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INTRODUCTION: VARIETIES OF CAPITALISM, VARIETIES OF FEDERALISM

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In the beginning of the 1990s, most of the developed democracies went through a recession and experienced low or negative economic growth, and the average unemployment rate rose above 9 percent. In Europe, in Australia, and in Canada, the unemployment rate actually went beyond 10 percent, while the United States was able to maintain its rate at around 7 percent.¹ After more than a decade of policy efforts primarily aimed at reducing inflation, unemployment was coming back on the political agenda. The monetarist legacy of the 1980s, however, was not abandoned. Convinced that employment could not be promoted, as in the past, with deficit spending, lower interest rates, or devaluations, most governments turned to microeconomic and institutional adjustment policies. Changes in labour market and social policies, in particular, were seen as key to a job recovery.²

In 1994, the Organisation for Economic Co-operation and Development (OECD) published a strategy toward this aim, *The OECD Jobs Study*, which advocated major policy reforms. The idea was to make labour market policies (LMPs) more active — more oriented toward the integration of the unemployed into jobs than toward passive income support — and to transform institutions so as to make labour markets more flexible.³ The OECD strategy summarized well the views that were dominant at the time in most countries, as well as in the institutions of the European Community. Everywhere labour market policies were reviewed, with the intention of enhancing market mechanisms. It

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 Interestingly, the very efforts to introduce new, more liberal market rules led in many countries to a reaffirmation of corporatism and concerted actions: new social pacts often presided over more or less neo-liberal labour market reforms.⁷

In the end, the countries that proved most successful at reforming their labour market policies and at increasing employment levels were not the most radical or the most market-oriented, but rather those that relied on concerted actions and privileged an integrated and coherent approach, consistent with their own institutions and practices.⁸ The reforms of the 1990s thus confirmed the necessity of thinking adjustment and change in the context of existing institutional arrangements. Politically, these lessons were integrated into the European Employment Strategy (EES), the common European approach to labour market policies, first introduced at the 1994 Essen European Council and formally adopted with the Amsterdam Treaty in 1997. The EES changed the agenda of reform in Europe by making employment an explicit matter of “common concern.” More importantly, with the concept of National Action Plans for employment (NAPs), the European strategy acknowledged that there was a diversity of approaches and strategies that could be adopted with success at the national level.⁹

In the social sciences, such an understanding of institutions has also grown in the last 20 years, to take into consideration not only a maze of institutional factors but, more significantly, the idea that, however unique, a country’s social and political arrangements form a relatively coherent system, belonging to a family of comparable systems. Various welfare state regimes, in particular, have been associated with distinct labour market policies and outcomes.¹⁰ Beyond the welfare state, the organization of business, financial networks, and industrial relations also varies sufficiently and has enough of an impact on policy and economic performance to speak of distinctive “varieties of capitalism.”¹¹

This book on labour market policies and federalism is a contribution to this institutional understanding of employment strategies in developed democracies. Our objective is to assess the impact of an institutional variable seldom considered by students of labour market policies, federalism. Another objective,

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.

DIFFERENT PURPOSES, DIFFERENT INSTITUTIONS

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 categories. If this were not the case, Hall and Soskice would not speak of “varieties” of capitalism.¹⁶ Still, the dichotomy offers us a good point of departure to compare labour market policies in federations. In Germany, Switzerland, and Belgium, labour market policies should be more salient issues, as a critical component of these countries’ efforts to coordinate industrial relations, and they should be subject to gradual, negotiated change. In the United States and Canada, the issue should be of lesser political importance, and governments should be better able to impose change as they wish, primarily to reinforce market mechanisms.

One caveat should be kept in mind, however. In the last decades, unemployment levels have been very different in these five countries, and these differences are not directly related to the type of coordination that prevails in each country. Between 1985 and 1998, the average unemployment rate was 11.3 percent in Belgium, 9.5 percent in Canada, and 8.5 percent in Germany, compared to 6 percent in the United States and 2.5 percent in Switzerland.¹⁷ Understandably, the lack of jobs was a more critical political issue in the first three than in the last two.

If we now turn to federalism, a central dichotomy can also be established. According to Arend Lijphart, two different purposes presided over the creation of contemporary federations: the need to govern democratically relatively large countries, and the desire to give autonomy to national minorities in plural countries. The United States and Germany correspond to the first case: in these countries, federalism divided powers to introduce an element of balance in majoritarian institutions. In Switzerland, Canada, and Belgium, on the other hand, the purpose of federalism was primarily to accommodate linguistic or cultural diversity.¹⁸

Lijphart’s distinction between majoritarian and multinational federations has been made by a number of students of federalism, and it is unlikely to be contested. Ronald Watts, John McGarry, Will Kymlicka, and all the contributors to a recent book on *Multinational Democracies*, to name a few, accept this distinction as a central one for the study of federations.¹⁹ Yet, in the study of the relationship between federalism and public policy, this difference in kind

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 inimical to redistribution and social programs. Federalism would divide power, create additional veto points in the political system, and place regional federal entities in competition with each other, and as a consequence, make it more difficult to counter market forces and establish generous social programs.²¹

The theoretical argument behind this hypothesis is often left implicit and it suffers from a number of weaknesses. The empirical evidence provided by case studies is not fully convincing either.²² There are, it is true, a number of quantitative studies indicating that, “other things being equal, the dispersion of policy-making authority through federalism, decentralization, and other forms of institutional fragmentation is negatively associated with social expenditures as a proportion of gross domestic product (GDP).”²³ The problem with these studies, however, is that they use a rather blunt instrument to analyze federalism. Consider, for instance, the work of Duane Swank, who has produced one of the most sophisticated investigations in support of the institutional fragmentation hypothesis. The variable that is significant in this work is not federalism as such, but rather the “dispersion of authority,” a variable that is a “weighted standard score index of presidentialism (0, 1 scale), federalism (0, 1, 2 scale), bicameralism (0, 1, 2, scale), and use of referendums (0, 1 scale).”²⁴ Federalism is measured very simply, in a dichotomous fashion, and combined with a host of similarly dichotomous variables. Multiple regression results may be significant, but they hardly provide support for the hypothesis that federalism, as such, matters. As Rodden and Wibbels note, this type of work is just too general to account for the fact that the economic and policy “records of federation vary dramatically.”²⁵ Fritz Scharpf and Vivien Schmidt make a similar plea, with some irony, for a more cautious analysis of what we could call the “varieties” of federalism:

even though we accept the explanatory logic of George Tsebelis’ (1995) elegant veto-player theory, which predicts that multi-actor political systems will, under

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, labour market policies have rarely been a priority. Many Americans and Canadians probably do not even think of their country as having a labour market policy, let alone an employment strategy. In coordinated market economies such as Germany, Switzerland, and Belgium, corporatist arrangements between business and labour and more consensual forms of governance guarantee that labour market issues remain high on the agenda, especially when unemployment is important, as it has been for many years in Germany and Belgium.

The relevance of federalism also varies significantly. In plural societies such as Canada, Switzerland, and Belgium, federal arrangements have made the creation or the continuing existence of the country possible. These arrangements have an importance in public debates that is commensurate with their role. The politics of federal arrangements often become high politics, prone to heated rhetoric and apparently zero-sum conflicts. By contrast, in federations such as the United States and Germany, federalism is an institutional legacy

that continues to be significant, but tends to be perceived as a useful administrative and democratic device more than as a fundamental political condition. Policy debates will focus on legislative and redistributive issues, such as unfunded mandates, or on the proper division of roles and responsibilities in light of the subsidiarity principle, but they will not have the existential character one can find in the public deliberations of multinational federations.

If we put together these different dimensions, we can locate our five cases along two axes, according to the salience in the country's political debates of labour market policies and of federalism. As Figure 1 indicates, with these five cases we find the four basic conditions that are theoretically possible.

FIGURE 1
The Political Salience of Labour Market Policies and Federalism in Five Federations

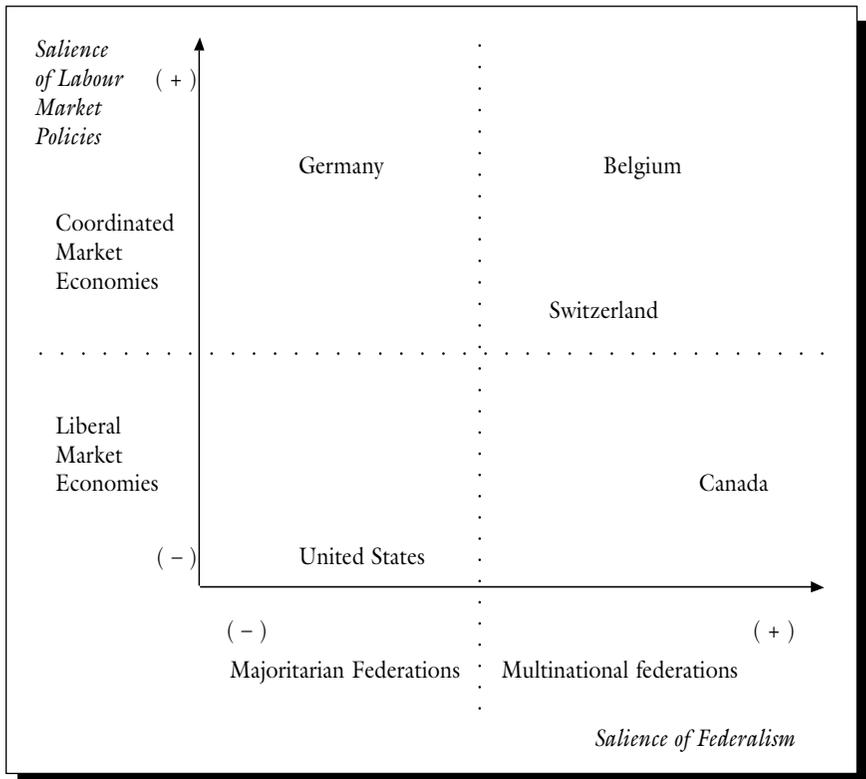


Figure 1 indicates how varieties of capitalism intersect with varieties of federalism, to produce distinct debates, specific to each country. In coordinated market economies, labour market policies tend to be more important politically, and federal questions matter more or less, according to the majoritarian 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.

FIVE DIFFERENT CASES

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 market policy remained a marginal preoccupation, in a federation that became

increasingly centralized over time. Australia, a country not considered in this volume, would present an interesting variant of a liberal market economy with a majoritarian federation. Indeed, although more influenced by its Labour tradition, and thus more corporatist and interventionist in social and labour market policy, Australia remains close to the liberal model and has a highly centralized federation that could well be located in the lower-left quadrant, with the United States.²⁷ Switzerland, Belgium, and Canada, by contrast, are multilingual or multinational federations. Swiss cantons and Canadian provinces, in particular, maintained most of their powers over time, and labour market policies developed in a less centralized fashion than in majoritarian federations. In Canada, however, the liberal logic of the market economy did not make labour market a critical issue. In Switzerland, high levels of employment also tended to reduce the salience of the issue, in comparison with other coordinated market economies.

The United States

In their chapter on employment policy in the United States, Christopher O’Leary and Robert Straits, of the W. E. Upjohn Institute for Employment Research, explain that labour market policies in their country “have mainly been an initiative of the federal government.” The system, they contend, allows for important variations across states and even among cities and counties, but it also “maintains important federal standards nationwide.” Historically, argue O’Leary and Straits, states have been reluctant to intervene in the labour market, for fear of incurring excessive expenses and of imposing costs that would create a competitive disadvantage for local firms. The federal government thus had to legislate, on the basis of its constitutional authority to raise revenue (and spend it) and to regulate commerce among the states. Even then, major innovations awaited times of economic crisis and they usually emerged as compromises, negotiated among legislators in Washington.

One such innovation was the federal-state unemployment insurance system. The federal government created an incentive structure that basically forced state action and constrained it in a significant way. States now manage unemployment insurance and retain some autonomy, but “the federal partner continues to hold the upper hand in the relationship” and imposes strict and increasingly specific “requirements for conformity and compliance.” In recent years, state-federal relationships have been marked by disputes over administrative funding, in a context where cost containment tended to be the priority.

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, the federal government initiated many programs that were criticized for being insufficiently funded, poorly coordinated, and overly centralized. In recent years, efforts have been made to decentralize, but decentralization often concerned individuals and the market as much as the states. The idea was to shift responsibility directly to individuals, with an emphasis on short-term job placement rather than on training. In the process, the states gained some autonomy, but within the constraints of a system that invests very little in either passive or active labour market policies. The 1996 Temporary Assistance for Needy Families (TANF) is a case in point. States receive block grants for social assistance, but must conform to highly restrictive conditions that, in effect, eliminate what used to be a social entitlement for the poorest. The federal government also supports programs for youth, but little evaluation has been undertaken that would allow the authors to estimate any results.

All in all, the American case is a perfect example of a liberal market economy with a majoritarian federal organization. State interventions in the labour market tend to be limited and market-reinforcing, but also relatively centralized and uniform. It is interesting to note, in this respect, that the centralization inherent to the country's majoritarian federalism has not really been undone by decades of efforts to reform and decentralize intergovernmental relations, in the name precisely of unfettered markets and of a less interventionist federal state.²⁸ As suggested by the varieties of capitalism perspective, centralization is also reinforced by the relative weakness of social actors, notably by the growing weakness of trade unions.²⁹

In the United States, market conditions have contributed to maintaining employment at relatively high levels, particularly in recent years. Mobility is also relatively easy, except for some professions where barriers remain. A strong central government has certainly contributed to these outcomes. It has not developed, however, extensive social rights and a relatively even distribution of income. On the contrary, in recent years the federal government has been at the forefront of the effort to make income support for the unemployed less generous and more restrictive.³⁰ Without strong corporatist networks or ambitious state governments, public policies have been aimed primarily at individuals, rather than being defined for collective actors or for states or cities.³¹

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 federal government from using "the equality-of-living standards principle of the Basic Law" to legislate in areas under their jurisdiction. In the end, observes Schneider, the "Länder have accepted an increasingly negligible role as policymakers in their own right and preferred instead a growing influence on national legislation." This evolution reflects as well the situation of "a remarkably homogeneous society whose political culture does not tolerate more than small regional and social disparities."

Not surprisingly, labour market policy is very much defined at the centre. Compared to the United States, however, federal interventions are ambitious, socially encompassing, and politically significant. While federal legislation and funding define the orientations and the scope of labour market policy, the administration of labour market policy is largely left to the Bundesanstalt für Arbeit (BAA, Federal Employment Office), an autonomous tripartite administration governed jointly by representatives of the trade unions, of business associations, and of the states. National in scope, the BAA "is responsible for the bulk of passive and active labour market measures." It provides relatively generous and uniform income support and extensive active programs that tend to be understood as "legal rights" rather than as "discretionary privileges." In the 1980s and 1990s, the rise

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 libre de Bruxelles, warn us of the tentative character of their assessment. A certain number of conclusions nevertheless come out clearly from their exhaustive survey of labour market policy and federalism in Belgium.

First, there is no doubt that the federalization of Belgium was a difficult process, which created not only a multinational federation, but also a divided political system, where all the major political parties split along linguistic lines. The resulting institutions are complex, with a federal government, three regions, and three linguistic communities, one region having fused with its linguistic community, to form the Flemish government. The division of powers, however, still leaves important attributes to the federal government, including matters related to social security, economic policy, and labour law.

Second, Belgium constitutes a clear case of coordinated market economy, with strong business and labour organizations, elaborate practices of concerted actions, and corporatist arrangements to preside over collective bargaining and the design and implementation of labour market policies. These coordination mechanisms are so powerful and the actors involved so cohesive that they have for the most part been protected from the divisions that reshaped the political landscape. Trade unions and employers' associations have maintained their national and regional organizations as they used to be, and have continued to interact with each other and with the federal government to define public policies. Belgium's traditions of concerted action have probably also positively influenced the federalization of the country, which was negotiated patiently and constructed gradually, through a series of compromises.

There are strains, however, that challenge these coordination mechanisms. First, like many countries of Europe, Belgium has high unemployment rates and high levels of youth and long-term unemployment, and it must adjust to a new global and European environment that is more competitive and constrained. Second, the federalization of the country has created a new division of powers, which has generated some confusion and conflict, and at times favoured the emergence of poorly integrated policies. It must be underlined, however, as De Troyer and Cortese note, that the main powers still belong to the federal government, which in most cases has the effective capacity to act and to define policy orientations. Overall, conclude De Troyer and Cortese, labour market policies have remained relatively coherent. The main problem, however, is that social and political actors have had difficulties adjusting to a new economic and political context. In the end, write Anton Hemerijck, Brigitte

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 Haddow, of St. Francis Xavier University, discusses the relatively high levels of unemployment experienced in this country between the 1940s and the 1970s — always well above the OECD average — and notes the improvements that took place since the mid-1990s, both in unemployment and income distribution. Haddow outlines as well the emphasis traditionally placed on passive labour market policy, at the expense of active measures. Even though it became an object of intergovernmental disputes, active labour market policy was never a priority for either the federal or the provincial governments. There was much talk, in recent years, of a shift toward active measures, but this evolution took place in a context of retrenchment, which hit both federal unemployment insurance and provincial social assistance, and undermined the possibility of going far with new, more active programs.

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.

VARIETIES OF LABOUR MARKET POLICIES

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 compromise may have been affected by the political context, but the basic coordination framework remained unchanged. Indeed, this framework appeared almost frozen into immobilism, making adjustment very difficult. In Canada, it is rather the institutions of federalism that seem frozen into immobilism. Even in this case, however, it proved easier to achieve new intergovernmental agreements in labour market policy than to step too far beyond the boundaries set by a liberal market economy.

Fourth, the dominant understanding of federalism as undermining state interventionism and redistribution — or, more positively, as being “market-preserving” — is not supported by a close survey of public policies in different federations. Germany and the United States both have majoritarian and centralized federations, but end up with very different public policies and policy outcomes, the former being interventionist and redistributive, the latter being closer to the “market-preserving” logic. Canada is a more diverse, indeed multinational, and more decentralized federation than the United States, but it has adopted policies that are more interventionist and more redistributive, within the confines of a liberal market economy.

Students of federalism should thus reaffirm the importance of going beyond the federations/non-federations dichotomy, a distinction that is far too simple, and hinders more than it helps a good understanding of existing federations. In any case, the universe of developed democracies endowed with federal arrangements is so small that there is little to draw from quantitative studies informed by such a dichotomy. Federations are not simply mechanisms to “disperse authority” or to “preserve markets.” They are historical constructions that responded to various imperatives — governing large countries, managing diversity, or counter-balancing majorities — and came to function very differently, largely in line with these initial imperatives.

Likewise, a better understanding of the institutional context that informs and shapes the actions of social and political actors could enhance the study of labour market policies. In recent years, scholars and policymakers have acknowledged, explicitly or implicitly, that the variety of institutional arrangements that exists in capitalist societies prevents the application of uniform responses to the contemporary challenges raised by post-industrialism

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.

NOTES

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

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⁸Janine Goetschy, "The European Employment Strategy, Multi-level Governance, and Policy Coordination: Past, Present and Future," in *Governing Work and Welfare in a New Economy: European and American Experiments*, ed. Jonathan Zeitlin and David Trubek (Oxford: Oxford University Press, 2003), pp. 62-63.

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¹⁰Gøsta Esping-Andersen, *Social Foundations of Postindustrial Economies* (Oxford, Oxford University Press, 1999); Gøsta Esping-Andersen, "Who is Harmed by Labour Market Regulations? Quantitative Evidence," in *Why Deregulate Labour Markets?* ed. Esping-Andersen and Regini, pp. 66-98.

¹¹Peter A. Hall and David Soskice, "An Introduction to Varieties of Capitalism," in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, ed. P.A. Hall and D. Soskice (Oxford: Oxford University Press, 2001), pp. 1-68.

¹²*Ibid.*, p. 20; Arend Lijphart, *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries* (New Haven: Yale University Press, 1999), p. 195.

¹³Hall and Soskice, "An Introduction to Varieties of Capitalism," p. 8.

¹⁴*Ibid.*, pp. 13-14 and 17-33.

¹⁵*Ibid.*, p. 46-51 and 58.

¹⁶*Ibid.*, p. 33.

¹⁷*Ibid.*, p. 20.

¹⁸Lijphart, *Patterns of Democracy*, p. 195.

¹⁹Ronald L. Watts, *Comparing Federal Systems*, 2d ed. (Montreal and Kingston: McGill-Queen's University Press, 1999), p. 117; John McGarry, "Federal Political Systems and the Accommodation of National Minorities," in *Handbook of Federal Countries 2002*, ed. Ann L. Griffiths and Karl Nerenberg (Montreal and Kingston: McGill-Queen's University Press, 2002), pp. 417, 421 and 428; Will Kymlicka, *Finding*

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).

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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.

³⁰Jacob S. Hacker, "Privatizing Risk without Privatizing Benefits: U.S. Welfare State Reform in Comparative Perspective." Paper presented at the annual meeting of the American Political Science Association, Boston, 29 August-1 September 2002.

³¹John Kincaid, "De facto Devolution and Urban Defunding: The Priority of Persons Over Places," *Journal of Urban Affairs* 21, 2 (1999):135-67.

³²Philip Manow and Eric Seils, "Adjusting Badly: The German Welfare State, Structural Change, and the Open Economy," in *Welfare and Work in the Open Economy*, Volume II, ed. Scharpf and Schmidt, p. 301.

³³Stephen J. Silvia notes that "for 25 years, Germans have almost always identified unemployment as the Federal Republic's single most pressing problem." Silvia, "The Fall and Rise of Unemployment in Germany: Is the Red-Green Government Responsible?" *German Politics* 11,1 (2002):3.

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³⁵Guiliano Bonoli and André Mach, "Switzerland: Adjustment Policies within Institutional Constraints," in *Welfare and Work in the Open Economy*, Volume II, ed. Scharpf and Schmidt, p. 168.

³⁶Anton Hemerijck, Brigitte Unger, and Jelle Visser, "How Small Countries Negotiate Change: Twenty-Five Years of Policy Adjustment in Austria, the Netherlands, and Belgium," in *Welfare and Work in the Open Economy*, Volume II, ed. Scharpf and Schmidt, p. 248.

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³⁹See, in this respect, George Hoberg, Keith G. Banting and Richard Simeon, "The Scope for Domestic Choice: Policy Autonomy in a Globalizing World," in *Capacity for Choice: Canada in a New North America*, ed. George Hoberg (Toronto: University of Toronto Press, 2002), pp. 266-69.

⁴⁰See also Thomas R. Klassen, "The Federal-Provincial Labour Market Development Agreements: Brave New World of Collaboration?" in *Federalism, Democracy and Labour Market Policy in Canada*, ed. McIntosh, pp. 159-203; Herman Bakvis, "Checkerboard Federalism? Labour Market Development Policy in Canada," in *Canadian Federalism: Performance, Effectiveness, and Legitimacy*, ed. Herman Bakvis and Grace Skogstad (Toronto: Oxford University Press, 2002), pp. 197-219.

⁴¹See Rodney Haddow, "The Political and Institutional Landscape of Canadian Labour Market Policy-Making," in *Federalism, Democracy and Labour Market*

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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, *State, Society, and the Development of Canadian Federalism*, Volume 71 of the Royal Commission on the Economic Union and Development Prospects for Canada Studies (Toronto: University of Toronto Press, 1990), pp. 121-22.

⁴⁵See, for instance, Harvey Lazar, "Non-Constitutional Renewal: Toward a New Equilibrium in the Federation," in *Canada: The State of the Federation 1997, Non-Constitutional Renewal*, ed. H. Lazar (Kingston: Institute of Intergovernmental Relations, Queen's University, 1998), p. 29.

2

INTERGOVERNMENTAL RELATIONS IN EMPLOYMENT POLICY: THE UNITED STATES EXPERIENCE

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INTRODUCTION

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

Trade unions, with origins in workingmen's associations, and later industrial unions were born in tandem with the rise of the factory system during the nineteenth century. Until after the end of the nineteenth century, custom and power determined working arrangements in states and local areas. Union strength grew during harsh conditions following bank panics in the 1830s and unions emerged by the end of the century as general advocates for improved wages and working conditions. Prior to the great economic depression of the 1930s, federal legislation about workplace issues focused mainly on rights to organize unions and collectively bargain about wages and conditions of work.

