation and Development (OECD) nations.¹ Between 1959 and 1967, the average annual unemployment rate was 4.9 percent, the third highest average among 18 OECD economies. Canadian unemployment rates were even higher between the late 1970s and the mid-1990s. The average was 9.6 percent between 1982 and 1992, and it exceeded 10 percent for four years in a row in the wake of each of this period's two economic recessions. But the Canadian rate improved during this period *relative* to those of its OECD partners. Its 1982–92 annual average was the sixth highest among the 18 OECD nations; its 1995 rate ranked eighth.² Moreover, job growth was comparatively robust during the late 1990s, bringing the rate down to 6.8 percent in October.³ By the late 1990s, Canada's unemployment levels were consistently lower than those found in many of the Continental European countries that had out-performed it during the postwar years, though they were now much higher than in the United States.

Canada's performance since the 1970s has also been superior to that of many European countries, and inferior to that of the US, with respect to labour force participation (the proportion of individuals between the ages of 16 and 64 who are working or seeking employment) and job creation. The participation rate averaged 69 percent between 1971 and 1981, superior to Italy's, but otherwise comparable to rates in other G7 nations. It rose to 75.1 percent in 1985 and has since remained at or above that level. The participation rate's most rapid period of growth was during the late 1960s and 1970s, largely because of the large-scale entry of women into the labour market. By contrast, participation rates in Germany and France have remained below 70 percent, and average rates for the OECD and European Union nations as a whole have stagnated since the 1970s. Canada also added more jobs to its workforce than did the average G7 nation in 12 of the 17 years between 1982 and 1998. Only the US, among G7 nations, has improved its participation rate more than Canada since the 1970s; the US also increased its workforce by a larger percentage than Canada in seven of the nine years between 1990 and 1998.⁴ Canada has also performed comparatively well with respect to its rate of long-term (lasting

primary cause: if Canada's labour market has been more robust than its European counterparts, according to this dominant view, it is because the former is less regulated and subject to fewer market-distorting government interventions than the latter; if it has performed worse than the American labour market, it is because these impediments are more present in Canada than in the US.

Income Inequality and Poverty

The political foundations of Canada's limited postwar Keynesianism — a weak political left and a modest labour movement — also resulted in a much less extensive welfare state than in most European nations.⁸ This, in turn, caused higher levels of income inequality and poverty than elsewhere. This was evident during the 1970s, at the end of the postwar "Golden Age." While 15.6 percent of Canadian households had post-tax and post-transfer (or *final*) incomes that were less than 50 percent of the median income in 1975, according to calculations made by the Luxembourg Income Group (LIS), this percentage

different. According to OECD data from the mid-1990s, both the incidence of low pay and the level of earned income inequality in Canada, for those employed full time, were among the highest in the industrialized world. An OECD study found that 24 percent of full-time employees in Canada earned incomes that were less than two-thirds of median full-time earnings. Only the US (25 percent) exceeded this rate among countries included in this survey; by contrast, the incidence of low earned income, so defined, was lower in the UK (19 percent), Japan (17 percent), France (14 percent), Germany (14 percent) and Sweden (6 percent). While Canada was only above-average among the countries studied in its rate of household final income poverty, it was in second place, substantially above the average, in respect of this measure of low pay.¹³ This pattern again probably reflects the relatively modest nature of Canada's postwar welfare state. Weaker unions, more modest minimum wage and job-protection legislation, and less generous income security measures for the unemployed, meant that Canada has done much less than most European nations to mitigate labour market inequality.

How has *earned income* inequality changed over time? While the LIS research has found no evidence of increasing inequality of Canadian final income since the 1970s, it uncovered a significant increase in earned income inequality.¹⁴ This polarization of earned income was pronounced during the late 1970s and early 1980s. Researchers have come to different conclusions about the extent to which this trend has continued since 1985, depending on the kind of evidence examined. Focusing on individual earned incomes, Garnett Picot reported finding "that earnings inequality and polarization increased little, if at all, among all paid workers between the mid-1980s and the mid-1990s."¹⁵ While the Gini coefficient for all paid workers rose consider-

rate fell from 77.8 percent in 1976 to 72.5 percent in 1997, it remains well above the female rates.²⁵ According to Craig Riddell, women were substantially less present in the Canadian labour force in 1960 than they were in most other OECD nations. By 1980, the gap between rates in Canada and those in other countries had shrunk considerably, though it had not disappeared.²⁶ In 1998, the Canadian rate remained lower than in the US, but somewhat higher than the UK rate, and much higher than those in either France or Germany.²⁷