Some state and local courts used the federal *Sherman Anti-trust Act* of 1890 to stop union activity in "restraint of trade." The *Clayton Act* of 1914 expressly excluded union activity as a violation.³ The 1932 Norris-LaGuardia Act further restricted judiciary power to prevent unions from engaging in strikes, picketing and boycotts. The *Wagner Act* of 1935, also known as the *National Labor Relations Act*, further extended the privileges of unions and created the National Labor Relations Board (NLRB) to administer and enforce provisions of the Act. The *Taft-Hartley Act* of 1947, also called the *Labor Management Relations Act* (LMRA), refined the collective bargaining environment by somewhat limiting union rights and guaranteeing certain freedoms of speech and conduct to employers and to non-union employees.⁴

Federal laws concerning hours and wages were first enacted in 1892 and 1913.⁵ These applied only to federal public works projects, but established the eight-hour day and overtime pay at the rate of one-and-one-half times the basic rate as principles. Three later federal laws set more general minimum standards for wages, overtime pay, and equal pay for equal work.⁶ Many states passed their own versions of these laws. "Under principles established in the U.S. Constitution, states may pass laws that are stricter, but not less stringent, than the federal apparatus."⁷ The state laws were upheld by the courts and the federal laws were found constitutional because of Congress' right to regulate interstate commerce.

Another series of federal laws established "prevailing wage rate" laws requiring standards for wages and employment by establishments receiving federal government contracts or grants.⁸ This same federal lever was used in the 1990s to prohibit illegal drug use from the workplace and to permit drug testing of employees. More recent federal laws have been directed at protecting specific classes of individuals through employer practices involving payroll deductions.⁹

Just as the union movement gained strength during the economic depression following the 1830s bank panics, programs to address unemployment had their roots in periods of economic malaise. The *Wagner-Peyser Act* of 1933, which established the U.S. Employment Service, and the *Social Security Act* of 1935, which established the federal-state system of unemployment insurance, were both passed during the great economic depression that followed the 1929 stock market crash. The *Employment Act* of 1946, which came on the heels of World War II, and was prompted by fears that recession would follow the war-time expansion, enunciated a federal government policy to “promote maximum employment, production and purchasing power.”¹⁰ Public job-training programs for dislocated workers began with the 1962 *Manpower Development Training Act* which followed the economic stagnation of the 1950s.

The focus of this chapter is intergovernmental relations regarding employment policies directly intended to address problems of unemployment in the United States during the twentieth century. The main policies examined concern unemployment compensation, job skill retraining, youth employment promotion, and public employment exchange services. Attention is also given to issues of employing the economically disadvantaged, also known as welfare-to-work, and conditions for occupational mobility within the country. We examine these policies with an eye toward understanding how the institutional, political, and economic context of their evolution has influenced the effectiveness of their operation.

THE INSTITUTIONAL AND POLITICAL CONTEXT OF EMPLOYMENT POLICY

Government action to promote employment has always been initiated in times of crisis. The federal-state unemployment insurance program was conceived in the widespread hardship experienced from job loss during the 1930s. Federal training policy also had its origin in depression era *New Deal* programs for public works, and was reborn many years later in postwar recessions of the 1950s. Youth employment policy began during the first World War and saw change during crisis periods throughout the twentieth century.

The debate over employment policy approaches among federal policymakers involves the president or chief of the executive branch of government, and Congress, which is the legislative branch. The federal legislature is bicameral. It is made up of the House of Representatives and the Senate. The

third branch of federal government, the courts, also occasionally intervenes. Virtually all elected and appointed federal officials in these three branches of government are members of either the more liberal Democratic Party or the conservative Republican Party. Democrats maintain that government has a responsibility to assist individuals who cannot support themselves, asserting that government assistance is an entitlement. Republicans contend that public assistance obliges the recipient to work, in exchange for government support.

Proposed federal legislation is introduced in Congress as a bill, and becomes law only after debate, refinement, and approval by both houses of Congress and signature by the president. Federal courts may later rule on the constitutionality of laws. Program funding can be authorized only by the House of Representatives. Legislation can move through the system quickly if there is either bi-partisan support, or if one party holds majorities in both the House and Senate, and holds the office of President. Interestingly, laws regarding social and economic policy have always benefited from bipartisan input even during the few times that one political party controlled both the legislative and executive branches of the federal government.

While political pundits may view employment policy of the twentieth century as a story of lost battles on both political sides, moderates would see the resulting legislation as a rich blend of policies that address competing objectives. A key element in most compromise federal employment laws is provisions for *program evaluation* to identify if programs are sufficiently cost-effective. Nonetheless, employment program administrators would probably view the buffeting from frequent changes over the years as an unfortunate distraction resulting from the political process.

The national government is actually a confederation of 50 states, the federal District of Columbia, the Commonwealth of Puerto Rico, and a number of territories and protectorates. Authority is reserved to these subnational administrative divisions for all things not controlled by the federal government. States have governmental systems with three branches and the same inherent checks and balances as the federal government. Substate divisions called counties contain cities, towns, and villages. The federal government pursues employment policy through its authority to levy taxes and to regulate interstate and international commerce. The federal power to raise revenue by taxes provides the means for financing public projects. When financial grants are given by the federal government to subnational governmental agencies or others subject to stipulated requirements, federal influence is wielded through the "power of the purse."

THE ECONOMIC CONTEXT OF EMPLOYMENT POLICY

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.

For 1999, the national average unemployment rate stood at 4.2 percent. This is well below the level generally believed by economists in the 1980s to be consistent with price stability.¹² It is also a surprising turn of events for economists who had accepted high unemployment rates during business cycle peaks as inevitable.¹³ Furthermore, while unemployment has dipped the aggregate price level has remained virtually unchanged. Though unemployment was higher in places like Alaska, West Virginia, and the District of Columbia, the job market in most of the country was exceptionally strong. From Table 2 it can be seen that it has been more than 25 years since such rates of unemployment have been experienced in the United States. Such thriving job markets provide a politically opportune time for attempts at moving public assistance recipients into regular work.

Special programs for employment assistance in the United States are targeted to minorities, youth, and dislocated workers, who are long-term unemployed or lack skills demanded in their local labour market. In Tables 1 and 2, it can be seen that unemployment rates for blacks and youth are always higher, both across states and over time, than for the labour force as a whole. A disturbing phenomenon is the comparatively slow rate of unemployment decline for these groups in recent years while the general labour market has improved. Fairlie and Sundstrom find that there has actually been a recent widening of the racial unemployment gap.¹⁴

Another disappointing phenomenon is that the recent expansion has witnessed a larger proportion of the unemployed who are out of work long term than at peaks of earlier business expansions. By 1999, 12.3 percent of the unemployed were long term (27 weeks or more), while the long-term share of unemployment dipped to 9.9 percent in 1989 and to 8.9 percent in 1979. It appears that with a lower overall rate of unemployment, the remaining

TABLE 1
 Employment Data: United States and Individual States, 1999

	<i>Unemployment Rate (%)</i>			<i>Unemployed (%)</i>	<i>Labour Force Participation Rate (%)</i>		
	<i>Total</i>	<i>Black</i>	<i>Youth Age 16-19</i>	<i>Long-term (27 weeks or more) (1998 data)</i>	<i>Total</i>	<i>Male Age 16 and over</i>	<i>Female Age 16 and over</i>
United States	4.2	8.0	13.9	14.1	67.1	74.7	60.0
Alabama	4.8	8.9	17.1	11.0	63.6	70.5	56.7
Alaska	6.4	7.0	16.4	11.1	73.5	80.6	66.6
Arizona	4.4	6.7	13.8	10.6	66.2	74.8	58.4
Arkansas	4.5	10.2	19.3	10.4	62.8	69.7	56.4
California	5.2	8.4	16.4	17.0	66.3	74.9	58.1
Colorado	2.9	DNA	12.0	11.6	73.5	80.1	66.9
Connecticut	3.2	6.5	10.0	NA	67.5	73.9	61.7
Delaware	3.5	6.6	11.1	13.3	67.1	73.1	61.5
District of Columbia	6.3	9.4	32.7	25.0	67.7	71.6	64.3
Florida	3.9	8.0	13.0	12.6	62.5	70.3	55.4
Georgia	4.0	7.8	16.3	12.4	69.6	76.8	63.1
Hawaii	5.6	NA	21.6	24.3	67.0	70.7	63.6
Idaho	5.2	NA	16.5	6.1	69.7	77.5	62.0
Illinois	4.3	10.3	12.9	15.5	69.7	76.9	63.0
Indiana	3.0	5.5	12.4	NA	68.3	76.0	61.1
Iowa	2.5	NA	7.0	NA	71.9	77.8	66.1
Kansas	3.0	7.3	8.6	7.4	72.1	78.3	66.3
Kentucky	4.5	7.5	16.4	15.7	64.3	72.5	56.7
Louisiana	5.1	8.8	17.0	16.1	62.6	70.3	56.0
Maine	4.1	NA	16.2	17.2	67.9	73.8	62.4
Maryland	3.5	7.0	11.3	19.2	69.8	75.1	64.9
Massachusetts	3.2	8.8	6.8	10.1	68.7	74.8	63.0
Michigan	3.8	6.7	11.5	8.2	68.5	76.3	61.2
Minnesota	2.8	NA	9.1	NA	75.1	80.4	69.9
Mississippi	5.1	9.3	21.0	17.6	61.1	69.7	53.9
Missouri	3.4	8.1	8.7	9.2	68.7	76.4	61.4
Montana	5.2	NA	12.4	11.5	69.2	74.9	63.6
Nebraska	2.9	8.0	9.6	NA	73.1	80.0	66.6
Nevada	4.4	7.7	14.7	12.5	69.1	76.6	61.7
New Hampshire	2.7	NA	11.1	NA	72.3	78.7	66.2
New Jersey	4.6	9.7	13.4	16.7	67.1	75.5	59.5
New Mexico	5.6	6.3	21.1	13.7	62.0	69.3	55.3
New York	5.2	10.2	15.8	23.5	62.9	70.9	55.8
North Carolina	3.2	5.7	12.7	13.7	67.2	74.8	60.3
North Dakota	3.4	NA	9.1	9.1	70.5	76.1	65.2
Ohio	4.3	7.4	13.8	11.6	66.9	74.1	60.3
Oklahoma	3.4	5.5	11.3	6.8	65.1	72.6	58.4
Oregon	5.7	NA	18.0	13.3	68.2	76.2	60.6
Pennsylvania	4.4	7.6	15.7	15.6	64.4	72.1	57.5
Rhode Island	4.1	9.0	12.2	16.7	67.2	74.3	60.8
South Carolina	4.5	7.9	14.2	6.7	65.6	72.9	59.2
South Dakota	2.9	NA	8.6	NA	73.2	78.5	68.2
Tennessee	4.0	7.0	12.1	9.5	66.3	73.6	59.7
Texas	4.6	6.7	17.3	10.9	68.8	77.9	60.3
Utah	3.7	NA	11.5	7.5	72.3	81.8	63.3
Vermont	3.0	NA	9.9	NA	72.1	77.9	66.5
Virginia	2.8	5.9	12.6	NA	67.5	75.1	60.6
Washington	4.7	5.0	18.1	12.4	70.2	77.6	63.3
West Virginia	6.6	12.9	23.0	26.4	56.4	65.0	49.1
Wisconsin	3.0	14.1	10.1	7.1	72.3	77.6	67.2
Wyoming	4.9	NA	12.1	8.3	71.2	78.5	64.3

Source: US Data. US Department of Labor, Bureau of Labor Statistics. *Local Area Unemployment Statistics*. Available <<http://stats.bls.gov/lauhome.htm>>, 9 November 2000.

TABLE 2
Historical Employment Data: United States, 1947–1999

Year	Unemployment Rate (%)				Labour Force Participation (%)			Civilian Labour Force (In thousands)
	Total	Black	Youth Age 16–19	Long-term (27 weeks or more)	Total	Male Age 20 and over	Female Age 20 and over	
1999	4.2	8.0	13.9	12.3	67.1	76.7	60.7	139,368
1998	4.5	8.9	14.6	14.1	67.1	76.8	60.4	137,673
1997	4.9	10.0	16.0	15.8	67.1	77.0	60.5	136,297
1996	5.4	10.5	16.7	17.4	66.8	76.8	59.9	133,943
1995	5.6	10.4	17.3	17.3	66.6	76.7	59.4	132,304
1994	6.1	11.5	17.6	20.3	66.6	76.8	59.3	131,056
1993	6.9	13.0	19.0	20.1	66.3	77.3	58.5	129,200
1992	7.5	14.2	20.1	20.3	66.4	77.7	58.5	128,105
1991	6.8	12.5	18.7	12.9	66.2	77.7	57.9	126,346
1990	5.6	11.4	15.5	10.0	66.5	78.2	58.0	125,840
1989	5.3	11.4	15.0	9.9	66.5	78.1	57.7	123,869
1988	5.5	11.7	15.3	12.1	65.9	77.9	56.8	121,669
1987	6.2	13.0	16.9	14.0	65.6	78.0	56.2	119,865
1986	7.0	14.5	18.3	14.4	65.3	78.1	55.5	117,834
1985	7.2	15.1	18.6	15.4	64.8	78.1	54.7	115,461
1984	7.5	15.9	18.9	19.1	64.4	78.3	53.7	113,544
1983	9.6	19.5	22.4	23.9	64.0	78.5	53.1	111,550
1982	9.7	18.9	23.2	16.6	64.0	78.7	52.7	110,204
1981	7.6	15.6	19.6	14.0	63.9	79.0	52.1	108,670
1980	7.1	14.3	17.8	10.7	63.8	79.4	51.3	106,940
1979	5.8	12.3	16.1	8.7	63.7	79.8	50.6	104,962
1978	6.1	12.8	16.4	10.5	63.2	79.8	49.6	102,251
1977	7.1	14.0	17.8	14.7	62.3	79.7	48.1	99,009
1976	7.7	14.0	19.0	18.2	61.6	79.8	47.0	96,158
1975	8.5	14.8	19.9	15.2	61.2	80.3	46.0	93,775
1974	5.6	10.5	16.0	7.4	61.3	81.0	45.3	91,949
1973	4.9	9.4	14.5	7.9	60.8	81.3	44.4	89,429
1972	5.6	10.4	16.2	11.6	60.4	81.6	43.7	87,034
1971	5.9	NA	16.9	10.4	60.2	82.1	43.3	84,382
1970	4.9	NA	15.3	5.8	60.4	82.6	43.3	82,771
1969	3.5	NA	12.2	4.7	60.1	82.8	42.7	80,734
1968	3.6	NA	12.7	5.5	59.6	83.1	41.6	78,737
1967	3.8	NA	12.9	5.9	59.6	83.4	41.1	77,347
1966	3.8	NA	12.8	8.3	59.2	83.6	40.1	75,770
1965	4.5	NA	14.8	10.4	58.9	83.9	39.4	74,455
1964	5.2	NA	16.2	12.7	58.7	84.2	38.9	73,091
1963	5.7	NA	17.2	13.6	58.7	84.4	38.3	71,833
1962	5.5	NA	14.7	15.0	58.8	84.8	37.8	70,614
1961	6.7	NA	16.8	17.1	59.3	85.7	38.0	70,459
1960	5.5	NA	14.7	11.8	59.4	86.0	37.6	69,628
1959	5.5	NA	14.6	15.3	59.3	86.3	37.1	68,369
1958	6.8	NA	15.9	14.5	59.5	86.6	36.9	67,639
1957	4.3	NA	11.6	8.4	59.6	86.9	36.5	66,929
1956	4.1	NA	11.1	8.4	60.0	87.6	36.4	66,552
1955	4.4	NA	11.0	11.8	59.3	87.6	35.4	65,023
1954	5.5	NA	12.6	9.0	58.8	87.8	34.2	63,643
1953	2.9	NA	7.6	4.3	58.9	88.0	33.9	63,015
1952	3.0	NA	8.5	4.5	59.0	88.3	34.1	62,138
1951	3.3	NA	8.2	6.7	59.2	88.2	34.0	62,017
1950	5.3	NA	12.2	10.9	59.2	88.4	33.3	62,208
1949	5.9	NA	13.4	7.0	58.9	88.5	32.3	61,286
1948	3.8	NA	9.2	5.1	58.8	88.6	31.8	60,621
1947	3.9	NA	NA	NA	58.3	NA	NA	59,350

Source: US Department of Labor, Bureau of Labor Statistics. *Labour Force Statistics from the Current Population Survey*. Available < <http://stats.bls.gov/sahome.html> >, 9 November 2000.

unemployed job-seekers are more difficult to reemploy. Within states there is, however, a direct relationship between the rate of unemployment and the proportion out of work long term.

The overall labour force participation rate in the United States is now at a post-World War II high of 67.1 percent of the non-institutional civilian population. The female rate is near an historic peak, while the male labour force participation rate has slowly declined over the past 50 years. All of this has occurred during a period of dramatic growth in the civilian labour force, which has witnessed more than a doubling from 59.4 million in 1947 to 139.4 million in 1999.

The federal-state unemployment insurance (UI) system provides temporary partial wage replacement to involuntarily unemployed job-seekers with significant labour force attachment. It is the primary mode of public income replacement for such persons. Table 3 presents data for 1999 for the nation and the states on four UI features: benefit amounts, replacement rates, duration rates, and reciprocity. This table also provides information on public assistance receipt, the extent of poverty, and union density. Table 4 gives data on the same variables for the nation in each year dating back to 1947.

The maximum potential duration of UI benefits is nearly uniform across states at 26 weeks.¹⁵ Most state laws approximate 50 percent wage replacement between the minimum and maximum weekly benefit amount. In 1999, UI provided an average of \$212 per week for an average of 14.5 weeks out of work. The weekly benefit replaced 33.1 percent of lost wages, and was available for an average of up to 23.8 weeks. Only 37.2 percent of all unemployed persons received UI benefits in 1999. Average weekly benefits ranged from \$156 in Alabama to \$279 in Massachusetts and Minnesota. Variation in UI weekly benefit levels mainly reflects differing levels of average weekly wages in UI-covered employment across the states.

UI is social insurance. It aims to prevent descent into poverty, not to insure all wage loss resulting in a gross aggregate wage replacement rate of around one-third.¹⁶ There has been a decline over time in the proportion of the eligible unemployed who actually draw UI benefits. This has become a prime policy concern. In recent years, significant attention has been focused on reasons for the decline in UI reciprocity.¹⁷

Over the past decade, the proportion of the population receiving public assistance not linked to labour force participation has remained relatively stable, fluctuating between 6.2 and 7.8 percent. Recent welfare reforms including welfare-to-work programs are expected to continue the recent downward trend

TABLE 3
Unemployment Insurance Data: United States and Individual States, 1999

	Average Weekly Benefit Amount for UI to Total Wage (1)		Ratio of Average Weekly Benefit Amount for UI to Average Weekly Total Wage (2)		Duration of UI (weeks)		Percentage of			
	Average Weekly Benefit Amount for UI (\$)	(1)	Average Potential	(3)	Average Actual	(4)	Unemployed Receiving UI Benefits (5)	Population Receiving Social Assistance, 1996 (6)	Population below the Poverty Line (7)	Wage and Salary Workers Who Are Union Members (8)
United States	212	0.331	23.8	14.5	37.2	4.8	11.8	13.9		
Alabama	156	0.293	24.4	10.1	27.8	4.7	15.1	11.0		
Alaska	182	0.284	20.8	14.9	64.3	5.0	7.6	20.4		
Arizona	157	0.270	23.6	14.3	20.4	3.5	12.0	6.7		
Arkansas	197	0.409	13.0	13.0	45.3	4.6	14.7	7.5		
California	158	0.220	24.8	16.4	42.5	8.3	13.8	16.6		
Colorado	241	0.369	22.4	12.1	24.1	2.1	8.3	9.4		
Connecticut	225	0.274	26.0	14.6	59.0	3.7	7.1	18.2		
Delaware	204	0.303	25.6	12.6	30.6	3.6	10.4	13.8		
DC	235	0.257	19.7	19.7	46.1	13.2	14.9	13.1		
Florida	199	0.384	20.0	14.0	25.7	3.6	12.4	6.5		
Georgia	278	0.322	21.0	9.0	20.0	4.3	12.9	7.3		
Hawaii	200	0.498	26.0	16.4	32.4	5.3	10.9	23.2		
Idaho	241	0.405	21.0	12.5	36.6	1.6	13.9	9.2		
Illinois	241	0.347	26.0	15.9	38.0	4.7	9.9	18.0		
Indiana	210	0.366	20.5	11.3	30.7	3.4	6.7	15.7		
Iowa	227	0.441	22.9	10.8	44.8	3.4	7.5	13.8		
Kansas	237	0.445	23.1	12.9	34.1	2.6	12.2	9.7		
Kentucky	201	0.380	26.0	12.1	28.3	6.7	12.1	11.6		
Louisiana	162	0.313	26.0	15.3	24.9	5.8	19.2	8.1		
Maine	192	0.377	20.0	13.0	35.1	5.0	10.6	15.4		
Maryland	205	0.317	26.0	13.5	30.9	3.2	7.3	15.0		
Massachusetts	279	0.360	27.7	17.0	63.1	4.7	11.7	16.2		
Michigan	238	0.347	21.7	11.5	41.1	4.5	9.7	21.5		
Minnesota	279	0.434	23.7	14.0	39.9	3.8	7.2	19.3		
Mississippi	153	0.332	23.6	13.7	28.3	6.0	16.1	6.2		
Missouri	175	0.306	23.2	13.1	41.8	4.3	11.6	14.4		
Montana	181	0.414	20.9	13.8	31.3	3.0	15.6	15.3		
Nebraska	177	0.349	22.5	12.1	26.9	3.0	10.9	8.8		
Nevada	216	0.361	23.2	13.8	43.6	2.2	11.3	19.5		
New Hampshire	208	0.338	26.0	9.6	20.6	2.2	7.7	10.6		
New Jersey	277	0.353	23.1	17.2	47.2	3.7	7.8	20.5		
New Mexico	178	0.361	25.8	16.2	23.8	7.0	20.7	9.9		

... continued

TABLE 3 (Continued)

	Average Weekly Benefit Amount for UI (\$) (1)	Ratio of Average Weekly Benefit Amount for UI to Average Weekly Total Wage (2)		Duration of UI (weeks) (3)		Percentage of (4)			Wage and Salary Workers Who Are Union Members (8)
		Average Weekly Benefit Amount for UI to Average Weekly Total Wage	Ratio of Average Weekly Benefit Amount for UI to Average Weekly Total Wage	Potential	Actual	Unemployed Receiving UI Benefits (5)	Population Receiving Social Assistance, 1996 (6)	Population below the Poverty Line (7)	
New York	232	0.286	0.286	26.0	17.7	34.3	7.5	14.1	25.3
North Carolina	219	0.388	0.388	23.1	10.0	42.0	4.0	13.5	3.2
North Dakota	201	0.447	0.447	20.2	14.9	37.3	2.6	13.0	9.3
Ohio	224	0.374	0.374	25.7	13.2	27.7	4.4	12.0	17.9
Oklahoma	209	0.430	0.430	23.5	13.9	24.9	3.6	12.7	8.8
Oregon	223	0.379	0.379	24.9	14.5	42.4	2.8	12.6	15.2
Pennsylvania	251	0.402	0.402	25.9	15.7	52.1	4.6	9.4	17.4
Rhode Island	246	0.414	0.414	21.6	13.2	62.6	7.6	9.9	17.7
South Carolina	185	0.358	0.358	23.4	11.3	29.2	3.8	11.7	3.5
South Dakota	170	0.379	0.379	24.5	11.0	17.6	2.7	7.7	6.0
Tennessee	184	0.327	0.327	21.9	11.9	35.0	5.8	11.9	7.5
Texas	225	0.358	0.358	21.3	15.9	26.4	3.5	15.0	6.0
Utah	205	0.388	0.388	21.1	12.1	25.3	2.2	5.7	6.4
Vermont	203	0.387	0.387	26.0	13.3	52.8	5.0	9.7	6.6
Virginia	187	0.301	0.301	21.5	10.2	22.7	3.2	7.9	20.7
Washington	276	0.403	0.403	26.2	18.4	53.5	4.5	9.5	15.2
West Virginia	198	0.404	0.404	26.0	13.6	29.8	5.7	15.7	18.1
Wisconsin	223	0.394	0.394	24.4	11.8	57.1	2.5	8.6	9.1
Wyoming	201	0.414	0.414	19.9	13.2	24.0	1.5	11.6	

Notes: (5) Taxable and reimbursable claims data (average number of weekly insured unemployed) as a proportion of the total number of unemployed. In the 1950s an unemployment insurance program for ex-military and ex-federal employees began. The taxable and reimbursable claims data do not include ex-military and ex-federal employees, while the total number of unemployed does include these ex-workers.

(6) TANF receipts (September 1999) plus SSI state data (number of persons receiving federally administered payments December 1999) as a proportion of total resident population.

Sources: (1-4) US Department of Labor, *Unemployment Insurance Financial Data*, ET Handbook (Washington: GPO, 1999), p. 394.

(5) US Department of Labor, Bureau of Labor Statistics, *State and Regional Unemployment, 1999*, Annual Averages (news release). Available <<http://stats.bls.gov/newsrels.htm>>, 28 November 2000.

(6) US Administration for Children and Families, TANF data supplied by Office of Planning, Research, and Evaluation, 11 November 2000.

US Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin* (Washington, DC: GPO, 1999), Table 7.B1.

US Census Bureau, State Population Estimates. Available <<http://www.census.gov/population/estimates/state/st-99-3.txt>>.

(7) US Bureau of the Census, Historical Poverty Tables. Available <<http://www.census.gov/hhes/poverty/histpov19.html>>, 30 November 2000.

(8) Barry T. Hirsch and David A. Macpherson, *Union Membership and Earnings Data Book: Compilations from the Current Population Survey* (Washington, DC: Bureau of National Affairs, Inc., 2000), Table 4a.

TABLE 4
 Historical Unemployment Insurance Data: United States, 1947–1999

Year	Average Weekly Benefit Amount for UI (\$)		Duration of UI (weeks)		Percentage of			Wage and Salary Workers Who Are Union Members (8)	UI Spending as a Fraction of GDP (10)	Spending on All Labour Market Policy as a Fraction of GDP (11)
	(1)	(2)	Average Potential (3)	Average Actual (4)	Unemployed Receiving UI Benefits (5)	Population Receiving Social Assistance (6)	Population below the Poverty Line (7)			
1999	212	0.331	23.8	14.5	37.2	4.80	11.8	13.9	0.22	0.31
1998	200	0.329	23.7	13.8	35.8	5.19	12.7	13.9	0.23	0.32
1997	193	0.335	23.9	14.6	34.5	5.85	13.3	14.1	0.25	0.34
1996	189	0.345	24.0	14.9	35.9	6.78	13.7	14.5	0.29	0.40
1995	187	0.355	24.0	14.7	34.8	7.33	13.8	14.9	0.30	0.42
1994	182	0.357	23.7	15.5	33.4	7.71	14.5	15.5	0.35	0.46
1993	180	0.360	23.9	15.9	30.8	7.78	15.1	15.8	0.53	0.65
1992	174	0.354	23.7	16.2	33.8	7.61	14.8	15.8	0.64	0.76
1991	170	0.364	23.9	15.4	38.7	7.30	14.2	16.1	0.46	0.57
1990	162	0.360	24.1	13.4	35.8	6.72	13.5	16.1	0.32	0.43
1989	152	0.354	24.2	13.2	33.1	6.31	12.8	16.4	0.27	0.38
1988	145	0.349	24.1	13.7	31.0	6.20	13.0	16.8	0.27	0.39
1987	141	0.355	23.7	14.6	31.0	6.22	13.4	17.0	0.31	0.44
1986	136	0.358	23.9	14.5	32.1	6.31	13.6	17.5	0.39	0.52
1985	128	0.353	24.1	14.2	31.5	6.25	14.0	18.0	0.38	0.52
1984	123	0.355	23.7	14.4	29.0	6.18	15.2	18.8	0.41	0.55
1983	124	0.372	24.1	17.5	31.7	6.23	14.4	20.1	0.76	0.93
1982	119	0.377	24.3	15.9	38.0	6.12	15.0	NA	0.79	0.97
1981	107	0.359	24.2	14.4	36.8	NA	14.0	21.4	0.54	0.86
1980	100	0.366	24.3	14.9	43.9	NA	13.0	23.0	0.68	1.08
1979	90	0.360	24.2	13.1	39.5	NA	11.7	24.1	0.39	0.84

... continued

TABLE 4 (Continued)

Year	Average Weekly Benefit Amount for UI to Total Wage		Duration of UI (weeks)		Percentage of				UI Spending as a Fraction of GDP (10)	Spending on All Labour Market Policy as a Fraction of GDP (11)
	(1)	(2)	Average Potential (3)	Average Actual (4)	Unemployed Receiving UI Benefits (5)	Population Receiving Social Assistance (6)	Population below the Poverty Line (7)	Wage and Salary Workers Who Are Union Members (8)		
1978	84	0.364	24.5	13.3	38.0	NA	11.4	23.0	0.43	0.98
1977	79	0.364	24.1	14.2	37.9	NA	11.6	23.8	0.67	1.04
1976	75	0.371	24.0	14.9	40.4	NA	11.8	22.1	0.95	1.33
1975	70	0.371	24.3	15.7	50.1	NA	12.3	22.2	1.16	1.44
1974	64	0.366	24.4	12.6	43.8	NA	11.2	23.6	0.49	0.71
1973	59	0.361	24.3	13.4	37.3	NA	11.1	24.0	0.35	0.62
1972	57	0.367	24.3	14.2	37.9	NA	11.9	NA	0.51	0.77
1971	54	0.365	24.5	14.4	43.2	NA	12.5	NA	0.56	0.76
1970	50	0.357	24.6	12.3	44.1	NA	12.6	NA	0.41	0.58
1969	46	0.344	24.4	11.4	38.9	NA	12.1	NA	0.24	0.41
1968	43	0.343	24.3	11.6	39.4	NA	12.8	NA	0.25	0.44
1967	41	0.347	24.5	11.4	40.4	NA	14.2	NA	0.27	0.43
1966	40	0.347	24.2	11.2	36.9	NA	14.7	NA	0.24	0.39
1965	37	0.338	24.1	12.2	39.4	NA	17.3	NA	0.33	0.42
1964	36	0.338	24.2	13.0	42.3	NA	19.0	NA	0.42	0.47
1963	35	0.346	24.1	13.3	44.0	NA	19.5	NA	0.49	0.54
1962	35	0.349	23.9	13.1	45.5	NA	21.0	NA	0.53	0.58
1961	34	0.354	23.9	14.7	48.5	NA	21.9	NA	0.78	NA
1960	33	0.352	24.0	12.7	49.4	NA	22.2	NA	0.55	NA
1959	30	0.353	23.6	13.1	44.5	NA	22.4	NA	0.53	NA
1958	31	0.354	23.5	14.8	54.6	NA	NA	NA	0.88	NA
1957	28	0.335	23.4	11.5	50.6	NA	NA	NA	0.40	NA
1956	27	0.333	23.0	11.4	44.1	NA	NA	NA	0.34	NA
1955	25	0.321	22.7	12.4	44.0	NA	NA	NA	0.37	NA

1954	25	0.335	22.4	12.8	52.8	NA	NA	0.56	NA
1953	24	0.323	22.1	10.1	54.2	NA	NA	0.27	NA
1952	23	0.330	22.0	10.4	54.4	NA	NA	0.29	NA
1951	21	0.322	21.4	10.1	7.2	NA	NA	0.26	NA
1950	21	0.344	21.1	13.0	45.7	NA	NA	0.50	NA
1949	20	0.360	21.4	11.8	54.3	NA	NA	0.64	NA
1948	19	0.341	21.1	10.7	44.0	NA	NA	0.31	NA
1947	18	0.346	19.5	11.1	43.6	NA	NA	0.32	NA

Notes:

- (5) Taxable and reimbursable claims data (average number of weekly insured unemployed) as a proportion of the total number of unemployed. In the 1950s an unemployment insurance program for ex-military and ex-federal employees began. The taxable and reimbursable claims data do not include ex-military and ex-federal employees, while the total number of unemployed does include these ex-workers.
- (6) Total AFDC/TANF (number of recipients) plus SSI summary data (number of persons receiving federally administered payments) as a proportion of total resident population.
- (9) Benefits paid in unemployment insurance programs (includes all regular and extended programs, as well as programs for ex-federal and ex-military, temporary/emergency enactments) as a proportion of the GDP.
- (10) Federal outlays for labour market policies include training and employment programs, other labour services, and unemployment compensation as a proportion of GDP.

Sources:

- (1-5) US Dept. of Labor. *Unemployment Insurance Financial Data*, ET Handbook 394 [Online]. Available at <<http://www.workforcesecurity.doleta.gov/unemploy/datastats.asp>>, 9 November 2000.
- (5) US Department of Labor, Bureau of Labor Statistics. Labor Force Statistics from the Current Population Survey. Available at <<http://stats.bls.gov/80/cps/home.htm>>, 28 November 2000.
- (6) US Administration for Children and Families, AFDC/TANF data supplied by Office of Planning, Research, and Evaluation, 11 November 2000.
- US Social Security Administration. SSI recipient data supplied by Office of Policy, Office of Research, Evaluation, and Statistics, 14 November 2000.
- US Census Bureau. Population Estimates Program. Historical National Population Estimates. Available at <<http://www.census.gov>>, 9 November 2000.
- (7) US Census Bureau, Historical Poverty Tables, Table 2. Available at <<http://www.census.gov/hhes/poverty/histpov/hstpvov2.html>>.
- (8) Barry T. Hirsch and David A. Macpherson. *Union Membership and Earnings Data Book: Compliations from the Current Population Survey* (Washington, DC: Bureau of National Affairs, Inc., 2000), Table 1a.(9-10). US Department of Labor, Unemployment Insurance Office. Table provided by Division of Fiscal and Actuarial Services, 11 February 1999. Updated 15 November 2000.
- US Office of Management and Budget. *Budget of the United States Government Fiscal Year 2001, Historical Tables* (Washington: Government Printing Office, 2000), Table 10.1.
- (10) US Office of Management and Budget. *Budget of the United States Government Fiscal Year 2001, Historical Tables* (Washington: Government Printing Office, 2000), Table 3.2.

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 fallen from 22.4 percent in 1957 to 11.8 percent of the non-institutional population in 1999.

Important to understanding the labour market context of employment policy is knowing something about union density. That is, the proportion of wage and salary workers who are union members. From 1973 to 1999 union density has fallen from 24 to 13.9 percent of the labour force. There is some evidence that the steady decline is gradually reversing during the current economic expansion, yet dramatic declines are undeniable. Over this period Freeman found the largest declines to be in manufacturing (–13 percent), construction (–16 percent), transportation-communication-utilities (–15 percent), and mining (–17 percent). Union density remained low but relatively stable in service and trade industries.¹⁸

To put into perspective the importance of employment policy in the United States economy, Table 4 lists UI benefit payments, and total spending on labour market policy (including UI) as proportions of gross domestic product (GDP) for the country. Only in one year, 1975, did spending on UI exceed 1 percent of GDP. In that year, three successive grants of extended UI benefits resulted in eligibility of up to 65 weeks for many claimants.¹⁹ Spending on UI is typically in the range of one-third to one-half of 1 percent of GDP. Naturally, the share is higher in recessions and lower in years of expanding employment. Spending on employment programs other than UI tends to average about one-tenth of 1 percent of GDP.²⁰

EMPLOYMENT POLICY IN ACTION

The prior sections provided some background on the institutional, political, and economic context of intergovernmental arrangements for addressing the problem of unemployment; this section examines programs for unemployment compensation, job skill retraining, and youth employment promotion. The discussion of unemployment compensation is somewhat longer than the treatment given other programs. This is because the difficulties encountered and solutions found in shaping the federal-state UI system largely established the pattern for intergovernmental relations in employment policy. In the part on retraining, some attention is given to issues of employing the economically disadvantaged, now known as welfare-to-work. Conditions for occupational

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

was established to create the system. A uniform federal tax was imposed on payrolls, but a 90 percent credit of this tax was granted in states operating approved UI programs.

Currently, the federal unemployment tax is 6 percent on the first \$7,000 paid to each worker each year. If a state does not have an outstanding debt to the federal unemployment account, state UI law conforms with federal law, and an individual employer has paid their state UI taxes on time, then a 90 percent credit of the federal tax is given to the employer leaving a federal UI tax rate of 0.6 percent. Currently, there is also a 0.2 percent federal surtax, which brings the federal unemployment tax paid by employers to the US Treasury up to 0.8 percent on the first \$7,000 paid to each worker in a year. Federal law also requires the maximum state UI tax rate to be at least 5.4 percent on the first \$7,000 in earnings per year. Credits that lower the state contribution rate may be given to employers if done through a state experience rating system for UI taxes that has been approved by the US Department of Labor. The maximum UI tax rate in many states is 5.4 percent, but it is higher in most states.

Money not rebated by the federal government is used to finance program administration through grants to the states and to make loans to the states when liquidity problems arise in paying benefits. The conformity requirements originally set in the *Social Security Act* of 1935 addressed only rules for administration and coverage. Penalties to states for failure to conform with federal law may result in withholding state administration funds and/or denial of the 90 percent tax credit to employers.²⁴

Legal challenges to state and federal UI laws were filed right after taxes became payable by employers on 1 January 1936.²⁵ The United States Supreme Court on 24 May 1937 found federal law to be constitutional. The high court ruled that: (i) states enacting conforming UI laws reaped a federal tax advantage for employers, (ii) states did not act under duress, but were free to choose this advantage, (iii) the court opinion also cited general hardship during the Great Depression and a need to respond since 1929, furthermore (iv) the court cited states reluctance to competitively disadvantage state employers. Many political observers at the time asserted that such a ruling was only possible because of Democratic Party appointments to the court made by President Roosevelt.

The existing federal-state UI system is a delicate balance of power that is self-regulated to a great extent by a built-in incentive structure.²⁶ Each side of the system has many faces. The federal partner includes: the US Congress,

the federal executive branch that includes the US Department of Labor — its national and regional offices — and the Office of Management and Budget, and the federal courts. The state partner includes: 50 states, the federal district (DC), two territories (Puerto Rico and Virgin Islands), the state legislatures, many state UI advisory councils, business and labour organizations, state courts, and state UI agencies with local offices.

As during initiation of the system, the federal partner continues to hold the upper hand in the relationship. Key to regulating the system are federal requirements for conformity and compliance.²⁷ That is, state UI laws must conform with federal law, and actual state practice must comply with federal law. The *Social Security Act* of 1935 provided 12 minimal requirements, two requirements were added about the use of UI granted funds during the early 1940s, new federal laws in the 1950s required coverage to be broadened, and in 1970 and 1976 many new requirements were added.²⁸ In recent years an overriding federal concern has been controlling federal spending, consequently changes to the UI system have often been done as part of the budget reconciliation process, because the federal Unemployment Trust Fund (UTF) is treated as part of the federal budget.

A chronology of conformity requirements is given in Table 5. The original requirements regarded prompt payment of benefits, location of payments, appeals procedures, management of funds, reporting to the US Department of Labor, and the requirement of experience rating as the basis for lowering contribution rates below the federal maximum. Requirements added in the 1940s and 1950s were included mainly to simplify procedures when interstate claims were involved. In more recent years federal conformity requirements have become somewhat more specific and questionable from the state perspective governing things like the amount of re-employment required to qualify after a benefit denial, the non-payment of benefits to professional athletes in the off-season, and rules for reducing benefits based on pension income. After 1969, when the UI trust fund was included in the federal unified budget, several requirements were added to conserve UI funds and improve the overall budget picture. A prime example of this action is the 1994 law that required profiling of claimants so as to make early referral to re-employment services for those most likely to exhaust UI benefits.²⁹

Federal rules have become increasingly specific. New provisions permitting the use of UI trust fund money to promote self-employment limits state discretion. Eleven new restrictions are required for this program alone. Recent years have seen increased monitoring of compliance with federal guidelines

TABLE 5

A Chronology of Increasing Federal Conformity Requirements for State Unemployment Insurance Systems in the United States

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

- Make full payment of benefits when due
- Make benefit payments through public employment offices
- Have a fair appeals hearing process
- Transfer tax receipts immediately to the Unemployment Trust Fund (UTF) in Washington
- Use withdrawals from the state account in the UTF only to pay UI benefits
- Make required reports to the US Secretary of Labor
- Provide information to any federal agency running public works or assistance
- Not deny benefits to eligible individuals
- Not pay benefits until two years after contributions start
- Not deny benefits for refusal to fill a vacancy resulting from a labour strike
- States may repeal their UI laws at their own discretion
- Additional employer rate reductions must be based on experience rating

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

- Interstate claims rights
- Rules for combining earnings from multiple employers to gain entitlement
- Broadened coverage
- Approved training participants are UI eligible
- States must participate in the Extended Benefits (EB) program
- Denial of benefits to workers who are not legal residents with employment privileges

Somewhat intrusive additional federal requirements since the 1950s regard:

- Intervening work required for re-qualification
- Denial to professional athletes
- Benefit reduction for pension income

Restrictions motivated by a desire to conserve funds in the federal budget have been:

- The *Unified Budget Act* of 1969
 - Federal eligibility requirements for extended benefits
 - Balanced Budget and Emergency Deficit Control Act* of 1985
 - Profiling all new claimants for those most likely to exhaust benefits
 - States must make withholding of federal income tax possible for beneficiaries
-

for accuracy and timeliness of benefit payments, appeals, and tax contributions.³⁰ Interestingly, there have never been conformity requirements on basic matters like the level of the weekly benefit amount and the duration of benefits. However, the US Department of Labor and federal advisory commissions have offered guidelines to states on these matters.³¹

Since originally ruling on the constitutionality of the federal-state UI system in 1937, judicial involvement in the system has been minimal. Two important cases bear mention. In the case of *Java v. the California Department of Human Resources Development*, the US Supreme court in 1970 ruled that a state may not suspend UI benefit payments during the process of an appeal of a benefit eligibility denial. This required nearly all states to change laws or administration to achieve conformity. In 1994 the seventh circuit US Court of Appeals found for Pennington who argued that benefit eligibility should be strictly based on demonstrated attachment to the labour force and not necessarily on rules that are administratively simple to apply. Pennington would have been eligible for benefits were the most recent work quarters considered rather than the statutory "first 4 of the last 5 quarters." The Pennington ruling required states to consider an alternate, more recent, base year if the usual base year does not result in eligibility.

Federal-state relations in UI are tested on a regular basis through the required review by the US Department of Labor of proposed state legislation. The relationship has also been greatly affected in recent years by the federal budget implications of state actions. Battle lines in this regard have been clearest on the issue of administrative financing. Federal receipts from the states that are not returned to state trust fund accounts to pay benefits flow into the Employment Security Administration Account (ESAA). Money in the ESAA is used to make grants to the states to finance program administration, with some remaining money transferred to the Extended Unemployment Compensation Account (EUCA) to pay for the federal share of extended benefits.³²

Federal grants to states for UI administration are done by a formula based on work-load factors such as the number of UI claims, appeals, and covered employers. The formula also depends on the estimated time cost of serving claimants and salaries of office staff. The time cost estimates used are based on studies done in the 1970s, with updates only as recent as 1984. Since that time there have been many changes in practices and office technology within the states. The federal-state struggle over administrative funding has been one of the most regular features of the system in recent years. Driven by budget tightness, the federal government has tried to conserve funds while the

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 Federal Unemployment Account (FUA) to preserve sufficient liquidity for payment of UI benefits. Federal pressure for high reserve levels may have been motivated by budgetary considerations. Interestingly, recent recommendations from the independent Advisory Council on Unemployment Compensation (1995) called for relaxed forward funding targets for states. In fact, the US Department of Labor has helped prepare new rules to be considered as part of federal legislation that encourage improved trust fund reserves with a reward to states of additional administrative financing grants.³⁴

An area of excellent cooperation between the federal and state partners is that of extended UI benefits. The maximum duration of benefits in all but two states is 26 weeks, or half a year.³⁵ The *Extended Unemployment Compensation Act* of 1970 created a permanent program for extended UI benefits when unemployment rates exceeded certain preset trigger levels. The state and federal

governments equally share the cost of paying benefits extended by 50 percent of the state duration up to 13 weeks under this permanent program. It has been a model of cooperation.

Payment of income support to out-of-work job-seekers is coordinated in a variety of ways with other programs. Foremost perhaps are arrangements to assure free mobility of job-seekers across state borders by making arrangements for interstate UI benefit claims. Interstate agreements forged with federal support permit any state where a claim is filed to act as an agent for another state when the majority of base-period income was earned in that other state. The agent state determines eligibility, disqualifications, and the amount and duration of benefits based on rules in the state where the majority of base-period wages were earned. The 1970 amendments to the federal UI statutes further clarified the way in which earnings from more than one state are combined to determine entitlement and to attribute liability to the benefit charge experience of prior employers.

In addition to regular state UI benefits and extended benefits there are federal UI benefit programs for previous federal employees of military and government agencies. Like interstate claims, states act as agents for the federal government in administering these programs. Federal guidelines also direct states on how to coordinate UI with other programs, including temporary disability insurance, workers' compensation, public old age insurance, and private pensions.³⁶

The strongest link between UI and another program is via the work test that is administered in many states by the public employment service (ES). That is, in order to retain UI eligibility, beneficiaries must demonstrate an active job search, which in many states requires registration with and use of ES services. The 1935 federal statutes required state UI claims to be filed in public ES offices. The implicit idea was to emphasize re-employment. Federal legislation establishing the Worker Profiling and Re-employment Services system in 1993 strengthened the UI-ES link, a relationship that should continue to grow as ES offices transform themselves to serve a central role as one-stop career centres under the *Workforce Investment Act* of 1998.³⁷ The UI link to re-employment through retraining is permitted by state commissioner job-search waivers granted to individuals referred to approved training programs. Work-search exemption is also granted to people permitted to pursue self-employment under UI laws in seven states authorized by provisions of the federal North American Free Trade Agreement (NAFTA) of 1993.³⁸

During the Great Depression the federal-state UI system paved the constitutional path for federal involvement in state employment policy at a time

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 otherwise.⁴¹ Independent empirical work by Vroman has challenged this startling estimate, but the question remains an open one.⁴² Furthermore, while federal influence over the UI system shows no imminent signs of waning, authority for other social programs is increasingly being turned over to the states. The empirical questions about the nature of a decentralized state-dominated UI system could be answered by experience in the near future.

Training

Public works programs during the Great Depression included some on-the-job training. The focused federally funded job-skill training policy in the United States began with the *Manpower Development Training Act* (MDTA) of 1962. Table 6 provides a chronology of training in the United States. Public acceptance of the depression era *New Deal* programs grew out of widespread hardship experienced from job loss during the 1930s. Renewed training efforts 30 years later were greatly influenced by the political struggles fought during President Johnson's *War on Poverty*.

In the 1960s, with the civil rights movement gaining momentum, and the public assistance welfare roles expanding, the unemployed became a focal point. Women workers, blacks, and the young all continued to experience high unemployment rates despite continuing improvements in the economy. The Johnson administration's *War on Poverty* was targeted toward racial minorities and youth. A major objective of the resulting legislation was to help the most disadvantaged achieve employability and secure jobs with a living wage. Some lacked work experience, and many had multiple barriers to steady

TABLE 6
A Chronology of Training in the United States

<i>Program Relations</i>	<i>Training Types</i>	<i>Eligibility</i>	<i>Intergovernmental</i>
Manpower Development and Training Act (MDTA), 1962	Institutional and on-the-job training (OJT)	Low income and welfare recipients	Federal funding granted directly from 12 regional offices to agencies in local areas. Administration and reporting structures similar.
Comprehensive Employment and Training Act (CETA), 1973	On-the-job training, Classroom skill training, Classroom soft training, Work experience in public agencies, and Public Service Employment (PSE)	Training was targeted to low-income persons, welfare recipients, and disadvantaged youth	Federal funding flowed to prime sponsors in substate regions which numbered about 470. Performance monitoring with results reported to the US Department of Labor (USDOL).
Job Training Partnership Act (JTPA), 1982	On-the-job training, Classroom skill training, Classroom soft training, and Work experience in public agencies	Low income, public assistance recipients, dislocated workers, and disadvantaged youth	Federal funding through state governors to private industry councils (PICs) in each of 600 service delivery areas. PIC performance reports to governors who reported to USDOL.
Workforce Investment Act (WIA), 1998	On-the-job training, Customized classroom skill training, Classroom soft training, and Work experience in public agencies	Access to core services like job search skills and job referral is unrestricted. Training is targeted to the most difficult to re-employ	Like JTPA, but PICs now workforce development boards with dominant private sector make-up. Monitoring is minimized.

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” distribution of the available funds. Congress and the president determined the total amount of funds available through their annual budget negotiations.

The federal effort during the 1960s developed into a piecemeal approach, which reflected the belief that there were divergent needs among the individual groups who were the expected beneficiaries of the myriad of policies. In addition, the political reality resulted in the spreading of functions among many different departments and agencies in the federal government. Each department involved in the distribution received directives from a different piece of legislation. The grants did not interrelate with one another and often were a duplication of effort. The need for coordination at the highest levels became painfully obvious.