While the participation rate for women rose rapidly between 1960 and 1990, it may now have stalled at a level that is still significantly below the male rate. Other data also suggest that women are only slowly moving toward equality with men in the labour market. In 1967, women working full-time and for the full year earned, on average, 58.4 percent of their male counterparts' income. That percentage rose to 73.4 percent in 1996. This "earnings ratio" for all female workers (including those working part-time and temporarily) rose from 46.1 percent in 1967 to 64.8 percent in 1996.²⁸ Women are also much more likely to be employed part-time: 28 percent of women workers were employed part-time in 1999; the percentage had been 27.4 in 1988. By contrast, only 10.3 percent of male workers worked part-time in 1999, up from 9.5 percent in 1988.²⁹ However, earnings inequality *among* employed women apparently has declined since the mid-1980s, reflecting an increase in the average number of hours worked among women employed part-time. Earnings inequality among employed men, by contrast, has increased during the past decade. These contrasting intragender trends have, in effect, offset each other,

points during this time. Data on average earnings present an equally striking picture. In inflation-adjusted dollars, young men earned 18.9 percent less in 1996 than in 1980; young women earned 6.4 percent less in the former year than in the latter. By contrast, older employed males (aged 45 to 64) earned 7.5 percent more in 1996 than in 1980; the increase for older female workers was 21.4 percent.³²

Regional imbalances in the distribution of employment and earnings are

education short of a degree; the premium was 62 percent in comparison with those who had only finished high school. The comparable premiums for female university graduates were 54 percent and 74 percent respectively. Men aged 20 to 54 who lacked a postsecondary education had an employment rate that was about 11 percent lower than did males in that age group with a postsecondary education. Similarly, low-skilled women of that age group suffered from an employment rate that was about 20 percent lower than the higher-skilled women. But Canada apparently has not experienced, in the past quarter-century, a substantial growth in the premium that is attached to higher skills. For instance, the earnings premium of university-educated males over males with some postsecondary education was 58 percent in 1971 (higher than it was in 1996) and 42 percent in 1985 (only slightly lower than the 1996 figure). A similar pattern — no increase in university graduates' earnings advantage over the less well educated — also emerges when university-educated males are compared to high school graduates, and among female earners. A growing education premium is more noticeable regarding the employment rate for males between ages 20 and 54 (highly-skilled workers' advantage was half its 1996 level in 1976); but among women of that age group the employment rate advantage of the highly-skilled actually declined between 1976 and 1996.³⁶ Based on this evidence, one recent study concluded that “while there may be a growing labour shortage (skilled and low-skilled), there is no aggregate shortage of skilled labour.”³⁷

By contrast, American research has found that the education premium for the better educated increased substantially after the 1970s. A likely explanation of these divergent paths pertains to the changing supply of well-educated workers. The proportion of Canadians receiving a higher education rose rapidly from the 1970s to the 1980s; while less than 20 percent of 18 to 21 year-olds attended university in 1982–83, for instance, over 30 percent were enrolled in 1990–91. In the United States, the supply of university and college graduates actually fell.³⁸ One can therefore surmise that the labour market in each country witnessed a rising demand for skilled workers, and a declining demand for unskilled ones. The rapid increase in the supply of skills in Canada during these years presumably accommodated the rising demand, pre-empting a rise in education premiums. In the US, where the supply did not rise with demand, the premium grew considerably.

The next section of this chapter describes the origins of labour market policy in Canada, and traces developments in the field until the early 1990s. The following section examines policy developments in subsequent years. These

changes are then evaluated in the fourth section. The labour market characteristics identified above will be a key point of reference in that evaluation: how desirable the policy changes are can largely be judged in relation to their likely impact on the patterns catalogued above.