During the 1960s, it was not unusual to find communities with similar programs located within a few city blocks of one another targeting services to technically distinct but frequently overlapping groups. For example, a neighbourhood centre providing services to assist black youth in obtaining employment, and a public school providing employment services to minority youth, could easily overlap and duplicate efforts. The more ingenious clients were often able to receive similar services in more than one agency.

Since cost has always been a primary concern in service delivery, such duplication, and waste, was an easy target for critics of government involvement in employment policy. Advocates for more assistance argued that unemployment has a long-term cost, not only in foregone production for society but in personal hardship, that cannot be easily measured. A common view among

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 *Comprehensive Employment and Training Act* (CETA) of 1973 introduced the concept of a local advisory board to assure that local public interest would guide program planning. The council membership and role were established in the regulations and in some localities representation was “guaranteed” for constituencies like education and labour. As it turned out, advisory councils evolved differently across the country. Some were merely “rubber stamps” while others had a significant role that included on-site monitoring and local policy development. The worst case scenarios occurred when council members took advantage of their position to provide funding to preferred organizations.

The arrival of the Reagan administration in 1981 came with a “conservative challenge on the principles, policies and programs of the liberal tradition of federal activism in economic and social affairs as it evolved in the half of the century starting with the new deal.”⁴³ A major objective of the Reagan era legislation was to increase earnings and employment as well as decrease welfare dependency. Classroom skill training was identified as a major weakness of existing programs, since it was often not the kind of training desired by local employers. For example, critics cited the training of welders in areas where there were no job openings for welders. Historically, the type of training was determined by the client and was not always in occupations with high labour demand and a career ladder in the local market.

The *Job Training Partnership Act* (JTPA) of 1982 recommended limiting training choices to skills that were in demand by local employers. JTPA also increased the private sector share of members on the advisory committees

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

focus on moving recipients of welfare into work and self-sufficiency, and ensuring that welfare is a short-term, transitional, experience and not a way of life. Under PRWORA public assistance is defined in terms of the following four characteristics:

1. Cash assistance is intended to cover basic ongoing needs.
2. Non-recurrent, short-term cash assistance designed to deal with individual situations rather than ongoing needs is not considered public assistance.
3. Assistance received by non-custodial parents and other adults who are not heads of household, or spouses of heads of households, would not count against a family's lifetime limitation on public assistance receipt.
4. Assistance vouchers that address basic needs and can be legally converted to cash. Such assistance counts against the five-year lifetime time limit. If the recipient receives other non-cash assistance it does not count against the time limit.

Other important features of PRWORA include:

- More flexibility under PRWORA for states, particularly with regard to how they may spend their basic federal funding for public assistance, called their state maintenance-of-effort allocation (a grant based on allocations in prior years).
- States can receive caseload reduction credit or high performance bonuses, but must submit dis-aggregated and aggregated data which corroborate results.
- States that fail to increase the number of welfare recipients with jobs or to cut caseloads may face reductions in their maintenance-of-effort grant.

The philosophy behind the funding provisions is the expectation that, in exchange for flexibility in designing appropriate programs and services, each state is held accountable for moving families from welfare to self-sufficiency through work.⁴⁴

WIA, signed into law on 7 August 1998, includes many of the political characteristics that are in the PRWORA. WIA reforms federal job-training programs and creates a new comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help individuals access

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.

The work-centred approach of PRWORA calls for linkages between the welfare and workforce development systems. The WIA aims to create a work-centred, one-stop delivery system that is business-oriented and increases customer choice compatible with PWOPRA. However, implementation decisions at state and local levels have an impact on service delivery to welfare recipients. WIA allows, but does not require, welfare-to-work activities to be part of the one-stop system and historically there have been low levels of coordination between the welfare and workforce systems.

Greater coordination between PRWORA and WIA is clearly the intent of the new legislation. Unfortunately, the federal government has not taken the critical step of incorporating related programs under a single administration with common definitions and common reporting requirements.

At substate levels, a reduction in funding and the anticipated problems that will result when clients begin exhausting their time limits has resulted in a new urgency for collaboration. There have been significant movements toward one-stop centres where clients can get access to a comprehensive list of employment services. However, these services are often provided in a self-service environment with minimal staff intervention. Such an approach may be fine for many job-seekers, but unfortunately for most welfare recipients individual attention seems to matter.

Programs for Youth

Vocational Education. The federal government has supported vocational education in grades kindergarten through 12 since passage of the *Smith-Hughes Act* of 1917. This Act has been re-authorized by the federal government about every five years. Federal spending in support of K–12 vocational education currently runs about \$1 billion per year.

Over the years, the federal role has alternately been either to encourage program development or to promote equity. Current policy is more focused on equity. That is, providing access to vocational education for youth from low-income, minority, or otherwise disadvantaged households.

States and local school districts pay the major share of vocational education costs. Historically, localities determine the content of curriculum for all types of K–12 education, and vocational education is no different. Local school boards are accountable for curriculum. For a district to receive a federal vocational education grant, there must be an employer advisory board. Most states require a similar arrangement to grant funding.

Technical Preparation. Re-authorization of the *Vocational Education Act* during the mid-1980s created a new curriculum called *tech prep*. The idea was to have an analogue to the traditional secondary course of study referred to as *college prep*. The tech-prep period is the final two years in a vocational secondary school designed to bolster a student's academic skills. This would prepare a student to pursue a two-year associates degree in a technical field at a community junior college. This standard tech-prep model is sometimes called 2 + 2. Some localities have extended the model to 2 + 2 + 2 wherein an additional two years is spent at a university to complete a bachelor's degree, most likely in a technical field such as engineering.

Obviously, the tech-prep programs require close cooperation between local school districts and postsecondary institutions, like community colleges, which are often administered by the state. Funding is provided to local school districts by the federal government through the states.

School-to-Work. The federal *School-to-Work Opportunities Act* of 1994 directed new services to all secondary school students, not just those enrolled in vocational programs. The initial authorization provided five years of funding to states and local school districts. Activities permitted under the program include: (i) school-based activities, (ii) work-based activities, and (iii) activities connecting school with work. The Act aims to develop collaboration between educators and employers which will benefit all students in grades K through 12. Particular activities include mentoring, internships, part-time volunteer employment, and part-time paid work.

Federal funding for school-to-work (STW) is seen as seed money to promote development of state and local initiatives. Five-year grants to each state range between \$10 million to \$50 million depending on the state population and geographic size. Disbursement of the money follows an inverted V pattern. Small amounts are given in years one and five. Somewhat larger amounts are given in years two and four. The largest yearly allocation is given in year three. The rationale for this scheme is as follows: year one involves mostly state planning with some initial local involvement; year two the state is operational and some localities are more advanced than others; year three all partners are fully operational; year four the program is being institutionalized and the state seeks out new partners for funding; finally, in year five the state is almost completely weaned from federal support.

To date, 47 states have received federal funding under the program. In 1994, the first year of program operation, a total of eight states received federal funding. Many of these states are currently trying to identify alternate

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 Employment Service (ES). The systems are closely linked through ES administration of the UI work test.⁴⁷ The work test in UI is the requirement that UI beneficiaries be actively seeking work.

The ES in the United States is a federal-state system of public employment offices that serve as a free public labour exchange for individuals seeking jobs and employers seeking workers. The ES was established by the *Wagner-Peyser Act* of 1933. Federal money raised through employer payroll taxes was used to transform an uneven collection of existing state ES offices in local areas into a unified system having more consistent operating procedures nationwide. The first aim of the new ES was to handle the workload of referring participants to depression era public works projects: Works Projects Administration (WPA) and Civilian Conservation Corps (CCC).

The Act was amended in 1982 to give more authority over the ES to state governors. There are now almost 1,800 local ES offices in 54 states and territories of the United States. Federal funding for the ES has declined by nearly one-third over the past 20 years. In most states federal funding still comprises the bulk of money for operating local offices, in others state funding is the biggest share. Through the *Wagner-Peyser* funding the federal government bought influence into the state employment exchange system. The mission of the ES is to bring job-seekers and employers with job vacancies together. The main ES activities used to meet this aim are: the UI work test, job interview referral, counselling, skill and aptitude testing, job development (soliciting job vacancy listings from employers), job clubs, job-search skills, job-search workshops, and job fairs. *Wagner-Peyser Act* labour exchange services are delivered in three tiers: (i) self-service, (ii) facilitated self-service, and (iii) staff-assisted service. With continued federal restraint on funding, in an attempt to maintain service within a limited budget, the ES has developed America's Job Bank (AJB) which is an Internet-based job matching system to serve workers and employers (<http://www.ajb.dni.us/>).

As the labour market in the US matured, the share of all job-seekers and employers served by the ES gradually shrank to the point where clients consisted

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 referrals to the ES are made early in the unemployment spell. Some commentators have claimed that the WPRS was motivated by the federal government's desire for a balanced budget and the possible effects WPRS would have on conserving UI trust funds.

The main complaint of states about the WPRS is that it was an *unfunded mandate* of the federal government for the states. It added to the ES workload burden without adding revenues to the system. The WIA offers the prospect of further revival of the ES through the concept of one-stop shopping available at a single physical location. The local ES office is an appealing site for such in most communities. Furthermore, recent federal legislation for the WIA proposed by the executive branch (the US Department of Labor and the Office of the President) recommends a sizeable increase in federal funding for all states and territories where the ES operates.

Factors Influencing the Geographic Mobility of Labour

There are no legal restrictions on the free mobility of citizens in the United States to choose the state or territory in which they reside. Also, as mentioned above, the federal government has arranged for states to coordinate services to provide for interstate unemployment insurance benefit claims. In theory, such arrangements help to shorten unemployment duration by increasing the number of labour markets in which unemployed job-seekers may reasonably search. However, in practice there are other legal restrictions that prevent the complete free flow of skilled workers across state borders. Occupational regulation affects more than 18 percent of the US workforce, a larger percentage than either unions that claim membership under 15 percent of the labour force or minimum wage laws that on any given day determine wage rates for only about 5 percent of workers.⁵⁰

Unlike in most industrialized countries where the national government sets the rules on entry and the right to continue to practice, occupational regulation in the US is mainly a purview of the states. Occupations may be regulated by any combination of licensure, certification, or registration. Among these, licensing is the most restrictive form of control. Prior to 1950 states licensed

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.

EFFECTS OF EMPLOYMENT PROGRAMS

The *Employment Act* of 1946 made full employment and price stability official policy goals of the federal government of the United States. The intervening

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

Experience rating of UI tax contributions is a feature unique to the United States.⁵⁵ A claimed benefit of experience rating is to encourage employers to dampen fluctuations in staffing levels. Since tax obligations rise for a firm as benefit charges increase, perfect experience rating would tend to stabilize staffing; perhaps in part by lowering hiring rates. However, because of tax minimums, maximums, non-charged benefits and other reasons, systems do not operate perfectly.⁵⁶ Benefit charges for some employers are subsidized and this partly defeats employment stabilizing effects. Feldstein estimated that a large share of temporary layoffs are due to imperfect experience rating of UI taxes.⁵⁷ Topel found that even when experience rating does operate properly there is, in fact, a substantial stabilizing influence on employment.⁵⁸ Card and Levine found that the stabilizing influence of experience rating changes procyclically, with associated UI tax subsidies explaining as much as 50 percent of temporary layoff employment during recessions.⁵⁹

Since the work of Ehrenberg and Oaxaca it has been generally accepted in the United States that UI lengthens spells of insured unemployment beyond what they would be otherwise.⁶⁰ Decker documented the range of estimates UI has on re-employment.⁶¹ He reported that a 10 percent increase in the rate at which UI benefits replace prior wages increases the duration of unemployment by between 0.5 and 1.5 weeks, and a one-week increase in the potential duration of benefits increases unemployment duration by between 0.1 and 0.5 weeks. While these negative impact estimates are not disputable, it is also possible that prolonged job search improves the quality of job matches which ultimately boosts worker productivity.

Effects of Training

The *Manpower Development Training Act* (MDTA) of 1962 was the first federal attempt to help re-employed displaced workers through job-skill retraining. The main concern was job loss due to technological change.⁶² Between September 1962 and September 1967, 601,000 people were enrolled in retraining programs organized by local areas that received federal grants directly from regional offices of the US Department of Labor. At the time of the major evaluation 74,000 were still involved in retraining programs and 30 percent had dropped out of training. Among the remainder, 90 percent obtained re-employment during the year after training, and 77 percent were employed at the time of the last follow-up survey.⁶³ These gross outcome estimates are not reliable indicators of the program's net impacts. That is, how does participant's success differ from otherwise similar non-participants? Many claim that positive outcomes were attributable to the booming 1960s economy fuelled by Vietnam War spending. State and local political entities were uncomfortable at having authority circumvented under MDTA with federal contracts going directly to local service providers. When enacted in 1962 another feature that welded the political compromise was its temporary status. Had sunset provisions not ended the MDTA in 1969, states and localities would certainly have influenced the administrative structure of any reauthorization.

The *Comprehensive Employment and Training Act* (CETA) of 1973 was the first training program for which the US Department of Labor developed a database specifically intended for program evaluation.⁶⁴ It was called the Continuous Longitudinal Manpower Survey (CLMS) and contained data on program participants, data on comparison group members drawn from the national labour force survey (Current Population Survey), and earnings data for all subjects

from national social insurance (Social Security) records. Despite the fact that CETA programs were targeted to low-income individuals while the labour force survey represented the nation, evaluation studies were greatly facilitated. Three main findings emerged from 11 major CETA evaluations.⁶⁵ First, there were no measurable employment or earnings impacts for men, however, impacts for women were positive and significant. Second, on-the-job training is usually more effective than classroom training. Finally, the range of impact estimates was quite wide, despite the fact that all analysts used the same CLMS data. However, it was journalists rather than economists who brought the end to CETA. The public service employment (PSE) component of CETA became a national target for criticism when careless management of funds and enrollment of program ineligible were widely reported. The associated problem of "fiscal substitution" whereby local government agencies replaced regular staff with CETA PSE workers in order to conserve local taxpayer money was estimated by Johnson and Tomola to increase with the maturity of the program.⁶⁶ Problems in CETA PSE increased dramatically after funding for PSE was greatly expanded in 1977 as part of an expansionary federal fiscal policy. The CETA program was not renewed in 1982, its scheduled expiration date.⁶⁷ Even though states gained a role in administration of CETA vis-à-vis MDTA, in the end no state was an advocate for continued authorization of CETA.

The *Job Training Partnership Act (JTPA)* of 1982 was the result of true ideological and partisan compromise. The bill was jointly sponsored by the liberal Democratic Senator Edward Kennedy and the conservative Republican Senator Daniel Quayle. Many features of the bill reflected the compromise. Evaluation was an integral part of the program, which was said to be performance-driven through a system of performance standards for participant re-employment rates and earnings. Also of note was the absence of anything remotely resembling PSE. The performance standards system allowed governors receiving federal JTPA training grants to structure incentive systems, thereby simplifying relationships with substate areas. Ostensibly, they were able to remove politics from the funding process. Governors reserved some allocations for incentive rewards paid to areas achieving high levels of performance. The performance-monitoring system changed training program management and intergovernmental relations. It also complicated the net impact evaluation of programs by introducing the risk of *creaming* in program assignment.⁶⁸ That is, program managers might select mainly the most able applicants for participation. The result is high, observed re-employment rates,

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.* report that training to economically disadvantaged adults resulted in 11 percent greater earnings for women and 6.7 percent greater earnings for men.⁷⁰ For both genders the earnings gains were mainly due to increases in hours worked. There were positive net benefits to both men and women and the net benefit to society for both genders was just over \$500 per participant.⁷¹

The *Workforce Investment Act* of 1998 created one-stop shopping centres for re-employment services. Full implementation of the WIA through administrative regulations was scheduled to begin in July 2000. It will be some time before the effectiveness of the new program emphasis and delivery system can be assessed. A significant feature of the WIA for local areas is the increased private sector control over use of training funds. Workforce Development Boards (WDBs) are to have a significant majority membership from the employer community. Targeting to the most difficult to re-employ, and follow-up monitoring of outcomes were retained from JTPA. The new emphasis of the WIA is on “work first.” In other words, a job is the best training. If jobs are not available, training will mostly be customized to serve employers’ needs, on-the-job training, and short-term training in core skills. Spending on university or college courses for the purpose of completing degree requirements will generally not be funded under the WIA. Funding under WIA will pass from the federal government to state governors by a formula. The governor will then allocate money to the WDBs by a formula, but will reserve 30 percent for discretionary projects and incentive payments to areas for outstanding performance. The administrative units for WDBs will select WIA activities based on local labour demand, and will award contracts after a bidding process. Under the WIA, the administrative unit for the WDB is prohibited from bidding for or delivering services under the WIA. The state will monitor performance in workforce investment areas, and states will prepare summary reports on monitoring to the federal government. The regional ETA offices will monitor state performance and compliance with federal law in managing WIA activities.

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 development does not belong in the schools. The anti-STW lobby has been very successful despite polls that show an overwhelming majority of parents believe that STW is good and that career development belongs in schools. The Republican-dominated Congress is bowing to lobby pressure, and has indicated that federal funding will be allowed to sunset in 2001.

Effects of the Employment Service

The two main roles of the ES are to provide basic labour exchange services and to administer the UI work test. The only labour exchange function to receive rigorous evaluation is job interview referrals which have been found to be cost effective by several studies.⁷² There are wide ranging differences across the states in both the rules for the UI work test and in the stringency of enforcement.⁷³ Evidence from experimental evaluations of the work test have found that "strong work test requirements are effective in reducing UI payments and that weak work search and work test policies have large and adverse consequences for the UI trust fund."⁷⁴

States submit quarterly statistical reports to the US Department of Labor, Employment and Training Administration, covering activities provided by the

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 be significantly more expensive in cities with restrictive laws regulating optometrists.⁸¹ However, licensure appears not to have had measurable effects on earnings of either school teachers or laboratory technologists, and licensing has not affected the supply of barbers.⁸² Most research has found no effect of licensure on the quality of outputs. These include electricians, dentists, plumbers, and teachers. Holen did find evidence that licensure improves the quality of dental care.⁸³

Kleiner, Gay and Greene investigated whether occupational licensing creates significant barriers to labour migration.⁸⁴ They attempted to compare migration under the current arrangement of state occupational licensure with one wherein a licence granted in any state entitles practice in all states. The alternative is equivalent to national licensure as practised in most developed industrialized countries. Their model estimated for 14 occupations showed “that more restrictive state licensing statues reduced immigration [to a state] and were significantly related to increases in earnings of the persons in these occupations.”⁸⁵

Occupational licensure, certification, and registration affects more than 18 percent of the US workforce. Since the majority of occupational regulation in the United States is done at the state level, the system has the effect of impeding the free mobility of labour services across state borders.

CONCLUSION

Labour market support policy in the United States has been shaped by efforts of the federal government. These initiatives usually have been forged in difficult economic times with contributions and compromise from the full political spectrum. States have often times independently considered labour market support programs, but usually have failed to act for fear of competitively disadvantaging resident industries. Constitutional authority to raise revenue and control commerce among the states permitted a federal umbrella for the establishment and maintenance of a variety of labour market support programs which are now delivered in states and local areas. 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.

The first employment federal laws supporting the labour market were enacted with consensus across party lines during the desperate days of the

Great Depression. In 1933 the US Employment Service was established through federal funding which introduced vigor and consistency to existing loose state and local structures. In 1935 the *Social Security Act* established the federal-state system for unemployment insurance (UI) through a clever tax offset scheme which proved to be a legal federal lever for state action. In 1962 the federal *Manpower Development and Training Act* established the first of four major retraining initiatives targeted to the disadvantaged and structurally unemployed. Other federal initiatives have supported state and local programs to promote labour market success for youth. In each and every case economic conditions built a political consensus for action, with independent state efforts insufficient federal intervention provided for state and local delivery of services which could be customized to local needs.

Intergovernmental relations among federal, state, and local partners in employment policy have not always operated smoothly and amicably. Tensions, experience, and compromise also contributed to the existing employment policy landscape. Federal budget considerations in the 1980s greatly influenced many aspects of the federal-state UI system. Local and state experience with training and youth programs and federal political sentiments toward public assistance cash payments have reshaped rules and incentives in these programs. In many ways the states have been laboratories for investigating program innovation; this too has shaped programs.

As programs have evolved through the twentieth century, a network of labour market support has been established through federal initiative. Without leadership from the federal partner, such a support system for workers and employers would likely not exist. However, without the creativity, occasional resistance, and ingenuity of the states and local partners the system could not possibly have achieved the same rich level of adaptation to the diverse needs of labour market participants.

NOTES

We thank Kevin Hollenbeck who contributed sections of this paper on programs for youth. We also thank Craig Schreuder, Gerard Hildebrand, Thomas E. West, Alain Noël, and our colleagues on the staff of the W.E. Upjohn Institute for Employment Research for useful suggestions on ways to improve the manuscript. Summary statistics were carefully compiled by Linda Richer. Claire Black and Nancy Mack provided excellent clerical support. Any remaining errors are our own. Opinions expressed are also ours, and do not necessarily represent the views of W.E. Upjohn Institute for

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

¹Seventeenth-century labour shortages were first addressed by indentured servitude of poor Europeans in exchange for transportation costs. See Harold U. Faulkner and Mark Starr, *Labour in America*, rev'd ed. (New York: Oxford Book Company, 1957), pp. 22-24. Agreements sometimes included a headright that promised acreage upon completion of the contract and often times apprenticeship. Bad experiences with indentured servants led to a rise in the use of enslaved Africans. The practice of slavery was legally abolished by the presidential Emancipation Proclamation in 1863. Enforcement required the Civil War in 1861–65. Transition to regular non-indentured employment often included periods of share cropping by African Americans on southern plantations. Some labour market issues related to race were not fully addressed until the XIII, XIV, and XV amendments to the Constitution became effective in 1865, 1868, and 1870 respectively and the *Civil Rights Act* of 1964 was passed. The nineteenth century witnessed the rise of trade and industrial labour unions and establishment of a large number of public institutions for higher education on land granted by the federal government to many of the states (*Morill Act* of 1862).

²In 1870, farm work was the main employment for 53 percent of the labour force. By 1900 that percentage had dropped to 37.5. It further declined to 21.4 percent by 1930, to 8.3 percent by 1960, and to 2.7 percent by 1990. See Alvin S. Tostlebe, *Capital in Agriculture: Its Formation and Financing since 1870* (Princeton, NJ: Princeton University Press, 1958); and Eva E. Jacobs, ed., *Handbook of Labour Statistics*, 2d ed. (Lanham, MD: Bernan Press, 1998).

³Armen A. Alchian and William R. Allen, *University Economics: Elements of Inquiry* (Belmont, CA: Wadsworth Publishing Company, Inc. 1972), p. 431.

⁴Gordon E. Jackson, *Labour and Employment Law Desk Book* (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1986), pp. 4-5. An excellent narrative about the legal context of union rights is given by Sar A. Levitan, Peter A. Carlson and Isaac Shapiro, *Protecting American Workers* (Washington, DC: Bureau of National Affairs, Inc., 1986), pp. 131-52.

⁵Kalet documents the development and application of wage and hour laws in the United States. Joseph E. Kalet, *Primer on Wage and Hour Laws* (Washington, DC: Bureau of National Affairs, Inc., 1987), pp. 1-12.

⁶The *Fair Labor Standards Act* of 1938, the *Portal-to-Portal Pay Act* of 1947, and the *Equal Pay Act* of 1963.

⁷Kalet, *Primer on Wage and Hour Laws*, p. 2.

⁸*Walsh-Healy Public Contracts Act* of 1936, *McNamara-O'Hara Service Contract Act* of 1965, *Davis-Bacon Act* of 1931, and *Contract Work Hours and Safety Standards Act* of 1962.

⁹*Consumer Credit Protection Act* of 1968 and *Child Support Enforcement Act* of 1984.

¹⁰Paul A. Samuelson, *Economics*, 9th ed. (New York: McGraw-Hill Book Company, 1973), p. 354.

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. Tables 3 and 4 tabulate actual potential duration of beneficiaries which often is less than the maximum depending on prior work experience.

¹⁶O'Leary examines in detail the gross aggregate and other measures of wage replacement. Christopher O'Leary, "The Adequacy of Unemployment Insurance Benefits," in *Research in Employment Policy*, Volume 1, ed. Laurie J. Bassi and Stephen A. Woodbury (Stamford, CT: JAI Press, 1998), pp. 63-110. The finding of Jacobson, LaLonde and Sullivan that dislocated workers experience substantial declines (20 to 40 percent) in re-employment earnings vis-à-vis prior earnings suggests that UI benefits replace a much larger share of potential re-employment earnings. Louis Jacobson, Robert LaLonde and Daniel Sullivan, "The Costs of Worker Dislocation," *American Economic Review* 83, 4 (1993).