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When the Canadian federation was formed in 1867, the division of powers between the federal and provincial governments was set down in the *British North America (BNA) Act*, now known as the *Constitution Act, 1867*. Labour market programs were not referred to explicitly in the BNA Act; the jurisdictional balance in this field has depended on the interpretation of other clauses in the Act, and on the evolving ambitions and fiscal capacities of the two levels of government.

Prior to World War II, the federal government refused to acknowledge any ongoing responsibility for relief (or social assistance, as it is now termed), the main form of

recipients. The Canadian UI program was then among the most generous in

Dismayed at the obvious inefficiencies associated with spending training monies in this way, and concerned about the spiralling cost of direct job creation, the newly-elected Progressive Conservative government radically altered its ALMP programming in 1985 by introducing a Canadian Jobs Strategy (CJS). The CJS merged job creation and training measures into one set of programs, and took steps to reduce provincial influence over where federal training

became part of an international consensus, changing the balance between passive and active benefits, and improving the impact of the latter, became a major focus of labour market policy in Canada during the mid- to late-1990s.

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Eight hundred million dollars of the savings that resulted from these cuts were redirected toward active measures. The federal government argued that the cuts had allowed it to increase its ALMP spending, a policy choice which, as we have seen, is now widely supported. In fact, the federal government's overall spending on active measures is largely unchanged since the Liberal administration came to power in 1993, when all of its sources of funding for active measures are taken into consideration. While Ottawa's ALMP spending from the EI fund grew substantially during the 1990s, this increase was entirely offset by reduced ALMP spending from the government's main Consolidated Revenue Fund (CRF) budget. The Conservative administration which left office in 1993 had increased its ALMP spending in inflation-adjusted 1986 dollars from \$1.6 billion in 1988–89 to \$2.4 billion in 1992–93.⁵⁷ But after continuing to rise to \$2.7 billion in 1997–98, active expenditures was expected to fall — according to the government's estimates — to \$2.3 billion in 2000–2001.⁵⁸ The overall balance between passive and active labour market program spending at the federal level has, in fact, shifted significantly in the direction of the latter during the 1990s. In 1990–91, passive expenditures exceeded active ones by a margin of about six to one; in 1993–94, this margin had dropped to five to one; in the wake of the 1994 and 1995 reforms, federal passive expenditures exceeded active spending by a margin of about three to one.⁵⁹ But after 1992, overall federal spending on active measures did not, in fact, increase at all. ALMP expenditures gained ground on passive spending only because of massive cuts in the latter.

The difficulties faced by young people in the Canadian labour market, discussed in the first section of this chapter, have recently received considerable public attention in Canada. One of the main commitments of the Liberal Party during the 1993 election campaign was to address the employment needs of youth. Only in 1996 did the Liberals move to fulfil their election commitments, but since then youth employment has been their main labour market policy preoccupation. In February 1997, with another federal election approaching, Ottawa announced a Youth Employment Strategy (YES). It contained three components: a summer employment program; youth internships to provide young people with work experience, mostly in the private sector; and Youth Services Canada, designed to offer employment experience with community organizations. While each of these measures existed previously in some form, YES combined them and added \$315 million over three years to their budgets. Additional sums were added later in 1997 and again in 1998. All of these

measures were financed from what remains of Ottawa's CRF-funded ALMP budget.⁶⁰

Provincial Policy

During the 1990s, most provinces modified their social assistance programs in a manner that parallels the federal UI/EI changes: they reduced benefits and sought to encourage, or coerce, assistance recipients to return to work. The federal financial transfer cuts described above contributed to these provincial program changes, but some cuts began well before the federal payments were reduced. In some provinces the policy changes responded to the clearly-expressed ideological preferences of the governing party; however, they also reflected long-standing traditions of relative generosity or parsimony in different provinces that have persisted for many decades.⁶³