¹⁷Burtless cited a variety of reasons for the decline, including a broadening of UI coverage, tightened eligibility requirements, imposition of taxation of UI benefits, and high implicit taxes on other sources of income such as pensions (Gary Burtless, "Why is Insured Unemployment So Low?" *Brookings Papers on Economic Activity*, Number 1). Bassi and McMurrer and Vroman have disputed whether or not the decline in reciprocity is also a result of interstate competition for business location and retention which some label a "race to the bottom." Laurie J. Bassi and Daniel P. McMurrer, "Unemployment Insurance in a Federal System: A Race to the Bottom," in *Essays on Interstate Competition in the Unemployment Insurance System*, Unemployment Insurance Occasional Paper No. 98-5 (Washington, DC: US Department of Labor, 1998); and Wayne Vroman, "Interstate Competition in Unemployment Compensation and Workers Compensation," in *Essays on Interstate Competition in the Unemployment Insurance System*, Unemployment Insurance Occasional Paper No. 98-5 (Washington, DC: US Department of Labor, 1998).

¹⁸Richard B. Freeman, "The Changing Status of Unionism around the World: Some Emerging Patterns," in *Organized Labour at the Crossroads*, ed. Wei-Chiao Huang (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1989).

¹⁹See Stephen A. Woodbury and Murray Rubin, "The Duration of Benefits," in *Unemployment Insurance in the United States: Analysis of Policy Issues*, ed.

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 provided by Burman Skrable, "Fraud, Abuse, and Errors in the Unemployment Insurance System: Extent, Measurement, and Correction," in *Unemployment Insurance in the United States*, ed. O'Leary and Wandner.

³¹See O'Leary and Rubin about benefit levels and Woodbury and Rubin, "The Duration of Benefits," about benefit durations. Christopher J. O'Leary and Murray Rubin, "Adequacy of the Weekly Benefit Amount," in *Unemployment Insurance in the United States*, ed. O'Leary and Wandner.

³²Miller provides a clear and concise overview of funding flows. The currently 80 percent goes to ESAA with the remaining 20 percent to EUCA. Mike Miller, "Appendix to Chapter 8: The Role of Federal Financing in the Unemployment Insurance System," in *Unemployment Insurance in the United States*, ed. O'Leary and Wandner, pp. 355-61.

³³Carl Davidson and Lawrence Martin, "Administrative Funding of Unemployment Insurance as a Principal-Agent Problem," in *Advisory Council on Unemployment Compensation: Background Papers*, Volume IV (January) (Washington, DC: US Department of Labor, 1996).

³⁴Federal-state tension over UI administrative funding led in 1954 to the *Reed Act* which provides that when the reserves in the federal UI administration, loan, and extended benefits account exceed a certain threshold level the excess be returned to the states. States may use *Reed Act* money to finance either regular UI benefits or administrative costs. In recent years, the federal government has avoided *Reed Act* distributions to conserve federal money. The proposed legislation would guarantee grants to states if UI benefit reserves were sufficient and if the money was used to fund UI administration.

³⁵In Massachusetts and Washington the maximum duration is 30 weeks.

³⁶Walter Corson provides an examination of UI interactions with other federal and state programs. Walter S. Corson, "Intersection of Unemployment Insurance with Other Programs and Policies," in *Unemployment Insurance in the United States*, ed. O'Leary and Wandner.

³⁷A thorough examination of the UI-ES relationship is given by David E. Balducchi, Terry R. Johnson and R. Mark Gritz, "The Role of the Employment Service," in *Unemployment Insurance in the United States*, ed. O'Leary and Wandner.

³⁸Vroman reports on activities of the seven states using UI to promote self-employment. Originally temporary authority was granted by federal law, but the self-employment provisions were made permanent in 1998. It is likely more states will soon adopt such provisions. Wayne Vroman, "Self-employment Assistance," Revised report to the US Department of Labor (Washington, DC: Urban Institute, 1997).

³⁹William H. Hoyt, "Interstate Competition in the UI Program," in *Advisory Council on Unemployment Compensation: Background Papers*, Volume IV (Washington, DC: US Department of Labor, 1996).

⁴⁰R. Kent Weaver, "Rethinking Federal and State Roles in Unemployment Insurance," in *Advisory Council on Unemployment Compensation: Background Papers*, Volume IV (Washington, DC: US Department of Labor, 1996).

⁴¹Bassi and McMurrer, "Unemployment Insurance in a Federal System."

⁴²Vroman, "Interstate Competition."

⁴³John L. Palmer, "The Next Decade: The Economic, Political, and Social Context of Employment and Training Policies," *Policy Studies Review* (May 1987):9.

⁴⁴Card and Blank present speculative and preliminary estimates of the employment effects of PRWORA welfare reform. David Card and Rebecca M. Blank, eds., *Finding Jobs: Work and Welfare Reform* (New York: Russell Sage Foundation, 2000).

⁴⁵See, for example, Pavetti who estimated that nationally over 40 percent of such job placements cycle back onto public assistance. LaDonna Pavetti, *The Dynamics of Welfare and Work: Exploring the Process by which Young Women Work their Way Off Welfare*, Dissertation Series No. D-93-1 (Cambridge, MA: Malcolm Weiner Center for Social Policy, John F. Kennedy School of Government, Harvard University, 1993).

⁴⁶Temporary exemption may be granted for medical reasons (up to 30 days), pregnancy (after six months), to provide care to an infant less than three-months old, long-term disabilities are granted a temporary work exemption while the disability is evaluated by Social Security Administration for long-term disability insurance benefits. Longer-term exemptions include Social Security Insurance, Social Security Disability Insurance, and State Disability Insurance; in all these cases a physical or mental disability must have been diagnosed.

⁴⁷Balducchi, Johnson and Gritz, "The Role of the Employment Service."

⁴⁸Louis Jacobson, "The Effectiveness of the U.S. Employment Service," in *Advisory Council on Unemployment Compensation: Background Papers*, Volume I (Washington, DC: US Department of Labor, 1995).

⁴⁹Eberts and O'Leary, "Profiling and Referral Services of the Long-Term Unemployed."

⁵⁰Much of the material on occupational regulation in this paper is drawn from a research overview and plan prepared by Morris M. Kleiner and S. David Young, *What the Licensing of Occupations Does: Comparisons of the U.S. with the E.U.* (Cambridge, MA: National Bureau of Economic Research, 1998). A research plan prepared for the Upjohn Institute. See also Morris Kleiner, "Are There Economic Rents for More Restrictive Occupational Licensing Practices?" in *Proceedings of the Forty-Second Annual Meetings* (Madison, WI: Industrial Relations Research Association, 1990), pp. 177-85; and David Card and Alan B. Krueger, *Myth and Measurement* (Princeton, NJ: Princeton University Press), pp. 5-6.

⁵¹Benjamin Shimberg, Barbara F. Esser and Daniel Kruger, *Occupational Licensing: Practices and Policies* (Washington, DC: Public Affairs Press, 1973).

⁵²Gary Burtless, "The Tattered Safety Net: Jobless Pay in the United States," *Brookings Review* 9, 2 (1991):38.

⁵³Bassi and McMurrer, "Unemployment Insurance in a Federal System."

⁵⁴William C. Wheaton, "Interstate Differences in the Level of Business Taxation," *National Tax Journal* 36 (March 1983):83-94; Vroman, "Interstate Competition in Unemployment Compensation."

⁵⁵Other nations are seriously considering experience rating for UI taxes. These nations include the Netherlands, Poland, and Spain.

⁵⁶Robert Tannenwald and Christopher J. O'Leary, "Unemployment Insurance Reform in New England: Options and Considerations," *New England Economic Review* (May/June 1997):3-22.

⁵⁷Martin Feldstein, "The Effect of Unemployment Insurance on Temporary Layoff Unemployment," *American Economic Review* 68 (December 1978):834-46.

⁵⁸Robert H. Topel, "Experience Rating of Unemployment Insurance and the Incidence of Unemployment," *Journal of Law and Economics* 27 (April 1984):61-90.

⁵⁹David Card and Philip B. Levine, "Unemployment Insurance Taxes and the Cyclical and Seasonal Properties of Unemployment," *Journal of Public Economics* 53 (January 1994):1-29.

⁶⁰Ronald Ehrenberg and Ronald L. Oaxaca, "Unemployment Insurance, Duration of Unemployment, and Subsequent Wage Gain," *American Economic Review* 66, 5 (1976):754-66.

⁶¹Paul T. Decker, "Work Incentives and Disincentives," in *Unemployment Insurance in the United States*, ed. O'Leary and Wandner.

⁶²Duane E. Leigh, *Does Training Work for Displaced Workers?: A Survey of Existing Evidence* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1990).

⁶³Garth L. Mangum, *MDTA: Foundation of Federal Manpower Policy* (Baltimore, MD: The Johns Hopkins Press, 1968), p. 81.

⁶⁴Leigh, *Does Training Work for Displaced Workers?*, p. 10.

⁶⁵*Ibid.*, p. 11.

⁶⁶George E. Johnson and James D. Tomola, "The Fiscal Substitution Effect of Alternative Approaches to Public Service Employment Policy," *Journal of Human Resources* 12,1 (1977):1-26.

⁶⁷Leigh, *Does Training Work for Displaced Workers?*, p. 7.

⁶⁸The analogy is to milk where the richest part, the cream, floats to the top and can be skimmed off. Creaming is an issue in operating labour market programs because if only the most able people get re-employment assistance, then the benefit to society of the programs is not as great as it might be otherwise. Highly qualified program entrants have a good chance of becoming re-employed even without the services offered in the program, while for less-qualified applicants the program services might be the only realistic path to employment.

⁶⁹An evaluation of retraining in Hungary found evidence of creaming in referral to services. See O'Leary, "The Adequacy of Unemployment Insurance Benefits."

⁷⁰Larry L. Orr, Howard S. Bloom, Stephen H. Bell, Fred Doolittle, Winston Lin and George Cave, *Does Training for the Disadvantaged Work?: Evidence from*

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. Pfiester, 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

Licensure of Clinical Laboratory Personnel,” *Journal of Human Resources* 13 (1988):91-102; and Robert J. Thornton and Andrew Weintraub, “Licensing the Barbering Profession,” *Industrial and Labor Relations Review* 32 (January 1979):242-50.

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 Improve Outputs and Increase Prices? The Case of Dentistry,” NBER Working No. Paper 5869 (Cambridge, MA: National Bureau of Economic Research, 1997); and Arlene Holen, *The Economics of Dental Licensing*. Final Project Report (Washington, DC: US Department of Health and Human Services, 1978).

⁸⁴Morris M. Kleiner, Robert S. Gay and Karen Green, “Barriers to Labor Migration: The Case of Occupational Licensing,” *Industrial Relations* 21, 3 (1982):383-91.

⁸⁵*Ibid.*, p. 383.

APPENDIX A

EXCERPTS FROM THE CONSTITUTION FOR THE UNITED STATES OF AMERICA

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 establish a more vigorous government to preside over the union of States. The 39 delegates who signed the Constitution on 17 September 1787, expected the new charter to provide a permanent guarantee of the political liberties achieved in the Revolution.

Prior to the adoption of the Federal Constitution, an Articles of Confederation, drafted by the Continental Congress and approved by 13 states, provided for a union of the former British colonies. Even before Maryland became the

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 nationally-minded Americans became increasingly disturbed by the Articles' failure to provide the central government with authority to raise revenue, regulate commerce, or enforce treaties.

Amendments to the Constitution

Article XIII.

Section 1. Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States, or any place subject to their jurisdiction.

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

Proposal and Ratification

The thirteenth amendment to the Constitution of the United States was proposed to the legislatures of the several States by the Thirty-eighth Congress, on the 31st day of January 1865, and was declared, in a proclamation of the Secretary of State, dated the 18th of December 1865, to have been ratified by the legislatures of 27 of the 36 States.

Article XIV.

Section 1. All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

Section 5. The Congress shall have power to enforce, by appropriate legislation, the provisions of this article.

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.

APPENDIX B

A CHRONOLOGY OF FEDERAL LAWS CONCERNING EMPLOYMENT POLICY

- 1862 The *Morrill Act* granted land from the federal government to the states to establish public institutions of higher learning.
- 1917 The *Smith-Hughes Act* prescribed a federal role for vocational education.
- 1931 The *Davis-Bacon Act* regulates the rate of wages for labourers and mechanics employed in the construction of public buildings for the federal government by contractors and subcontractors, where the public expenditure totals \$2,000 or more.
- 1932 The *Norris-LaGuardia Act* further restricted judiciary power to prevent unions from engaging in strikes, picketing and boycotts.
- 1933 The *Wagner-Peysner Act* established the federal-state Employment Service (ES) system.
- 1935 The *Social Security Act* (Titles III and IX) established the federal-state system for unemployment insurance (UI).
- 1935 The *Wagner Act* also known as the *National Labor Relations Act* further extended privileges of unions and created the National Labor Relations Board (NLRB) to administer and enforce provisions of the Act.
- 1936 *Walsh-Healy Public Contracts Act* established employment standards for contractors furnishing or manufacturing materials, articles, or equipment for the U.S. government.
- 1938 *Fair Labor Standards Act* set general standards for minimum wages, overtime compensation, equal pay, and child labour.
- 1946 The *Employment Act* set a national goal of providing an economic environment that would ensure job opportunities for a persons able, available and actively seeking work. It also focused government-funded job-search assistance to returning World War II veterans, and established the president's council of economic advisers.
- 1947 The *Taft-Hartley Act* also called the *Labor Management Relations Act* (LMRA) refined the collective bargaining environment by somewhat limiting union rights and guaranteeing certain freedoms of speech and conduct to employers and to non-union employees.
- 1947 The *Portal-to-Portal Pay Act* relieved employers from unforeseen liabilities.
- 1954 The *Reed Act* provided that when the reserves in the federal UI administration and loan accounts exceeds a certain threshold level the excess be returned to the

- 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 engineering to boost the national defense in response to the Soviet Sputnik launch.
- 1962 The *Manpower Development and Training Act* originally targeted workers dislocated by technical innovation, the youth component was expanded in 1963, and targeting of structurally unemployed was increased in 1965.
- 1962 The *Trade Expansion Act* created Trade Adjustment Assistance (TAA). TAA was recompense to workers and business hurt by reductions in international trade barriers.
- 1962 The *Contract Work Hours and Safety Standards Act* was passed to supercede the collection of statutes that became law from 1892 to 1917, which together became known as the Eight Hour Laws. The new Act regulated payment of overtime wages for all labourers and mechanics employed on any public works project financed with government funds.
- 1963 The *Equal Pay Act* was designed to eliminate wage differentials based on gender.
- 1964 The *Economic Opportunity Act* set up the federal Office of Economic Opportunity to address poverty problems.
- 1965 *McNamara-O'Hara Service Contract Act* addresses wages and hours under contracts with the federal government to provide services.
- 1970 *Extended Unemployment Compensation Act* created a permanent program whereby the federal government would pay for extended unemployment compensation benefits in states and areas where the insured unemployment rate exceeded preset threshold levels.
- 1971 The *Emergency Employment Act* intended to create public service employment (PSE) jobs to combat record levels of unemployment.
- 1973 The *Comprehensive Employment and Training Act* (CETA) consolidated several programs under the Office of Economic Opportunity. CETA decentralized and decategorized management and funding following MDTA.
- 1974 The Trade Adjustment Assistance (TAA) program is a federal entitlement program established under the *Trade Act* of 1974, as amended. The TAA Program provides aid to workers who lose their jobs or whose hours of work and wages are reduced as a result of increased imports. Affected workers may be eligible for training, job search and relocation allowances, income support and other re-employment services.

- 1982 The *Job Training Partnership Act* (JTPA) focused job skill training to needy, welfare recipients, dislocated workers, and youth. To retain contracts prime sponsors from CETA were required to add a tripartite advisory board called a private industry council (PIC).
- 1988 The *Economic Dislocation and Worker Adjustment Assistance Act* (EDWAA) amended Title III of JTPA, and provides funds to states and local substate grantees so they can help dislocated workers find and qualify for new jobs.
- 1988 Worker Adjustment and Retraining Notification (WARN) offers protection to workers, their families and communities by requiring employers to provide notice 60 days in advance of covered plant closings and covered mass layoffs. This notice must be provided to either affected workers or their representatives (e.g., a labour union); to the state dislocated worker unit; and to the appropriate unit of local government.
- 1993 The unemployment compensation amendments of 1993 (Public Law 103-152) revised extended benefit rules, and required states to implement a system to identify UI claimants most likely to need job search assistance to avoid long-term unemployment. This system for identification became known as the Worker Profiling and Re-employment Services (WPRS) system. It strengthened the ties between UI and the public employment service.
- 1993 The *North American Free Trade Agreement* (NAFTA) *Implementation Act* (Public Law 103-182) gave states the option of continuing UC benefits for claimants who elect to start their own businesses. Authorization was set to expire in December 1998. Permanent authorization was granted by federal legislation in 1998 for states to provide self-employment assistance with UI trust fund money.
- 1998 The *Workforce Investment Act* (WIA) created physical one-stop-shopping centers for re-employment services and UI benefits. The PICs of JTPA were replaced with workforce development boards having a majority membership from the private business community. Delivery of training, with targeting to the most difficult to reemploy, and follow-up monitoring of outcomes were all retained from JTPA.

Note: This list was compiled from information provided by Marilou Fallis, *The New Director's Primer to the Job Training Partnership Act: The Basics of JTPA*, Volume 16-91, *JTPA Issues* (Washington, DC: National Association of Counties, 1991); and by Gordon E. Jackson, *Labour and Employment Law Desk Book* (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1986).

3

LABOUR MARKET POLICY AND THE UNEMPLOYMENT CRISIS IN THE FEDERAL REPUBLIC OF GERMANY: INSTITUTIONAL SCLEROSIS OR CORPORATIST RENEWAL?

Steffen Schneider

INTRODUCTION

Labour market policy has climbed to the top of the German public agenda over the years and was the key issue of the September 1998 federal election campaign. There is no doubt that widespread concern about high unemployment and Chancellor Helmut Kohl's perceived incapacity to curb it played a major role in the ultimately expected, yet surprisingly harsh defeat of his 16-year-old right-wing (CDU-CSU/FDP) coalition government. Conversely, Chancellor Gerhard Schröder's left-wing (SPD/Green) administration has unequivocally linked its electoral fate to a single performance indicator: job creation.¹

The reason for the ongoing interest in labour market policy is obvious. Mass unemployment — fostered by global structural change, European integration, and the transition to a market economy in the former GDR — has become a growing problem in Germany since the 1970s and reached ever new heights throughout the 1980s and 1990s. Early in 1998, a record number of 4,823,000 people were out of work; the unemployment rate peaked at 14 to 11.8 percent in the western part of the country and a staggering 22.6 percent in

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 sluggish growth and insufficient job creation.

Despite a solid consensus on the urgency of the problem and the need to tackle it by way of reforms to passive and active labour market policy, any sweeping measures were, until the 1998 election, prevented by a deadlock between the governing Bundestag majority (lower chamber of parliament) and the opposition-dominated Bundesrat (upper chamber of parliament). A new period of divided government under reversed signs was ushered in shortly after the election. The ongoing friction between the national and the Länder (state) representation has strengthened the case of those who argue that the deficiencies of German federalism greatly contribute to an economic and labour market performance that compares badly with several other leading Organisation for Economic Co-operation and Development (OECD) countries.

At first glance, federalism would not seem to be a likely candidate for the attribution of guilt, though. Reforms that aim at the decentralization of structural, human resources, and active labour market policy can now draw on an impressive theoretical underpinning: a growing body of literature, whose different versions span the entire political spectrum, argues that under the conditions of a globalized and post-Fordist economy, innovative and efficient development measures are best implemented at the regional level, where the sensitivity for market pressures and specific circumstances is expected to be more pronounced than in the context of uniform national solutions. This

perspective would suggest a potential comparative *advantage* of federal systems in the new world economy.⁴

Yet the peculiar nature of Germany's highly centralized and interlocking federalism, whose main features will be described later, has so far worked against rather than in favour of policy experimentation by Länder governments. At least one prominent observer, Fritz W. Scharpf, has qualified German federalism as a crucial source of political immobility and labour market policy as a field in which the lack of flexibility is particularly conspicuous. This or similar points of criticism are echoed by a series of current reform proposals according to which German federalism has a tendency to stifle problem-adequate regional solutions — not because of pervasive intergovernmental conflict and duplications, as an outside observer might presume, but rather because of the overwhelming importance of joint decision-making and harmonization at the national level.⁵

In line with this reasoning, I attempt to demonstrate that intergovernmental relations have so far not been a prominent dimension of German labour market policy (or vice versa). Corporatist structures, whose renewal is the core element of the employment strategy pursued by the Schröder government, have played a much greater role. After a section on unemployment trends since 1949, the following section examines the historical development of the field in three phases (up to 1974, 1974 through 1998, the first two years of the SPD/Green administration) together with key aspects of labour market policy: organization and funding, major transfers and programs, shifting context factors and reforms. Particular attention is given to the issues of income support for the unemployed, active labour market policy, employment mobility, and youth unemployment.

Yet the question if, and how much, federalism has contributed to Germany's unemployment crisis, and whether institutional reforms might be necessary to overcome it, is now on the table. Intergovernmental relations might therefore leave a more visible imprint on German labour market policy in the not-too-distant future than it has up to this moment. And in fact, some of the bolder reform proposals suggest that federal competition *should* be strengthened in light of recent political shortcomings. One of these proposals, arguably the most prominent and radical, is discussed later. The concluding section evaluates the current state and reform necessities of German labour market policy and wraps up the chapter with an outlook on the European Union (EU) dimension and a few comparative thoughts.

MAIN CHARACTERISTICS OF GERMAN FEDERALISM: CENTRALIZATION AND JOINT DECISION-MAKING

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 State First Ministers or the Conference of State Ministers for Culture and Education, is an attempt to prevent the federal government from invading new areas of concurrent legislation by invoking the equality-of-living standards principle of the Basic Law. The resulting policy convergence and the asymmetrical distribution of legislative competences in the German political system have led some observers to qualify it as unitary federalism.⁹

The term is, however, misleading insofar as two other characteristics of German federalism ensure substantial Länder influence at the national level. Most national programs are implemented by state bureaucracies or public-law corporations rather than by federal authorities themselves (articles 83-90 GG). This functional distribution of responsibilities gives the Länder some discretion in the interpretation and application of federal law (state governments may, for instance, decide to add voluntary benefits to social entitlement programs). Moreover, the Länder participate in federal legislation through the Bundesrat, whose members (three to six per Land, depending on population size) are delegated by state governments (rather than elected) and vote in blocks, thus representing government positions (articles 50, 51 GG). Every piece of federal legislation has to pass the upper house of parliament, which has suspensive or absolute veto rights, depending on the subject matter of government bills (article 77 GG). Bills that touch upon the administrative duties of state authorities, financial questions or other Länder interests — currently more than 60 percent of all federal legislation — require second chamber approval.¹⁰

The terms administrative and executive federalism refer to this functional distribution of responsibilities, the dominant role of governments and the diminishing clout of parliaments in the German political system. Centralized and interlocking decision-making with the joint participation of national and subnational actors rather than a clear separation of legislative and administrative competences is the key element of the country's unique federalism. The pervasiveness of this so-called *Politikverflechtung* makes Germany the foremost example of intrastate, as opposed to Canadian interstate, federalism. Neither tier of government is autonomous. Most pieces of legislation are subject

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-living standards principle, the horizontal and vertical integration of the West German party system with its blurring effect on regional and party competition, as well as the deeply internalized consensus orientation of political and social elites. The country is now more heterogeneous than before 1990, not the least with regard to unemployment rates; the new social, economic and cultural fragmentations represent the first serious challenge for the integrative capacity of German federalism. The important role of the ex-communist PDS (Party of Democratic Socialism) as a major opposition force or governing party

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 exclusive taxes is shrinking, though, while the weight of shared taxes has kept

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 VAT allocation formula in the wake of the 1993 Solidarity Pact and Federal Consolidation Program), while Länder shares have grown from 24.9 percent to 41.3 percent and municipal ones have remained stable around 12 percent. At the same time, however, and particularly since the 1969 reform, each level of government draws the major part of its tax income (78.2 percent, 81.7 percent and 83.1 percent, respectively, in 1998) from joint sources.¹⁴

Yet despite considerable economic and social homogeneity until reunification, the primary horizontal distribution of tax revenues among the Länder has always strongly varied, and the vertical distribution is skewed in favour of the national level. This is not the least due to the fact that the states often have to perform unfunded mandates and are not fully compensated for their far-reaching administrative duties, which they have to (co)finance to a large extent even if they act for the federal government (article 104a [3, 5] GG). The Basic Law therefore provides for a complex system of fiscal equalization that addresses these imbalances in accordance with the equality-of-living standards principle (article 107 GG). The core of the system consists of horizontal transfers which were introduced in the 1955 reform; horizontal redistribution lifts states below the reference measure up to 95 percent of the average. The 1969 reform established a second component of the system, vertical transfers; these supplementary payments are taken from the federal VAT share and are used to close another 90 percent of the gap between the fiscal position of poor states and the average. Additional payments are currently

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 substantial investment aids and transfers) were part of the deal.¹⁷

Until 1990, there was hardly any movement between the groups of contributors and beneficiaries of the system. Baden-Württemberg, Hamburg, Hesse, North-Rhine Westphalia and, from the late 1980s onwards, Bavaria were, and still are, on the giving, the other Länder on the receiving side of the equalization mechanism. Since reunification, the increase of horizontal and vertical transfers has been dramatic and the relative weight of these transfers has shifted toward the latter; 53.6 percent of the overall volume — DM39.2 billion — and

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 protection (article 91a, b GG). These projects are jointly decided upon by the federal and concerned state governments. Second, the Länder (and municipalities) can receive aid for investments that are growth-promoting or conducive to averting economic disturbances and imbalances (road construction, social housing, energy supply) (article 104a [4] GG). Third, social transfers of the Länder can be co-financed (cash benefits for students, rent subsidies, and until 1996, child benefits). In each case, the federal level shoulders between 50 and 60 percent of the costs. First attempts to scale down co-financing were made in the late 1970s; in the mid-1980s, the shared funding of student housing and cash benefits, as well as of hospital construction, was terminated. The co-financing of public activities has nevertheless become more important in recent years. The financial means comprised by its three forms has grown 15 percent between the late 1970s and 1990, when DM29.7 billion (DM8.3, 7.6 and 13.8 billion, respectively) were spent on them by the federal government, and even more strongly after reunification. By 1997, the amount had risen to DM42.3 billion (DM13.0, 13.3 and 16.0 billion, respectively) of which DM14.5 billion went to the five new states.¹⁹

Since the 1969 reform, the constitution has also provided the federal government with instruments of fiscal coordination and planning that permit it to establish long-term credit and budgeting, and revenue and expenditure targets (article 109 GG). The most important of these tools is the Financial Planning Council in which federal and state ministers of finance, as well as municipal delegates, are represented. The council recommends, yet cannot impose, guidelines of fiscal coordination.

LABOUR MARKET TRENDS IN GERMANY: FROM FULL EMPLOYMENT TO MASS UNEMPLOYMENT

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

TABLE 1
Macroeconomic and Labour Market Trends, 1973–1998

Year	GDP Growth (%)	Productivity Growth (%)	Adult Population (% Total Population)	Total Labour Force (% Adult Population)	Total Employment (% Adult Population)	Industrial Jobs (% Civil Employment)	Service Jobs (% Civil Employment)	Female (% Civil Employment)
1973	4.7	4.0	63.7	69.4	68.7	47.5	45.2	37.7
1974	0.3	1.6	63.9	69.1	67.7	46.7	46.3	38.1
1975	-1.6	1.3	64.1	68.6	65.9	45.4	47.8	38.5
1976	5.4	6.3	64.3	68.3	65.6	44.9	48.7	38.6
1977	3.0	3.1	64.7	68.1	65.5	44.6	49.4	38.7
1978	2.9	2.3	65.1	68.1	65.6	44.3	49.9	38.9
1979	4.2	2.8	65.7	68.3	66.2	44.2	50.4	39.0
1980	1.4	0.3	66.3	68.5	66.3	43.7	51.0	39.2
1981	0.2	0.9	67.2	68.3	65.3	43.0	39.4	39.4
1982	-0.6	1.0	68.1	68.0	63.7	42.1	52.9	39.5
1983	1.5	3.0	69.0	67.5	62.2	41.4	53.6	39.5
1984	2.8	2.7	69.7	67.2	61.9	41.1	54.1	39.4
1985	2.0	1.3	70.0	67.6	62.2	41.0	54.4	39.5
1986	2.3	1.3	70.1	68.2	63.0	40.8	54.8	39.6
1987	1.9	1.2	70.1	68.6	63.4	40.4	39.7	39.7
1988	3.7	2.9	69.9	68.9	63.7	39.9	56.0	40.1
1989	3.6	2.1	69.7	68.9	64.2	39.8	56.4	40.4
1990	5.7	2.7	69.5	69.1	64.8	39.8	56.7	41.0
1991	13.2	-11.7	69.1	71.6	67.7	40.8	55.0	42.1
1992	2.2	4.1	68.4	71.7	66.9	39.5	56.7	42.0
1993	-1.2	0.6	68.1	71.7	66.0	38.6	57.9	42.1
1994	2.7	3.4	68.2	71.3	65.4	37.5	59.1	42.2
1995	1.8	2.2	67.9	71.2	65.5	36.5	60.2	42.5
1996	1.4	2.7	67.9	71.2	64.9	35.4	61.6	42.8
1997	2.2	3.7	68.0	71.4	64.4	34.8	62.3	43.1
1998	2.7	1.8	67.9	71.4	64.8	34.5	62.6	43.6

Note: Figures up to 1990 refer to West Germany.

Sources: OECD, *Historical Statistics, Labour Force Statistics, Economic Surveys: Germany* (Paris: OECD, various years).

TABLE 2
Social Profile of Unemployment, 1991–1999

Year	Unemployment Rates (%)					Unemployed for More Than One Year (% of Unemployed)
	Overall	Men	Women	Age 15–19	Age 20–24	
1991	7.3	6.4	8.5	n/a	n/a	28.3
1992	8.5	7.1	10.2	n/a	n/a	26.6
1993	9.8	8.6	11.3	6.5	8.5	27.6
1994	10.6	9.5	12.0	7.2	9.5	33.1
1995	10.4	9.6	11.4	7.9	9.5	31.9
1996	11.5	11.0	12.1	9.0	11.0	31.0
1997	12.7	12.2	13.3	9.6	12.2	34.1
1998	12.3	11.9	12.8	9.3	11.8	36.7
1999	11.7	11.3	12.2	8.5	10.5	35.0

Note: Long-term unemployment as of September of each year; method of calculation changed in 1977.

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

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 percent in 1986–87 and at 71.7 percent in 1992–93, respectively, and have only diminished slightly since then. Total employment as a percentage of the adult population, by contrast, has not kept pace. It fell to less than 62 percent in 1984, climbed back to almost 68 percent in 1991, yet has once again shrunk considerably and is now well below its 1973 value — the average figures were 66.1 percent (1973 through 1982), 63.2 percent (1983 through 1990), and 65.7 percent (1991 through 1998). Full employment between the 1950s and 1970s, on the other hand, seems to have been at least partly due to exceptionally low participation rates.

These trends are compounded by the declining importance of “normal” (life-long and consistently full-time) employment biographies. The ratio of “normal” to other forms of employment was five to one in the early 1970s, four to one in the early 1980s, and three to one in the mid-1980s; it has been two to one since the mid-1990s. The share of part-time jobs was 10 percent in

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 high-end employment in the tertiary sector has been comparatively weak, while technological innovation proved to be a job killer in the manufacturing industries: the average shares of employment in manufacturing industries were 44.6 percent (1973 through 1982), 40.5 percent (1983 through 1990), and 37.2 percent (1991 through 1998); they were 49.4 percent, 55.2 percent, and 59.4 percent respectively, in services. In 1998, for instance, the tertiary sector accounted for less than 63 percent of civilian employment, as compared with almost 74 percent in Canada.²⁴

Unemployment has not only been on the rise over the last 25 years, but has also changed its quality. Long-term unemployment has increased considerably. Until 1975, under 10 percent of the unemployed had been without a job for more than a year; this percentage soared dramatically and has been near or above 30 percent since 1984: the average values were 13 percent (1973 through 1982), 30.3 percent (1983 through 1990), and 31.2 percent (1991 through 1998); the percentage was 35 percent in September 1999 and 36.5 percent in September 2000. The average duration of unemployment was 6.5 months in 1977 and 7.5 months in 1997.²⁵

Moreover, unemployment has greatly contributed to the segmentation of the labour force and to the exacerbation of social disparities. Not everyone is equally threatened by unemployment; while two-thirds of the active population never experience it, the rest does so repeatedly. The rates for women have been consistently higher than for men since 1973 even though the situation was reversed in West Germany between 1995 and 1999; in East Germany, the gap is often large; for instance, September 2000 figures were 9.6 percent for men and 10.4 percent for women — 8 percent and 8.1 percent in the west, 16.5

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 economic and labour market terms, and thus for the first time in German postwar history, pronounced centre-periphery structures. The short-lived economic boom that followed reunification in West Germany was neither strong enough to reverse negative labour market trends there nor to give a serious push to East

TABLE 3
Regional Profile of Unemployment, 1991–1999

Year	West Germany				East Germany				Nation
	Unemploy- ment Rate	Max. (Länder Rates)	Min. (Länder Rates)	Variation Coefficient (%)	Unemploy- ment Rate	Max. (Länder Rates)	Min. (Länder Rates)	Variation Coefficient (%)	Variation Coefficient (%)
1991	6.3	10.7	3.7	32.6	10.3	12.5	9.1	11.8	30.7
1992	6.6	12.4	4.4	32.4	14.8	16.8	13.6	7.6	41.9
1993	8.2	12.8	6.3	25.3	15.8	17.5	14.9	7.0	35.0
1994	9.2	13.7	7.1	22.5	16.0	17.6	15.3	5.7	29.9
1995	9.3	14.0	7.0	23.0	14.9	16.5	14.2	6.7	26.6
1996	10.1	15.6	7.9	23.2	16.7	18.8	15.9	7.2	27.6
1997	11.0	17.3	8.7	23.4	19.5	21.7	18.4	6.7	29.5
1998	10.5	17.9	8.0	26.3	19.5	21.7	18.3	7.3	31.8
1999	9.9	17.7	7.3	28.4	19.0	21.7	16.5	9.8	32.8

Note: Variation coefficients (standard deviations as a percentage of means) based on Länder unemployment rates; East Berlin subsumed under West Germany.

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

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

LABOUR MARKET POLICY AND FEDERAL PRACTICE IN GERMANY: HISTORICAL DEVELOPMENTS AND KEY FEATURES

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 German model of economic and social policy was (re)constructed and quickly expanded until 1966; governments drew on historical roots and chose solutions that were in line with the “work orientation” and other key features of Germany’s conservative prewar welfare-state regime. Traditions of subsidiarity, self-administration, and social insurance were revived as core principles of organization and funding. Hence it is true to some extent that “rapid economic growth with price stability was allowed to flow from a combination of laissez-faire market conditions and restrictive fiscal and monetary policy” — a liberal stance that received strong backing from an autonomous central bank.³³ But these years also saw considerable state activism that could rely on a strong consensus between unions and employers’ associations. The economic miracle enabled federal governments to counter regional and social disparities mostly through distributive grants instead of redistributive measures.

Between 1966 and 1969, the Federal Republic was governed by a CDU-CSU/SPD grand coalition under the leadership of Chancellor Kurt-Georg Kiesinger. In the face of Germany’s first postwar recession, the new administration used its unusually broad parliamentary base for sweeping economic and social policy reforms. It initiated a massive and explicit shift from liberalism to Keynesianism. The 1967 *Stability and Economic Growth Promotion Act* introduced elements of countercyclical indicative planning (*Globalsteuerung*), as well as new tools of monetary, incomes, and fiscal policy coordination. The law obliged federal, state, and local authorities to simultaneously pursue a set

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 corporatist arrangements such as the *Konzertierte Aktion* (Concerted Action), through which the federal Ministry of Labour attempted to set effective wage guidelines. After 1969, federal politics was for the first time since the war dominated by the SPD, which governed in coalitions with the Liberals under the leadership of Chancellors Willy Brandt (1969–74) and Helmut Schmidt (1974–82), but had to face a right-wing majority in the Bundesrat. Until the mid-1970s, this was a phase in which the reform impetus that the SPD had already brought to the grand coalition was continued with ambitious programs and constitutional initiatives aimed at the extension of economic intervention and social protection, improved cooperation between federal and Länder governments and further centralization of responsibilities. The corporatist arrangements created in 1967 were endorsed and strengthened.³⁴

Labour market policy was an integral part of the emerging “social market economy.” Just as in other branches of the welfare-state regime, the federal level soon assumed the leading role, albeit mainly through a quasi-independent organization rather than through direct government intervention. In 1952, federal legislation created the major player in labour market policy in Germany: the Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung (Federal Office of Labour Placement and Unemployment Compensation), later (1969) renamed Bundesanstalt für Arbeit (BAA, Federal Employment Office). Closely following the organizational structure established during the Weimar Republic, the BAA is a public-law corporation under the supervision of the federal Ministry of Labour and Social Order, its president appointed by the federal government. Yet the BAA is not part of the federal bureaucracy, it has its own budget and enjoys a considerable degree of operational autonomy.

Tripartite self-administration which includes representatives of unions and employers' associations is practised in a central office with an executive board and a national administrative council, as well as originally 12 regional and 209 local offices — nine regional and 146 local offices after 1966, ten regional and 181 local offices since reunification (there are also 15 offices with specific functional responsibilities). The central office coordinates the unitary provision of services through its regional and local subsidiaries. In other words, this form of decentralization is merely administrative and does not exactly reflect Germany's state boundaries and federal arrangements. State governments are represented in the national administrative council and other BAA institutions, but only as part of quasi-corporatist arrangements, and thus have only a small degree of control over the BAA, whose organizational structure does not allow for the formulation and implementation of 11 (now 16) Länder-specific approaches to labour market policy. The work of the Federal Employment Office is hardly characterized by intergovernmental conflict, as the legal framework for its activities is set at the federal level; more important are the legal obligations themselves and the (limited) supervision rights of the federal government, notably budget approval.³⁵

The BAA is responsible for the bulk of passive and active labour market policy measures in Germany. In both subfields, it offers its own transfers and services, many of which are contracted out to private, non-profit, and public service providers, but it also functions as an umbrella organization administering or coordinating municipal, state, federal, and EU programs. While it is directly reimbursed for carrying out these additional tasks, the BAA transfers and services proper are funded through four main revenue sources, of which equally shared worker and employer payroll contributions are by far the most important. This way of funding illustrates the underlying concepts of shared responsibility and solidarity which are inherent in the idea of social partnership and also underpin employer and union participation in the administration of the BAA. Contribution rates (as a percentage of gross income) and ceilings are set by the federal parliament and have greatly varied over time. Two more specific programs are funded exclusively through business contributions rather than general revenues: bad-weather (since 1959) and winter payments (since 1972) for corporations and employees in the construction sector and bankruptcy payments compensating laid-off employees for unpaid salaries (introduced in 1974). The height of these contributions, which now stagnate due to the shrinking employment share of the construction sector, is determined by the federal minister of labour and social order. The BAA can also build up and use financial reserves. In the case of a deficit, which has been the rule since the early 1970s, it receives a federal loan or grant (Table 4).

TABLE 4
Federal and BAA Expenditures, 1973–1999

Year	Total Expenditures (Mio DM)	Federal Govt. Expenditures (Mio DM)	... of which % Unemployment Assistance	BAA Expenditures (Mio DM)	... of which % UI Benefits	... of which % Other Income Support Programs	BAA Contributions as % of Expenditures	Federal Grant to BAA as % of Expenditures
1973	6,841	41	87.8	6,807	20.5	21.9	85.6	—
1974	10,444	91	87.9	10,353	34.3	20.6	62.2	—
1975	18,053	217	93.5	17,836	43.5	20.1	43.7	43.0
1976	16,295	365	66.6	15,930	43.4	15.8	78.4	19.6
1977	15,759	677	38.8	15,082	41.7	14.8	91.3	—
1978	18,372	850	31.1	17,522	35.8	13.2	84.1	—
1979	20,589	850	38.9	19,739	37.8	13.9	80.7	—
1980	22,804	1,130	32.1	21,674	37.4	12.2	79.9	8.5
1981	31,674	3,511	81.2	28,165	47.2	14.8	64.4	29.1
1982	38,957	5,592	89.7	33,365	54.0	15.0	72.8	21.0
1983	40,053	7,409	96.2	32,644	52.4	15.6	87.8	4.8
1984	41,982	12,338	70.7	29,644	47.7	13.3	102.7	—
1985	41,616	11,879	76.8	29,737	47.4	10.9	99.2	—
1986	44,138	12,276	74.6	31,862	44.1	8.6	91.4	—
1987	48,424	12,463	72.5	35,961	42.5	8.3	89.7	—
1988	53,086	12,242	69.0	40,844	44.2	5.7	82.5	2.5
1989	48,098	8,265	99.3	39,833	44.1	4.1	89.3	4.8
1990	51,946	8,065	94.1	43,881	38.8	3.5	90.3	1.6
1991	82,975	11,052	64.6	71,923	33.0	17.2	93.3	1.4
1992	103,269	9,747	93.4	93,522	33.7	6.4	82.0	9.6
1993	127,381	17,846	78.3	109,535	38.9	6.7	72.9	22.3
1994	123,809	23,944	72.8	99,865	45.9	5.3	81.6	10.2
1995	127,783	30,680	66.8	97,103	49.6	4.4	86.9	7.1
1996	138,254	32,666	74.2	105,588	52.7	4.4	80.6	13.0
1997	135,105	32,382	86.5	102,723	57.7	3.7	83.5	9.3
1998	133,115	34,263	88.8	98,852	53.4	3.2	87.2	7.8
1999	135,273	34,169	89.2	101,104	48.1	3.2	87.3	7.2

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

Passive labour market policy — income support for persons without employment — is based on several pillars. The BAA administers and co-finances the two branches of unemployment compensation: *unemployment insurance* (UI) benefits (*Arbeitslosengeld*) are earnings-related and tied to various eligibility criteria (qualification periods, etc.). They are currently paid for 180 to 360 calendar days (for older persons, up to 960 days), depending on the length of the previous work experience and with ceilings based on a person's age; maximum benefits now represent 150 percent of the average blue-collar wage. Persons who remain unemployed after having exhausted their insurance entitlements or who do not qualify for UI benefits in the first place, but have paid contributions for a certain minimum period, may collect the means-tested *unemployment assistance* (*Arbeitslosenhilfe*), which is organized by the BAA and paid out of the federal budget (except between 1967 and 1981, when the BAA itself had to finance it, while federal governments spent the money thus saved on programs of cyclical stimulation). Unemployment assistance is granted for one year at a time, but only as long as the result of the annual means-test is positive. Between 80 and 90 percent of unemployment assistance recipients have first received UI benefits, the remaining 10 to 20 percent, mostly young people and women, have not. The height of UI benefits and unemployment assistance is based on the so-called equivalence principle, thus varying in accordance with previous income. The eligibility criteria for both forms of income support have changed over the years, as have replacement rates. They initially represented 68 percent and 58 percent of the last net income, respectively, were reduced to 63 and 56 percent for persons without children in 1984 and have been 60 and 53 percent (67 and 57 percent for persons with children) since 1994. A third, minor kind of income support is represented by the above-mentioned *bankruptcy payments*. The BAA has also paid health and old-age insurance contributions for the recipients of UI benefits and unemployment assistance since 1969.

As a last resort for persons who do not qualify for any of the above, there is the means-tested social assistance, a municipal responsibility. Under specific conditions, a cumulation of unemployment compensation and these payments is possible. The parameters of social assistance are defined by the 1961 *Federal Social Assistance Act* and are generous enough to create a fairly high *de facto* minimum wage, which is now increasingly seen as a contributing factor to Germany's low-income differentiation and high unemployment rates. Local governments can and do, however, offer public-works programs and other BAA-supported active labour market policy measures in order to reintegrate

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

creation. Various postwar crisis measures in this field, such as the 1951 Emergency Program, had already been taken over by the BAA in 1952. Once the economic miracle had kicked in and even started producing labour shortages, these measures became less prominent. The focus shifted to integrating foreign workers and a growing, if comparatively low, number of women into the labour force and support for the few regions and sectors with structural unemployment: West Berlin and the border zone to East Germany, the Ruhr area with its declining coal, iron, and steel industries, the construction sector with its seasonal problems. Hence this bundle of instrument measures includes the above-mentioned programs for the construction sector (bad-weather and winter payments). Short-time work payments were initially meant to prevent cyclical layoffs, and were in fact highly efficient in this respect, but have been used more and more often to deal with the social consequences of structural employment since the 1970s; they are normally granted for six months and can be extended to two years, even three years in the steel industry. In addition to these measures, the AFG also regulates public-works programs, which are aimed at the countercyclical stimulation of labour demand. They have to be in the public interest, mainly geared toward hard-to-place groups (excluding young persons entering or women rejoining the labour force) and, since the passing of the 1981 *Labour Market Promotion Consolidation Act*, increasingly toward regions with high unemployment. Public-works programs exist in the form of wage subsidies or loans and grants to public, non-profit or private service providers (including state and local governments). These measures are the second-largest item in the active labour market policy budget of the BAA (80 percent of the expenses in this field are, however, for bad-weather and winter payments alone).³⁹

A third group of instruments promotes vocational training and qualification. This is in fact the main goal of active labour market policy according to the AFG, and while there were only small qualification programs in the 1950s and 1960s (their focus had quickly shifted to preparing Germans for higher-skilled jobs, while foreign workers were recruited for lower-skilled ones), expenditures for these programs soon became the largest item in the active labour market policy budget of the BAA after 1969. Eligibility criteria were very generous until the 1970s. Courses are normally offered by the private or non-profit sector, and fees are reimbursed by the BAA, whose own activities in this field are marginal. Vocational training touches upon one of the few clear Länder responsibilities, primary and secondary education (postsecondary education and university planning are shared responsibilities). Qualification efforts

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 *Vocational Training Act*, the first comprehensive regulation of apprenticeship training (while the regulation of school instruction remained in the hands of the *Länder*).

Apart from the wide array of instruments it provided, the most important breakthrough of the AFG was that it guaranteed virtually all of them as legal rights rather than discretionary privileges. While the AFG comprised the vast majority of labour market tools after 1969, the BAA became its main institutional base and was given responsibility for administering the law. With the AFG, its essentially unchanged legal base well into the 1990s, the German model of labour market policy had developed its full scope. Only a few instruments were added in the remaining years of the expansionary phase of German labour market policy. The pension reform of 1972 introduced a flexible retirement age for older workers, a measure that was later increasingly used to reduce the labour supply. In early 1974, a Special Structural Program addressed the needs of regions with serious unemployment.

In conclusion, two points regarding intergovernmental relations and the field of labour market policy should be underlined. First, the solidarity and equality-of-living standards principle effectively prevents any regional variation in contribution rates, benefits, and services provided. Any regional distribution effects that exist within the UI system and the active labour market policy measures offered by the BAA are quasi-automatic consequences of differential labour market structures and unemployment rates. Second, this presentation of German labour market policy, as it developed between 1949 and 1974, has focused on federal measures administered and funded by the BAA and/or regulated by the AFG. Independent *Länder* and municipal employment policy initiatives, as well as programs funded by the EC/EU, do exist and have become more important since the 1970s, but nevertheless remain subordinate and marginal. The legal and financial restrictions for *Länder* and municipal programs are severe. The subnational tiers of government play no role in the formulation and implementation of passive labour market policy. In active labour market policy, the *Länder* can influence BAA measures at the margin, and still within the framework of the AFG, by co-financing them; they can and do, within tight financial limits, support municipal governments in unemployment prevention and the promotion of those unemployed who do not qualify for BAA services and transfers; since 1989, the *Länder* have also been

able to use European Social Fund monies for employment policy initiatives. Yet the financial weight of these measures and the policy discretion of subnational governments has to be considered as extremely low against the backdrop of the BAA and the AFG.⁴⁰

Using figures from the 1990s as an example, this federal dominance presents itself as follows. In 1993, DM127 billion — approximately 8 percent of overall state expenditures or 4 percent of GDP — were spent according to the AFG. Almost 85 percent (DM110 billion) came from the BAA budget, the DM14 billion for unemployment assistance directly from the federal government. In addition to this, the federal government spent nearly DM4 billion on other initiatives. By contrast, Länder expenditures were estimated at DM3.5 billion, and monies flowing to Germany from the European Social Fund at DM4 billion between 1994 and 1999 (Table 4).⁴¹

Federalism can therefore hardly be seen as a central dimension of German labour market policy, and it seems legitimate to restrict the analysis to national programs. Just like other fields of social policy and the economic strategy of the grand coalition and SPD-led governments after 1969, the efficiency and effectiveness of the AFG was more strongly circumscribed by factors such as the autonomous German central bank or the country's peculiar system of industrial relations than by federal structures and dynamics. The reforms of the 1960s and 1970s certainly increased federal dominance, not least in the field of labour market policy. However, the ultimate success of the Keynesian tools and goals introduced during this period, including full employment, depended on a degree of societal coordination that was difficult to sustain.