As these ideological and historical factors varied, so did the details of each province's pursuit of less expensive and more active assistance measures. Only the four most populous provinces are discussed here. The most substantial cuts were made in Ontario and Alberta, under right-of-centre Progressive Conservative Party administrations. The Conservatives were elected in Ontario in 1995; the left-of-centre New Democratic Party (NDP) government that preceded them in office had raised welfare rates, including those for employable recipients; these had given Ontario one of the highest rates in the country for most categories of recipients. In the 1995 provincial election, the Conservatives promised to cut assistance rates for employable recipients by 21

to remove from the assistance roles those who refused work. Benefit levels were reduced moderately in 1995 and 1996. Quebec and BC also experienced declines in their welfare caseloads in 1995 and 1996, but not nearly so dramatically as did Ontario and Alberta.⁶⁷ Overall, the National Council of Welfare calculated, “between 1986 and 1996, about one-third of the welfare households covered in their [1997 report on welfare incomes] saw improvements in their purchasing power, while two-thirds saw their financial situation deteriorate.” Employable recipients, moreover, were far more likely than unemployable people to be among the losers.⁶⁸ While benefit cuts were the norm, their extent did vary among provinces. For a single parent with one child, benefits fell by 19.5 percent in Ontario between 1989 and 1999, in constant dollars, and by 18.8 percent in Alberta. The rates of decline for this category of recipients during the same period were, by contrast, only 0.6 percent in Quebec and 7.6 percent in BC.⁶⁹

It should be noted, finally, that assistance rates for employable persons in Canada have always varied substantially from one province to the next. Because Ottawa has never asked provinces to maintain minimum assistance levels in exchange for federal cost-sharing of their programs, provincial rates have varied widely, depending on the fiscal capacity and ideological predilections of different governments, and on established provincial policy traditions. In 1999, for instance, maximum regular assistance rates for a couple with two children varied, according to the National Council of Welfare’s calculations, from a low of \$15,000 annually in Quebec to \$18,130 in Ontario (whose rates remained the highest in the country, despite its cuts). These rates varied from 45 percent of the National Council of Welfare’s poverty line in Quebec, to 62 percent of that threshold in Prince Edward Island; Ontario had fallen to fifth place, by this measure, in 1999. Variations were even greater for some other categories of recipients.⁷⁰

Devolution

In December 1995, the federal government offered to transfer to the provinces the administration of most of its active labour market funds. This offer caused the most significant change in the balance of federal and provincial authority in the ALMP field since the early 1960s. The federal offer was made at the same time as the government announced its new EI program. The government did not cover passive benefits under EI, which continue to absorb the majority of its labour market spending. Nor did it include CRF-financed active measures,

such as the new youth initiatives. It pertained exclusively to EI-financed active measures. But the 1995 EI reforms had increased this latter budget by \$800 million, while CRF-financed ALMP spending was cut by about the same amount. Ottawa was, therefore, offering to allow the provinces to administer the lion's share of its ALMP budget: during the 1999–2000 fiscal year, ALMP funds available to the provinces from the EI budget totalled \$1.85 billion. The ALMP budget, fully controlled by Ottawa, totalled only about \$863 million.⁷¹

Because some provinces were more ambitious than others about taking over federal ALMP programs, Ottawa offered them two different options. The more ambitious provinces could accept full devolution. They would take over administration of programs, in exchange for an assurance to Ottawa that they would spend the federal monies in five broad program categories set out in federal legislation, and that they would meet certain other conditions. Five provinces, including Quebec, accepted this devolution offer. As a result, many federal officials are being transferred to provincial agencies, and once-parallel services for employment counselling, etc., are being merged. These provinces signed five-year agreements with the federal government to receive the federal monies, in exchange for which they agreed to meet the federal conditions; a former senior federal official, involved in drafting the devolution offer, commented that it is hard to conceive of active labour market policies that do not fit into the five categories, as they are cast widely. The provinces nevertheless worry that Ottawa could renege on these devolution arrangements when the five-year agreements expire. But the political costs to Ottawa of doing this would be considerable, in light of how fractious federal-provincial relations in the ALMP field have been since the early 1990s; such a reversal would also present Ottawa with the unpleasant prospect of redeveloping administrative capacities that it had abandoned. Indeed, the federal Liberal administration did express considerable interest in reasserting itself in the adult training field in October 2000, on the eve of a meeting of federal and provincial labour ministers; at this point, its budgetary deficit had turned into a robust surplus. But

province among these, British Columbia, envisaged moving toward full devolution soon. (Ontario, unhappy about the financial terms of the offer made to it by Ottawa, had not signed an agreement by 2000).⁷³