German Labour Market Policy Under Pressure: 1974 to 1998

The deterioration of the economic context and ensuing transition from full employment to mass unemployment after 1973 ushered in the first serious crisis of Germany's welfare-state regime and its postwar labour market policy. Until 1998, federal governments relying on two different coalition formations tackled this crisis by way of remarkably similar adaptation efforts. Three phases can be distinguished.⁴²

The political change induced by the new economic situation had already become apparent after the passing of power between Chancellors Willy Brandt and Helmut Schmidt (SPD) in 1974. The ambitious constitutional reform initiatives of the early 1970s and *Globalsteuerung*, which had proved difficult to implement in the face of cumbersome negotiations and partisan competition

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 development strategies; yet while the wealthy states gained some autonomy, the poorer ones remained dependent on federal aid and vulnerable to cuts in social policy.

However, despite its retrenchment measures, and much to the chagrin of its Liberal coalition partner, the Schmidt government had not altered its fundamental commitment to the equality-of-living standards principle and its ramifications. In 1982, the SPD/FDP coalition fell apart in the wake of intense controversies on the future direction of economic and social policy. A CDU-CSU/FDP government under the leadership of Chancellor Helmut Kohl was formed. The avowed goal of the new administration was to bring about massive change in economic and social policy. Its initial programmatic statements heavily drew on neo-conservative arguments and tied Germany's slow growth and weak employment performance to its supposedly overdeveloped, expensive, and overcentralized welfare-state regime. Kohl therefore called for tax cuts and the consolidation of state finances, deregulation, and privatization, as well as for increased federal subsidiarity.

The actual policy output of the new coalition was clearly more pragmatic and moderate than these lines suggest, though, and bore little resemblance to the slash-and-burn strategies pursued by Margaret Thatcher or Ronald Reagan. In terms of its deficit and debt-reduction efforts, the Kohl government had some success until 1990; the financial problems of the welfare-state regime had become all too obvious by 1982. Yet a complete privatization of social risks and massive attacks on the welfare-state regime never came onto the agenda. Despite CDU-CSU dominance in both chambers of parliament, a real turnaround was not achieved, not the least because many retrenchment measures had already been anticipated by the outgoing administration. Once again, the continuity of policy-making and the stability of federal arrangements in Germany were confirmed.

The CDU-CSU/FDP government stayed in power after 1990, but the coalition had to cope with an SPD majority in the Bundesrat since 1991, and German reunification a year before had created a completely different context. A successful economic transition in East Germany, as well as the fast expansion of the established welfare-state regime with its high standards into the five new Länder, became overriding political objectives in the immediate aftermath of reunification. The relatively efficient consolidation efforts of the years between 1982 and 1989 and attempts to introduce a market-oriented approach to economic and social policy were all but sacrificed to these goals. The *Social Insurance Act* of 1990 regulated the transfer of welfare-state institutions to the eastern part of the country. Contribution rates, which had been 26.5 percent in 1970 and 29.4 percent in 1990 started rising once again and reached 41 percent by mid-1996. The state-expenditure-GDP ratio climbed to 50.6 percent in 1995. On the other hand, however, the 1992 Maastricht Treaty imposed strict fiscal and monetary stability criteria on Germany and thus created a countervailing pressure in favour of continued austerity measures. Experiments with decentralization were further postponed.⁴³

What impact did these developments have on German labour market policy? The most immediate consequence of rising unemployment since 1973 has been a financial crisis of the “work-oriented” welfare-state regime. The overall financial burden of the social insurance funds increased sharply, as more and more people relied on their services and transfers, while fewer employed persons contributed to funding them through their payroll contributions. High unemployment quickly pushed up BAA and other federal labour market policy expenditures: from DM6.8 to 135.2 billion between 1973 and 1999. Expenditure growth (both in absolute terms and as a percentage of GDP) was particularly strong in the field of passive labour market policy: from DM2.9 to 82.3 billion. Of the two most important forms of income support, unemployment assistance expenditures, grew even faster than those for UI benefits: from DM144 million to 30.4 billion and from DM1.4 to 48.6 billion, respectively. Spending in the field of active labour market policy (again both in absolute terms and as a percentage of GDP) was raised considerably, but was outweighed by expenditures for income support most of the time. While spending on unemployment assistance represented between two-thirds and over 90 percent of federal labour market policy expenditures in most years, the BAA almost throughout spent 50 percent or more of its resources — with a peak of 69 percent in 1982 — on income support. The BAA ran (often substantial) deficits and had to rely on federal grants and loans most of the time between 1973

and 1999. The extent to which the Federal Employment Office was able to cover its expenses through contributions also varied widely, reaching a trough of 43.7 percent in 1975 and a peak of 102.7 percent in 1984 (Table 4).⁴⁴

Major flaws of passive and active labour market policy funding in the German system are reflected in these figures. Both subfields are mainly financed through payroll contributions, and hence revenues strongly depend on the economic cycle. Apart from unemployment assistance, tax-financed programs directly offered or funded by the federal government have never been more than marginal and sporadic. On the other hand, the federal government has a vested interest in keeping federal grants and loans to the BAA down. As it proved most difficult to cut entitlement payments like UI benefits, active rather than passive labour market policy became the prime target for savings in those years during which decisive and innovative measures of employment stimulation would have been needed the most. This crowding-out effect put labour market policy on a cyclical track, with the result that the BAA managed to balance its budget after some of the worst unemployment years of the 1970s and mid-1980s. In active labour market policy itself, job creation was increasingly favoured at the expense of other programs, including those anticipatory qualification and retraining measures that should be central according to the AFG.

Reunification has obviously put additional strain on the financing of income maintenance and active labour market policy, which was greatly expanded after 1991, but has been reduced to previous levels since 1993. Apart from the overall burden, however, reunification has also exacerbated the above-mentioned flaws in the German funding system. The fact that all contribution payers together finance not only UI benefits, but also active labour market policy, which is often geared toward very specific groups, but equally often has diffuse positive externalities for non-contribution payers, has come under increased scrutiny. Critics argue that only entitlement-based income-maintenance transfers for individual contribution payers should be financed by the BAA, while measures in the general public interest should be tax-financed. As of now, by contrast, the entire community of contribution payers has to shoulder the extra costs for adjustment in East Germany. In 1993, for example, 44 percent of all BAA expenditures went to the east, while they represented a relatively low 4.8 percent of state expenditures and 2.5 percent of the GDP in the west (for Germany as a whole, the figures were 8 and 4 percent, respectively, as mentioned above). In the East, DM6,800 per person was spent on the labour force in the east, DM2,200 in the west. These numbers represent a substantial transfer of BAA resources from the old to the new Länder. While the

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

TABLE 5
 Recipients of/Participants in AFG-Based Transfers and Programs, 1973–1999

<i>Year</i>	<i>Unemployed (‘000)</i>	<i>Recipients of UI Benefits (% of Unemployed)</i>	<i>Recipients of Unemployment Assistance (% of Unemployed)</i>	<i>Participants in Active Programs (‘000)</i>
1973	273	56.4	8.4	273
1974	582	60.5	6.9	528
1975	1,074	65.8	10.2	1,060
1976	1,060	58.0	15.5	458
1977	1,030	54.1	15.8	405
1978	993	52.0	15.8	417
1979	876	51.1	15.3	348
1980	889	51.1	13.7	425
1981	1,272	54.9	13.4	665
1982	1,833	50.5	15.9	901
1983	2,258	44.9	21.5	1,020
1984	2,266	37.9	26.4	808
1985	2,304	36.3	26.8	731
1986	2,228	35.9	27.0	829
1987	2,229	37.4	25.9	989
1988	2,242	42.2	23.6	889
1989	2,038	43.6	24.3	695
1990	1,883	42.4	23.0	771
1991	2,602	54.0	15.9	3,513
1992	2,978	56.5	17.8	2,581
1993	3,420	55.2	22.2	1,870
1994	3,698	51.8	25.7	1,276
1995	3,611	49.4	27.2	1,212
1996	3,965	50.2	27.8	1,252
1997	4,385	49.2	30.9	907
1998	4,279	46.4	35.1	1,108
1999	4,099	47.5	38.2	1,040

Note: Active programs = part-time work, job-creation and retraining measures (annual means).

Sources: Bundesanstalt für Arbeit, *Arbeitsstatistik* (Nuremberg: Bundesanstalt für Arbeit, various years), *Statistisches Bundesamt, Statistisches Jahrbuch für die Bundesrepublik Deutschland* (Wiesbaden: Statistisches Bundesamt, various years).

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 expenditures grew from 1.3 percent to 2.8 percent of the GDP between 1989 and 1993. According to one estimate, only four out of ten million East German workplaces in 1989 would have had a chance in 1991 without subsidies. Even with them, the number of jobs fell to 6.1 million between 1990 and 1993, a loss of 3.6 million; jobs in manufacturing alone were reduced from 3.5 to 1.2 million. The situation would have been even more dramatic without the decisive use of early retirement schemes, wage subsidies, part-time work, job creation, and retraining programs which took 15 and 23 percent of the active population out of the labour market in 1990 and 1991, respectively, and a total

of 1.5 million people in 1995. In 1996, 43 out of 100 unemployed persons used one of these measures in the east, as opposed to a 14-100 ratio in the west. The need for a return to financial consolidation made a prolonged fight against unemployment by way of new expenditure programs all but impossible, though. By the end of 1991, special regulations for part-time work in the east were already phased out. This meant that despite the precarious labour market situation in the new Länder, the restrictive approach to social and labour market policy essentially survived the reunification challenge.⁴⁹

A third important focus of adjustment efforts became more prominent with the election of the Kohl government: deregulation and flexibilization initiatives, which were in line with the self-proclaimed neo-conservative orientation of the government (and also with international recommendations such as the ones stemming from the OECD *Jobs Strategy*). Hence the CDU-CSU/FDP coalition attempted to reduce obstacles to employment growth through measures aimed at the enhanced flexibility of labour contracts and working times. The 1985 *Employment Promotion Act* was the key piece of legislation in this respect. It rescinded elements of prior laws that had regulated industrial relations (the 1952 *Works Constitution Act*) and layoffs (the 1969 *Protection Against Dismissal Act*), as well as other regulations in favour of employees. Fixed-term contracts, various forms of part-time work (job-sharing, etc.) and casual jobs were regulated, thus guaranteeing some minimal rights and standards, but also supported by the new law. Its impact has been the subject of intense political controversy: while the unions called it a “hiring and firing” law, one informed academic observer, Wolfgang Streeck, has qualified it as “a moderate German version of labour market deregulation.” Its quantitative employment impact seems to have been minor, its structural consequences might have been more important, though. In a perverse substitution effect, the possibility of fixed-term contracts probably led to a loss of regular jobs rather than new employment. The segmentation of a core versus a marginal workforce and the differentiation of employment chances among social groups seem to have increased. The risks of limited contracts tend to be borne by unqualified persons, young people and students entering or women re-entering the labour force. As labour conditions in part-time work tend to be worse than in full-time work, the law has at best brought lopsided efficiency gains, and has in all likelihood further eroded the share of “normal” employment histories.⁵⁰ The *Employment Promotion Act* was complemented by deregulation and flexibilization efforts attacking other aspects of labour regulations: The payment of wage replacements during strikes was changed in 1986, the *Works*

Constitution Act in 1988, and laws dealing with (protected) youth employment, the employment of disabled persons, and working times were also reviewed for possibilities of deregulation and flexibility. In 1994, the BAA job-brokering monopoly ended, and measures against the abuse of sickness benefits were stepped up in 1994–95.

Yet the restrictive approach to labour market policy outlined here did not lead to the complete abolition of the broad array of instruments and of the legal framework created before 1974. In fact, all governments also made efforts to maintain or even occasionally expand its central elements. Thus, several initiatives of the Schmidt government were more in line with traditional SPD stances than the measures cited so far. After 1975, when job creation became the Federal Employment Office's most important labour market policy task, local BAA offices were given more powers to allocate up to DM500,000, and programs were reoriented toward hard-to-place workers. The 1976 *Training Place Promotion Act* was declared unconstitutional in 1980, but an almost identical law (without punitive employer taxes for corporations that do not offer apprenticeship positions) was passed in 1981. The years 1977 and 1979 saw the enactment of two large investment programs, as well as the introduction of a special employment program that contained job-creation measures for disabled persons, young people, and women. In 1982, Schmidt proposed a DM12.5 billion job-creation and economic stimulation program linked to a vote of confidence. The initiative was blocked by the CDU-CSU dominated Bundesrat, yet it also highlighted the erosion of labour market policy consensus between the SPD and the FDP in the years after 1979. The Social-Democrats continued to plead for increased expenditures in the field, while the Liberals demanded an end to deficit-spending.

Even after 1982, the traditional approach to labour market policy remained largely unchallenged. Despite its neo-conservative rhetoric, the coalition of CDU-CSU and FDP implemented few drastic changes, and the scope of the above-mentioned restrictive measures can be qualified as moderate. The Kohl government even added new elements to the existing array of instruments. The year 1985 was actually the first time in a decade during which no further cuts were made, and the following years saw a couple of improvements with respect to both passive and active components of labour market policy (enhanced benefits for elderly workers and increased financial support during qualification periods). The so-called Unemployment Initiatives and the Second Work Program, for instance, combined UI benefits and social assistance with matching funds from cities for local job-creation initiatives. Expenditures for active

labour market policy grew, while the ratio of UI benefits to GNP declined. Furthermore, various new programs at the interface of labour market and family policy were implemented, and reunification problems were, as mentioned above, at least temporarily addressed through a massive expansion of labour market policy. While most special programs were phased out quickly, the East German job-creation scheme was extended to the west as part of a bundle of structural measures for *Standort Deutschland* in 1994, and special instruments against long-term unemployment were extended to 1999.

In the final years of the Kohl government, the gap between avowed neo-conservative principles and promises to strengthen restrictive measures on the one hand and elements of continuity in the provision of labour market policy on the other was particularly conspicuous. After 1995, debates between the government and the opposition about the path toward a solution of the unemployment crisis became increasingly tense and eventually led to a virtual deadlock between Bundestag and Bundesrat, as well as to declining consensus between the social partners. First, however, it looked as if corporatism could be revived and used to facilitate employment growth. In January 1996, the federal government and social partners agreed, following the initiative of the metal workers' union, upon a *Bündnis für Arbeit und Standortsicherung* (Alliance for Employment and Competitiveness) that obliged all sides to contribute to the goal of job creation. The union had suggested accepting moderate wage increases tied to inflation rates in exchange for a guarantee of 100,000 new jobs and the reintegration of 10,000 long-term unemployed persons; the government was to revoke planned social cuts.

A few days later, the government presented a 50-point Action Program for Investment and Jobs and in April, a Program for Economic and Employment Growth. It attempted to foster growth, as well as to secure the affordability of the welfare-state regime, with an array of measures spanning different policy fields. All levels of government, as well as unions and employers' associations, were encouraged to participate in this endeavour. While the ultimate responsibility for creating jobs was seen to lie with the social partners, an enabling role for the state in establishing propitious market conditions was also described as crucial. It was hoped that the suggested and initiated measures would give a boost to job growth in new sectors, including knowledge and service industries. The Kohl government tied the program to the ambitious goal of halving unemployment by the year 2000.⁵¹

On the monetary and economic policy side, the Program for Economic and Employment Growth aimed at encouraging innovation and entrepreneurship by

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 Labour Code was announced. With regard to incomes policy, while generally endorsing the traditional system of area-wide negotiations and labour contracts, the program built on the moderation already shown by the unions in previous years and pleaded for stronger wage differentiation toward lower incomes, for more open and variegated wage-setting processes based on regional, sectoral or qualification disparities, as well as for the use of opening clauses in labour contracts at the plant level. Throughout the 1990s, a more decentralized approach had already been tested, particularly in the chemical industry; and in East Germany, where many corporations are not members of employers' associations and pay below-tariff wages. The same increased flexibility was now urged for working times, shop closing hours, and labour organization (part-time work, casual jobs, etc.). Obstacles to hiring were to be removed through the relaxation of dismissal regulations and the expansion of short-term contracts as already permitted by the *Employment Promotion Act*.

At the same time, the program developed incentives for an active labour search and a reduction of labour costs. Social insurance contributions were expected to fall below 40 percent by 2000. The *Wage Continuation During Sick Leaves Act* belonged to this category of restrictive suggestions; the law was meant to reduce income support to 80 percent of wages, but was subsequently watered down in most collective agreements. With regard to labour supply, the program built on the phased-in part-time work for older people that was introduced by the BAA-funded *Phased-in Transition to Retirement Promotion Act* of 1996. In contrast to these retrenchment proposals, the program gave part-time employees a minimum income access to the UI system. It also announced reforms to the AFG and the organization of the BAA. Job counselling

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 renege 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 funds and for a stronger contribution of private service providers in public-works programs. The zealous goal of the old AFG — to achieve and maintain high employment levels — was dropped; only job placement and labour market integration, as well as the fight against UI fraud and abuse, were mentioned as a focus of active labour market policy. Nevertheless, the law introduced a couple of new measures in the fields of retraining and job creation, with special provisions for East Germany. Among them were integration contracts for long-term unemployed persons, subsidies for start-up enterprises hiring unemployed workers and an *Innovationstopf* (Innovation Fund) that enables local BAA offices to use part of their resources for region-specific programs. These

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.

German Labour Market Policy Under the SPD/Green Administration: The First Two Years

The impressive victory of the Social-Democrats and Greens in the 1998 election raised high expectations of swift and bold policy reform across a range of issues. In line with these expectations, the coalition agreement of the new government outlined a reform strategy that promised to reconcile provisions for economic stability, growth, and modernization in the context of globalization, EU integration, and structural change with the promotion of social justice. Initiatives favouring job creation and the reduction of unemployment form the centrepiece of the agreement; other goals and proposed measures with regard to financial consolidation, tax reform, an overhaul of the welfare-state regime and education system — are geared toward this predominant objective and related objectives such as the reduction of poverty. Rather than trading off economic innovation and competitiveness against social justice, the document attempts to demonstrate the mutual relationship between the two. While the maintenance of a generous welfare-state regime is pledged, savings as a result of successful financial consolidation and lower unemployment are expected to permit investments in the sustainable renewal and expansion of a “social and ecological market economy.”⁵²

Labour market policy is to be embedded in an economic policy that combines supply and demand-side elements, strengthens small and medium-sized enterprises and encourages business start-ups. The coalition agreement stresses the precedence of the primary labour market and, in line with the original goals of the AFG, promises a shift back from passive and compensatory to active and anticipatory measures, more job-creation and qualification programs and a stronger coordination of labour market policy with fields like structural, environmental, and transportation policy. The document further promises reform of the dual vocational-training system, measures to improve cooperation between local BAA offices and social-assistance bureaucracies, tax and social-

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 partners that had failed under the Kohl administration, and hence the revival of an explicitly consensual approach to labour market policy. Preparations for roundtable discussions including state, union, and business representatives, as well as academic experts, were begun immediately after the election by the new federal minister of labour and social order, Walter Riester. Until the end of 2000, seven of these discussions took place, and various commissions and working groups have been established. The participants are supposed to debate and ultimately resolve issues such as youth and long-term unemployment, the labour market situation in East Germany, a more equitable redistribution of work, the reduction of labour costs, the flexibility of labour organization, collective bargaining and working times, the modernization of the apprenticeship and vocational-training system, improvements to qualification programs, ways to foster innovation and enhance the competitiveness of the German economy, etc.⁵³

During its first two years in office, the Schröder administration used both the forum of the Employment Alliance and the parliamentary channel to implement several concrete electoral campaign promises with regard to labour market policy. The liberalized dismissal and tightened sick-leave regulations imposed by its predecessor were rescinded, bad-weather payments reinstated. Other early legislative initiatives dealt with insignificant forms of employment (the so-called "620 [630] DM jobs") and precarious forms of self-employment, which are no longer exempt from social-insurance contributions. Like the tax reform passed in the first quarter of 1999, which earmarked gains from a tax surcharge on gas to lower social-insurance contribution rates and hence the costs of labour, both initiatives of the new government were heavily criticized: well-meant, yet badly executed and watered down by its own supporters and downright counterproductive by opponents, not the least in the business community. The gas tax in particular has been a hard sell for the SPD/Green coalition so far.

A special youth-employment program, JUMP, aimed at creating 100,000 additional jobs for young people, proved less controversial and was started in January 1999 (in November 1998, 426,500 persons under 25 had been without work: 299,300 in the west, 127,300 in the east, and 32,700 were looking for apprenticeship positions). The program is aimed at individuals in this age group who are searching for vocational training or apprenticeship positions after

extended periods of unemployment. Hard-to-place and disadvantaged individuals are particularly targeted. The initiative comprises qualification opportunities, job-creation measures, integration allowances, and wage subsidies. It is administered by the BAA and received DM2 billion from BAA, federal and European Social Fund sources in 1999. Of these, 60 percent were disbursed in the old Länder and 40 percent in the new. Participation of the social partners, the Länder, and the municipal authorities was invited from the beginning. The successful program, which surpassed its numerical goal by more than 100 percent, was continued into 2000.

Another major initiative of the Employment Alliance, begun in July 1999, seeks to capitalize on the employment potential of the information and telecommunications (IT) sector and to reduce the current shortage of qualified experts in the German labour market (estimates are in the range of 75,000 persons). The number of vocational-training positions and the scope of BAA qualification programs are to be increased, the federal and Länder governments are to expand university programs in the area. As a highly controversial short-term measure, the federal government has started recruiting foreign IT experts through the BAA. This (arguably misnamed) “green card” program is limited to 20,000 persons who receive non-renewable five-year visas; as insufficient and unspectacular as the program may be, demand for the “green card” has so far been low, it represents a much-noticed departure from Germany’s restrictive immigration policy. Other legislative initiatives with regard to part-time work and early retirement opportunities for elderly workers were also prepared by the Employment Alliance and enacted in early 2000.

To what extent and how successfully the SPD/Greens labour market strategy can be pursued over the rest of the government’s term obviously remains to be seen. The loss of the left-wing Bundesrat majority in a series of 1999 Länder elections, although not very consequential for labour market policy in a narrow sense, has forced the Schröder administration to negotiate policy solutions in related fields with the new Bundestag opposition. Furthermore, the success of the Employment Alliance is hardly assured. That the social partners could be brought together for discussions that continued even after the early implementation of measures that were vividly opposed by the business side was probably a success in and of itself, for while the main challenge of the *Konzertierte Aktion* in the 1970s had been union participation in efforts of inflation control, the key problem has today shifted toward achieving the constructive participation of employers’ associations around the goal of job creation. However, the government’s move to the political centre and its explicit strategy

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.

COMPETITIVE FEDERALISM AND THE DECENTRALIZATION OF LABOUR MARKET POLICY: AN ALTERNATIVE PATH OUT OF THE UNEMPLOYMENT CRISIS?

The preceding analysis of German labour market policy between 1949 and 2000 stressed two aspects. First, the intergovernmental dimension of the field is rather negligible — federalism matters only to the extent that the centralized

and interlocking nature of decision-making, as well as the larger pattern of consensus politics it is embedded in, are demonstrated. Thus most legislation in the field takes place at the federal level (with Länder input largely confined to their role in the Bundesrat), while the implementation and administration of most programs and transfers is a responsibility of the BAA, a federal public-law corporation whose internal structures have experienced a rather limited degree of (merely administrative) decentralization over the last couple of years. Second, I attempted to show the remarkable continuity both in the expansionary phase and in the retrenchment period of German labour market policy, as well as the piecemeal scope of adjustment efforts. In reverting to a policy instrument, the Employment Alliance, that was already tried by its predecessor and draws on models from the 1970s, the Schröder government has amply confirmed this continuity even if it might be possible to fill this corporatist arrangement with new policy content.