Federal-Provincial Cooperation: Youth Employment and Mobility

that can be practically done if governments decide not to comply with them.”⁸³ Canada’s international trading agreements, by contrast, include binding dispute-resolution mechanisms. At the end of 1997, commentators had already noticed that many disputes were being resolved very slowly, if at all. Even when individual disputes are resolved, this was not followed by a change in the underlying policy that gave rise to the dispute in the first place.⁸⁴ The March 1998 federal-provincial communiqué expressed impatience with the AIT’s implementation, commenting that “labour Market Ministers have agreed that the removal of barriers to inter-provincial ... labour market mobility be accelerated.”⁸⁵ The July 2001 deadline stipulated in the February 1999 Social Union Agreement for accomplishing this presumably was intended to speed up the process. The next month, however, Canadians were reminded that limitations to interprovincial labour mobility still exist in Canada. The Ontario government announced limits to Quebec construction workers’ access to employment opportunities in Ontario; it justified these steps as retaliation against Quebec’s use of regulations to deny Ontario workers admission to its construction market. Most Canadians who gave the matter any thought would likely have agreed with one journalistic commentator at the time that “the [AIT], in fact, has been a complete bust in the vast majority of provincial trade issues, from labour mobility to food marketing.”⁸⁶ The record of federal-provincial cooperation on labour market issues is, then, decidedly mixed.

E A A A A E E

This section assesses the relationship between federalism and labour market policy in Canada; it examines the impact that each phenomenon has had on the other, and asks whether a significant change in the federal-provincial balance, especially one that further decentralizes power to the provinces, is desirable. In addressing this theme, this section also broaches another: it appraises the merits of the recent changes in federal and provincial policy discussed in the previous section. In so doing, it refers to the labour market trends described in the first section of this chapter.

Have federalism and labour market policy been “bad for each other” in Canada? Four considerations can be raised to suggest that they have: the presence of both levels of government in the labour market field has rendered policy-making in the sector suboptimal by fostering service duplication, hindering policy change and limiting program coordination. Shared jurisdiction has also aggravated intergovernmental conflict, thereby undermining Canadian

federalism in general. Consequently, it could be argued, if authority in the field was to move “up” to the federal government or (far more likely) “down” to the provinces, these problems would be alleviated. Yet this argument invites

this sentiment was shared by a majority of Quebec respondents.⁸⁸ Significant new devolution might, then, occasion another kind of conflict: between governments and citizens; at the very least, such a change could not draw upon any clear vein of popular support among Canadians.

Another way of assessing the potential impact of a change in the federal-provincial relationship is to appraise the merits of federal and provincial labour market initiatives in recent years. Here too, however, there is little basis for preferring one jurisdiction over the other. As we have seen, the broad lines of federal and provincial policy converged during the 1990s — around a shift in emphasis from passive to active measures and significant program cuts. The

rate in 1997, 17.2 percent of all individuals, was much higher than it had been a decade earlier, despite the fact that Canada has experienced several years of strong economic growth since the early 1990s.⁹⁰ If, as Lazar argues, many

earlier do not suggest a compelling need to further expand the proportion of Canadians who receive a university education. This share is already high and it rose rapidly in recent decades. Inasmuch as the labour market advantage in Canada of having a university degree has not increased during these decades, it is likely that the supply of persons with such an education rose at the same pace as the demand. There may be no need for government measures to expand this supply further.⁹⁴

There have been dramatic changes in Canadian labour market policy in recent years. In a climate of fiscal crisis and growing political conservatism during the early- to mid-1990s, federal and provincial governments made deep cuts in their budgets for this policy field. The elimination of the federal deficit in 1998, and similar developments in most provinces, have not yet resulted in the restoration of most of these cuts, or in significant new labour market initiatives. The cuts resulted in substantial reductions in passive benefits under the federal UI program and, for most categories of recipients, under provincial social assistance schemes. Active labour market measures were shielded from most of these reductions, but spending on them has not expanded. Unless reversed now that government finances are healthier, these developments will

provinces in the labour market field. Neither would such an adjustment alleviate institutional impediments to effective governance, nor is there any reason to believe that it would result in better policy.

Some of the most frequently cited explanations for growing labour market polarization in most developed economies relate to what has come to be known as “globalization.” Changes in technology and increased trade openness both fit into this category. Globalization is also said to be increasing competitive pressures on all nations to reduce barriers to business success; the high taxes required to maintain ample labour market benefits can be counted among such barriers. According to such a scenario, globalization reduces the possibility of labour market equity in two ways: simultaneously: via (Chiza)19.9(inte

⁴Organisation for Economic Co-operation and Development, *OECD Economic Outlook*, No. 64 (Paris: OECD, 1998), pp. 209, 210; W. Craig Riddell, "Work and Pay: The Canadian Labour Market: An Overview," in *Work and Pay: The Canadian Labour Market*, ed. W.C. Riddell (Toronto: University of Toronto Press, 1985), p. 6.

⁵Organisation for Economic Co-operation and Development, *OECD in Figures, 1999*. At <www.oecd.org/publications/figures/employment_1-3>.

⁶Campbell, *The Full-Employment Objective in Canada, 1945-85*, pp. 25-26.

⁷Sharpe, *The Canada-U.S. Employment Rate Gap*, pp. 46-55.

⁸David Wolfe, "The Canadian State in Comparative Perspective," *Canadian Review of Sociology and Anthropology* 26,1 (1980):104-05.

⁹Luxembourg Income Study, "Low Income Measures Based on LIS Data." Computed by K. Vleminckx. August 1998. At <<http://lissy.ceps.lu/LowInc.ht>>.

¹⁰Luxembourg Income Study, "Income Distribution Measures Based on LIS Data." Computed by K. Vleminckx. August 1998. At <<http://lissy.ceps.lu/inequality.ht>>.

¹¹Peter Gottschalk and Timothy Smeeding, "Empirical Evidence on Income Inequality in Industrialized Countries." Paper prepared for the Luxembourg Income Study, 1997, Figure 5.

¹²Luxembourg Income Study, "Low Income Measures Based on LIS Data."

¹³Organisation for Economic Co-operation and Development, *Labour Market Policies: New Challenges. Policies for Low-Paid Workers and Unskilled Job Seekers* (Paris: OECD, 1997), pp. 48, 54.

¹⁴Luxembourg Income Study, "Low Income Measures Based on LIS Data."

¹⁵Garnett Picot, "What is Happening to Earnings Inequality in Canada in the 1990s?" *Canadian Business Economics* 6,1 (1997):65.

¹⁶*Ibid.*, p. 78.

¹⁷Myles Zyblock and Iain Tyrell, "Decomposing Family Income Inequality in Canada, 1981-93," *Canadian Business Economics* 6,1 (1997):109; see also Harvey Lazar, "Are Canadian Incomes Polarizing? Two Nations or One?" Executive summary of unpublished research report prepared with B. Pereboom and P. Stoyko, 1987 -1.7(y D3.028

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⁶⁷Ibid., pp. 92-97.

⁶⁸National Council of Welfare, *Welfare Incomes 1996*, p. 30.

⁶⁹National Council of Welfare, *Welfare Incomes 1999* (Ottawa: NCW, 2000), pp. 34-36.

⁷⁰Ibid., pp. 25-26.

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⁸⁷Lazar, "The Federal Role in the Social Union," p. 116.

⁸⁸Ekos Research, *Rethinking Government* (Toronto: Ekos Research, 1995), pp. 33-35, 41.

⁸⁹For early evidence along these lines regarding the impact of social assistance cuts in Ontario and Alberta, see NCW, *Another Look at Welfare Reform*, pp. 67-68, 87-88.

⁹⁰National Council of Welfare (NCW), *Poverty Profile 1997* (Ottawa: NCW, 1999), p. 10.

⁹¹*Ibid.*, p. 60.

⁹²Reported in Bruce Little, "Guess Who Gets to Stay in Training?" *The Globe and Mail*, 17 November 1997), p. A6.

⁹³Martin, "What Works Among Active Labour Market Policies, pp. 18-19.

⁹⁴Gingras and Roy, *Is There a Skill Gap in Canada?*, p. 33.