However, the academic and political debate on the negative aspects of German federalism and the chance of institutional reform continues. The downsides of *Politikverflechtung*, which are aptly summarized in Fritz W. Scharpf's well-known image of the joint-decision trap, remain a point of concern, as reunification and divided government after 1991 seem to have greatly fostered the alleged inflexibility of German federalism, its tendency to produce lowest-common-denominator solutions, as well as its lack of transparency and accountability. The ongoing financial crisis of the German welfare-state regime and continuing mass unemployment, both exacerbated by the effects of reunification, explain why the most vocal critics of the country's federal system often plead for sweeping changes in the field of social policy as well (and vice versa). The necessity to renegotiate the fiscal arrangements of the federal system by 2005 is another reason for the current intensity of reform discussions. Far-reaching proposals for an institutional reform of the federal system and the welfare-state regime, whose implementation would also entail a radical departure from the traditional approach to labour market policy, are now on the table. Conversely, the unresolved unemployment crisis reinforces calls for change to intergovernmental structures and mechanisms. Many of these proposals are associated with the political right. They come in a defensive variant, whose immobilism seems to have played a major role in bringing the SPD and Greens to power, and an offensive, unabashedly neo-conservative variant represented by neo-liberal intellectuals, the FDP and several CDU-CSU dominated Länder governments.⁵⁴

In the fall of 1997, the Bavarian state government and its prime minister, Edmund Stoiber, began intense and widely noticed lobbying efforts for

reforms to Germany's fiscal arrangements, its welfare-state regime and its labour market policy under the headings of competitive federalism and regionalization of social insurance funds. These proposals, for which there was immediate support from another wealthy southern Land, Baden-Württemberg, as well as from the CDU-governed East German Land of Saxony, have found their most explicit formulation in the three-volume report of the *Kommission für Zukunftsfragen der Freistaaten Bayern und Sachsen* (Future Commission of the Free States of Bavaria and Saxony). The report develops a detailed strategy of adaptation to economic, labour market, and social changes that comprises various policy fields. No less than the end of German consensus politics and cooperative federalism is demanded.⁵⁵

With regard to monetary and economic policy, the commission strikes a familiar neo-conservative and market-oriented chord. It suggests various measures to foster innovation and entrepreneurship, individual responsibility and competition. Increased privatization and deregulation efforts, tax cuts, financial consolidation, and a general downsizing of the state are recommended. With regard to social and labour market policy, the commission outlines ideas for a restructuring of the welfare-state regime that can only be qualified as radical in the German context. The erosion of the regime is actively encouraged, inequalities, and disparities-ensuing deregulation and flexibility are accepted. The report notably urges politicians and citizens alike to come to terms with the fact that the share and importance of paid labour and normal employment histories are irreversibly declining in the transition from an industrial, labour-centred to a post-industrial, knowledge-based economy. The "work orientation" of Germany's social-security system is therefore described as outdated; sweeping policy and institutional changes are suggested as a consequence. Hence the entire scope of the social-security system would be reduced far beyond further restrictions to eligibility criteria and benefits. Minimal transfer levels would no longer guarantee recipients the maintenance of their former living standards. In the field of labour market policy, the full-employment goal of the early 1970s would be abandoned for good. Further reductions of the labour supply would be achieved through new immigration and work-permit restrictions for foreign workers, as well as through support for part-time employment and other measures intended to lower individual weekly, annual, and life-long working times. The flexibility of individual working times and job profiles, as well as increased mobility, are hoped to bring about more competitive labour costs. The commission also calls for reforms to traditional collective-bargaining processes and labour contracts that would better meet

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.

It argues that this reformulation allows for a reduction of equalization payments and transfers between wealthy and poorer Länder; the former would pay only 50 percent of their above-average resources to the latter. The federal government would withdraw from shared tasks and other forms of co-financing. The new system would take the peculiar situation of the five eastern states into account, but otherwise provide for no more than minimal standards and "equality of chances." In this context, the report suggests the formation of larger states, a traditional, but highly contentious and as yet unsuccessful reform idea.

According to the commission, the shift to competitive federalism would increase the overall efficiency and effectiveness of economic and social policy by enhancing flexibility and encouraging policy experimentation. Solutions would be more problem-oriented and closer to specific circumstances. Innovative and responsible state activities would be rewarded, immobility and waste punished. Reform-oriented Länder would be allowed to cash in on the success of their activities. The regionalization of the old-age, health, and intensive-care insurance funds, as well as the UI system and active labour market policy, are seen as an integral part of these proposals. It is expected that such a step would further strengthen incentives for policy changes geared toward economic and employment growth and facilitate a better coordination of structural and labour market policy at the subnational level. The duties of the BAA would be taken over by the state administrations or new LAAs. The BAA would only keep responsibility for some minor equalization payments, research, and statistics. The states would balance LAA deficits. UI contribution rates would be regionalized (Bavaria estimates that it would be able to lower them from 6.5 percent to 4.2 percent [assuming the maintenance of federal transfers] or 5.2 percent [without them]). An element of solidarity would be upheld through redistributive measures correcting for market failures and through a temporary compensation for the eastern Länder.

As a result, the authors of the report foresee an overall gain for the German economy and labour market, as well as budgetary savings. Wealthy Länder with low contribution rates and a positive business climate would attract more investments. Labour would move from poorer to economically successful Länder, but the former would themselves be pushed toward reforms. This optimistic view has not remained unchallenged, as the call for a devolution of the welfare-state regime and labour market policy coincides with the highest level of economic and social heterogeneity in German postwar history. Opponents of competitive federalism argue that such reforms would lead to an even more pronounced asymmetry between East and West Germany. At the very least,

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.

CURRENT STATE AND REFORM NECESSITIES OF GERMAN LABOUR MARKET POLICY: A FINAL ASSESSMENT

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 market situation, they seem to have no convincing answers to the challenge of structural unemployment or for the problems of disadvantaged regions and social groups like the long-term unemployed or the disabled: nine amendments to the AFG since 1974 illustrate a certain problem awareness, but the key problem areas identified in this chapter remain largely untouched.⁵⁶

Notably, the joint funding of passive and active labour market policy has conspicuous perverse effects, as it forces contribution rates and spending on a cyclical and reactive path. This deficiency is largely responsible for the fact that the initial anticipatory approach of the AFG has been pushed aside in the wake of adjustments to emerging mass unemployment after 1973. The current system finances unemployment rather than job creation through its accent on passive instead of active labour market policy. Payroll contributions as a main funding source also have diffuse and questionable cost-benefit effects that clash with the equivalence principle. While not all contribution payers are targeted by active labour market policy, some non-contribution payers (public servants, the self-employed) and overall society do profit, if only through positive externalities. The fragmented German political system and welfare-state regime — three tiers of government and several public-law corporations are involved — also encourages passing the buck and the downloading of expenditure

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 could be has been shown, if only for a short period after reunification, in East Germany. But even relatively simple and cheap reforms would probably be sufficient to bring at least some relief.⁵⁹

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 autonomy for local BAA offices might bring qualification measures and other instruments of active labour market policy closer to regional, sectoral or even plant-level needs and enable the formation of local employment networks between private, non-profit, and public actors in the fight against social imbalances and competitiveness impediments. Concepts of a secondary labour market could also be tried in this context. The dual vocational-training system could serve as a model for union and business collaboration in other fields. Both the AFG and the *Federal Social Assistance Act* would allow for such reforms even if funding remains problematic.⁶⁰

Are the centralized and interlocking nature of German federalism along with the inflexibility of German politics writ large major explanatory factors for the transition to mass unemployment and the ongoing crisis of labour market policy? Is the federal system in its current form an obstacle to the reforms outlined above? Could and should the intergovernmental dimension of labour market policy become more prominent as a result of such reforms? On the one hand, the argument certainly sounds compelling. German politics has without a doubt been — and in many fields, continues to be — plagued by immobilism over the last few years. This apparent immobilism, to which intergovernmental arrangements and processes have greatly contributed, has been recognized as a problem by observers across the political spectrum, from Fritz W. Scharpf, an author close to the SPD, to the neo-conservative participants of the Bavarian-Saxonian future commission. Commentators on the left and right increasingly agree in principle that the Länder could and should play a more pronounced role, not the least in active labour market policy, and voices that argue that ever-growing regional disparities make nationwide economic and social policy obsolete are likely to be heard more often and more loudly in the future even if they have remained in the minority to date.

On the other hand, there is precious little evidence for the claim that the decentralization of labour market policy would bring an end to the unemployment crisis. Decentralization proposals, particularly if couched in

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 with liberal versus corporatist arrangements and quite different underlying political, economic and social realities, values, and norms. In Canada, ethnic and linguistic cleavages, as well as economic and social disparities, have always been pronounced, and this diversity is accepted, even celebrated to a considerable extent. At the same time, questions of regional development have always been a source of intergovernmental conflict and interprovincial competition. While the federal UI system and active labour market policy traditionally aim at alleviating disparities through built-in regional elements, provincial demands for more responsibilities in the field are based on Ottawa's apparent failure to do so. The recent devolution of training policy stands as an example for the salience of this political argument. Canada's example might still become relevant for Germany in the future: it has had many decades of experience with economic and social heterogeneity on the one hand and competitive federalism on the other.⁶⁴

Any future analyses of the German case would, however, also have to consider the development of multi-level governance in the context of the EU. In this chapter, I left aside state and local efforts in the field of active labour market policy, not because they are non-existent or completely irrelevant, but rather because their political and financial weight is low and will probably remain so as long as the BAA is not divided up into state-level agencies and keeps responsibility for the bulk of active and passive labour market policy transfers and services. The same has so far been true, *mutatis mutandis*, for the EU, whose foremost objectives, including monetary union, have without any doubt been economically driven. Existing social policy competences have been closely tied to the imperatives of market integration, subject to unanimity requirements and largely symbolical. Without taxing and spending powers in the field, the social policy record of the EU has been rather meagre. Social policy largely remains a national prerogative, and a further transfer of competences to Brussels is controversial.

Nevertheless, a variety of genuine, potentially far-reaching social policy competences are entrenched in the different EC and EU treaties and agreements.

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 increased geographical and occupational mobility, adaptation to structural change and employment creation — especially for disadvantaged regions and social groups — have existed for quite a while. The treaty also encourages the development of a dialogue between management and labour, formalized social consultation and collective bargaining at the European level. It makes reference to the subsidiarity principle and the economic theory of federalism, a reference that can be used to justify both decentralization and centralization, depending on the issue area concerned. Brussels has already pre-empted concurrent European and national competences in the past by pointing to economies of scale or externalities. The Agreement on Social Policy and the Treaty of Amsterdam, with a chapter on employment policy, go further in this direction. Thus the social policy competences of Brussels have become more explicit over the years and might get a boost as long as most EU countries, including Germany, are governed by Social-Democrats or left-wing coalitions. These administrations might be disposed to finally add a social-citizenship dimension to existing EU programs and institutions. Calls for a European Employment and Training Pact and European wage-policy coordination have also become more vocal recently. Using the cited argument of Peterson, it makes sense indeed to argue that social policy competences have to be transferred to Brussels in order to avoid problems of negative integration.⁶⁵

Perhaps, then, the most likely and most desirable reform path for German labour market policy would be a separation of contribution and tax-financed, passive and active, redistributive and developmental elements — the former at the national or even European scale, the latter at the Länder or municipal level. In order to achieve economically and socially acceptable results, this decentralization should probably be tied to cooperative strategies which seek the participation of private and non-profit actors in an effort to secure competitiveness and a highly qualified labour force for a modern service and information economy, while at the same time offering a safety net for the losers of structural change. A reform along these lines could build on some of the present institutional structures and policy content, but might both depend on and lead to considerable change in the intergovernmental arrangements and dynamics.

NOTES

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 of Science and Technology Policy in Germany* (Baden-Baden: Nomos, 1992); Ulrich Jürgens and Wolfgang Krumbein, eds., *Industriepolitische Strategien: Bundesländer im Vergleich* (Berlin: Edition Sigma, 1991); Roland Sturm, *Die Industriepolitik der Bundesländer und die europäische Integration* (Baden-Baden: Nomos, 1991).

⁹Konrad Hesse, *Der unitarische Bundesstaat* (Karlsruhe: Müller, 1962); Heidrun Abromeit, *Der verkappte Einheitsstaat* (Opladen: Leske & Budrich, 1992).

¹⁰Ursula Münch, "Entwicklung und Perspektiven des deutschen Föderalismus," *Aus Politik und Zeitgeschichte B* 13 (1999):7.

¹¹On the logic of joint decision-making, see Fritz W. Scharpf, Bernd Reissert and Fritz Schnabel, *Politikverflechtung: Theorie und Empirie des kooperativen Föderalismus in Deutschland* (Kronberg/Ts.: Scriptor, 1976); Joachim Jens Hesse, ed., *Politikverflechtung im föderativen Staat: Studien zum Planungs- und Finanzierungsverbund zwischen Bund, Ländern und Gemeinden* (Baden-Baden: Nomos, 1978); Fritz W. Scharpf, "The Joint-Decision Trap: Lessons from German Federalism and European Integration," *Public Administration* 66 (1988):239-78; on the EU dimension, see Franz H.U. Borkenhagen, ed., *Europapolitik der deutschen Länder: Bilanz und Perspektiven nach dem Gipfel von Amsterdam* (Opladen: Leske & Budrich, 1998); Klaus H. Götz, "National Governance and European Integration: Intergovernmental Relations in Germany," *Journal of Common Market Studies* 33 (1995): 99-116; Helmut Klatt, "Europapolitik im föderalstaatlichen System der Bundesrepublik," *Staatwissenschaften und Staatspraxis* 9 (1998):45-84; Gisela Müller-Brandeck-Bocquet, "Europäische Integration und deutscher Föderalismus," in *Die Integration Europas*, ed. Michael Kreile (Opladen: Westdeutscher Verlag, 1992):160-82.

¹²Helge-Lothar Batt, *Die Grundgesetzreform nach der deutschen Einheit* (Opladen: Leske & Budrich, 1996); Arthur Benz, "A Forum of Constitutional Deliberation? A Critical Analysis of the Experience of the Joint Commission on the Constitution," *German Politics* 3 (1994):99-117; Arthur B. Gunlicks, "German Federalism after Unification," *Publius* 24 (1994):81-98; Charlie Jeffery, "The Non-Reform of the German Federal System after Unification," *West European Politics* 18 (1995):252-72; Jeffery, ed., *Recasting German Federalism*; Rainer-Olaf Schultze, "Statt Subsidiarität und Entscheidungsautonomie - Politikverflechtung und kein Ende," *Staatwissenschaften und Staatspraxis* 4 (1993):225-55; on party system changes, see Stefan Grönebaum, "Wird der Osten rot? Das ostdeutsche Parteiensystem in der Vereinigungskrise und vor den Wahlen 1998," *Zeitschrift für Parlamentsfragen* 29 (1998):407-24; Charlie Jeffery, "Party Politics and Territorial Representation in the Federal Republic of Germany," *West European Politics* 22, 2 (1999):130-66; Sabine Kropp and Roland Sturm, "Politische Willensbildung im Föderalismus: Parteienwettbewerb, Regierungsbildungen und Bundesratsverhalten in den Ländern," *Aus Politik und Zeitgeschichte B* 13 (1999):37-46; for a classical analysis of the relationship between federalism and the party system in Germany, see Gerhard Lehbruch, *Parteienwettbewerb im Bundesstaat: Regelsysteme und Spannungslagen im Institutionengefüge der*

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

¹³Bundesministerium der Finanzen, *Finanzbericht* (Bonn: Verlag Dr. Hans Heger, 2000).

¹⁴*Ibid.* (various years).

¹⁵Ulrich Exler, "Financing German Federalism: Problems of Financial Equalisation in the Unification Process," in *Federalism, Unification and European Integration*, ed. Charlie Jeffery and Roland Sturm (London: Cass, 1993); Hans-Hermann Hartwich and Göttrik Wewer, eds., *Regieren in der Bundesrepublik 4: Finanz- und wirtschaftspolitische Bestimmungsfaktoren des Regierens im Bundesstaat - unter besonderer Berücksichtigung des deutschen Vereinigungsprozesses* (Opladen: Leske & Budrich, 1992); Stefan Koriotoh, *Der Finanzausgleich zwischen Bund und Ländern* (Tübingen: Mohr, 1997); Wolfgang Rensch, *Finanzverfassung und Finanzausgleich: Die Auseinandersetzungen um ihre politische Gestaltung in der Bundesrepublik Deutschland zwischen Währungsreform und deutscher Vereinigung (1948 bis 1990)* (Bonn: Dietz, 1991); Gunnar F. Schuppert, "Der bundesstaatliche Finanzausgleich: Status-quo-Denken oder Reformprojekt?" *Staatwissenschaften und Staatspraxis* 6 (1995):675-93.

¹⁶OECD, *OECD Wirtschaftsberichte 1997-1998: Deutschland* (OECD: Paris, 1998):91.

¹⁷Joachim Jens Hesse and Thomas Ellwein, *Das Regierungssystem der Bundesrepublik Deutschland* (Opladen: Westdeutscher Verlag, 1992), p. 86; Wolfgang Rensch, "Föderative Problembewältigung: Zur Einbeziehung der neuen Länder in einen gesamtdeutschen Finanzausgleich ab 1995," *Zeitschrift für Parlamentsfragen* 25 (1994):118, 128; Laufer and Münch, *Das föderative system*, p. 178.

¹⁸Bundesministerium der Finanzen, *Finanzbericht* (Bonn: Verlag Dr. Hans Heger, 2000); OECD, *OECD Wirtschaftsberichte 1997-1998: Deutschland*, p. 93.

¹⁹OECD, *OECD Wirtschaftsberichte 1997-1998: Deutschland*, p. 84.

²⁰Manfred G. Schmidt, "Arbeitslosigkeit und Vollbeschäftigung," in *Lexikon der Politik*, Volume 3, *Die westlichen Länder*, ed. M.G. Schmidt (Munich: Beck, 1992), p. 29.

²¹For comparative perspectives, see Robert Boyer, ed., *The Search for Labour Market Flexibility: The European Economies in Transition* (Oxford: Oxford UP, 1988); Ronald Schettkat, *The Labor Market Dynamics of Economic Restructuring - The United States and Germany in Transition* (New York: Praeger, 1992).

²²Bundesanstalt für Arbeit, *Arbeitsstatistik* (Nuremberg: Bundesanstalt für Arbeit, various years); average figures here and elsewhere in the text are based on the periodization introduced later in the chapter.

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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* (Opladen: Leske & Budrich, 1998), which also gives an overview of GDR social policy between 1949 and 1990; for a general introduction to policy-making in Germany, see Klaus von Beyme and Manfred G. Schmidt, eds., *Policy and Politics in the Federal Republic of Germany* (New York: St. Martin's Press, 1985); Klaus von Beyme and Manfred G. Schmidt, eds., *Politik in der Bundesrepublik Deutschland* (Opladen: Westdeutscher Verlag, 1990).

³³Gösta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990), p. 169.

³⁴For an overview of welfare-state development between 1949 and 1974, see Jens Alber, "Germany," in *Growth to Limits: The Western European Welfare States Since World War II*, Volume 2, ed. Peter Flora (Berlin/New York: de Gruyter, 1986), pp. 1-154; Jens Alber, *Der Sozialstaat in der Bundesrepublik 1950-1983* (Frankfurt/M./New York: Campus, 1989); Jochen Clasen and Richard Freeman, eds., *Social Policy*

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³⁶Schmidt, *Sozialpolitik*, p. 89.

³⁷Thomas Janoski, *The Political Economy of Unemployment: Active Labour Market Policy in West Germany and the United States* (Berkeley: University of California Press, 1990), p. 169.

³⁸Rehabilitation measures are also offered by public-law corporations that administer the old-age, health, and accident insurances.

³⁹Bruche and Reissert, *Die Finanzierung der Arbeitsmarktpolitik*, p. 26.

⁴⁰Susanne Blancke, "The Capacity of Federal States for Policy Innovation: An Analysis of Labour Market Policies in Germany." Unpublished manuscript. At <<http://www.uni-tuebingen.de/uni/spi/ecpr3.html>>; Susanne Blancke and Josef Schmid, *Die aktive Arbeitsmarktpolitik der Länder*, WIP Occasional Paper No. 6 (Tübingen: University of Tübingen, 1999); Udo Bullmann, Mike Cooley and Edgar Einemann, eds., *Lokale Beschäftigungsinitiativen: Konzepte, Praxis, Probleme* (Marburg: SP-Verlag, 1986).

⁴¹Bernd Fritzsche, "Die Finanzierung der Arbeitsmarktpolitik unter distributiven und allokativen Gesichtspunkten," *Sozialer Fortschritt* 5 (1995):110-11.

⁴²Jens Borchert, *Die konservative Transformation des Wohlfahrtsstaates* (Frankfurt, M./New York: Campus, 1995); Gösta Esping-Andersen, ed., *Welfare States in Transition: National Adaptations in Global Economies* (London: Sage, 1996); Frank Nullmeier and Friedbert W. Rüb, *Die Transformation der Sozialpolitik: Vom Sozialstaat zum Sicherungsstaat* (Frankfurt, M./New York: Campus, 1993); Fritz W. Scharpf, *Sozialdemokratische Krisenpolitik in Europa* (Frankfurt, M./New York: Campus, 1987).

⁴³Bundesregierung, *Programm für mehr Wachstum und Beschäftigung* (Bonn: Bundesregierung, 1996); OECD, *Economic Surveys: Germany* (Paris: OECD, 1996), p. 128; Schmidt, *Sozialpolitik*, p. 137; see also G. Bäcker, "Sozialpolitik im vereinigten Deutschland," *Aus Politik und Zeitgeschichte B* 3/4 (1991):3-15; H. Ganssmann, "After Unification: Problems Facing the German Welfare State," *Journal of European Social Policy* 3 (1993):79-90; W. Schmähl, ed., *Sozialpolitik im Prozess der deutschen Vereinigung* (Frankfurt, M./New York: Campus, 1992).

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⁴⁵Fritzsche, *Die Finanzierung der Arbeitsmarktpolitik*, p. 111; OECD, *Wirtschaftsberichte 1997-1998*, p. 69.

⁴⁶Esping-Andersen, *Welfare States in Transition*, p. 180.

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.

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⁵⁶Philip Manow and Eric Seils, "The Employment Crisis of the German Welfare State," *West European Politics* 23 (2000):137-60.

⁵⁷Bruche and Reissert, *Die Finanzierung der Arbeitsmarktpolitik*.

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4

THE SWISS EXPERIENCE IN THE 1990s

Herbert Obinger

INTRODUCTION

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 outputs and policy outcomes. Yet no common denominator can be found in the literature concerning the question of how federalism affects social policy. Two reasons seem to be responsible for this ambivalent picture.

First, different theoretical underpinnings and normative assumptions serve as a starting point for studying the relationship between social policy and federalism. One strand of analysis, inspired by the “New Institutionalism” in social science, argues that the vertical diffusion of power serves as an institutional veto-point reducing the steering capacity of political agents for implementing expansive social policies as well as welfare state retrenchment. Public policy in fragmented political systems requires, in procedural perspective, the coordination

of fragmented resources of action. Any major policy change requires coordination of multi-layered interests and the approval of a host of actors who have to bargain until they agree on a joint course of action and, what is especially important for expensive public policies like social policy, how the associated costs are shared. Thus, (social) policy-making in fragmented and intertwined systems of decision-making is likely to result in either a retardation of decision-making or in suboptimal policy outcomes.² With respect to Germany, Gerhard Lehbruch has argued that a deadlock in decision-making is likely to emerge when a negotiation-based logic of decision-making, as typically prevalent in federal polities, conflicts with a majoritarian-based rationale in the partisan arena.³

A second and more normative school is merely interested in issues of whether regionally fragmented social policies conflict with social citizenship outlined at the national level. Federalism is sometimes blamed for violating equality by subordinating national (social) standards to regional preferences. If one regards, like T.H. Marshall, the welfare state as an institutional device to reconcile class-based social inequality with egalitarian citizenship, then decentralization of social standards can be viewed as a threat for universal social rights attached to citizenship.⁴ Assuming that individual living standards should be safeguarded by political decisions might cause a dilemma if political norm-setting of such standards varies along territorial lines. Consequently, decentralized social policies are often considered to be conservative, that is, less comprehensive and less redistributive. However, both the corresponding theoretical arguments and the empirical evidence are far from being clear-cut.⁵ Public-choice theorists in turn point to several advantages of vertical power-sharing by emphasizing competition between the constitutional units that, in an analogy to markets, fuels innovation and efficiency.⁶ Others regard fiscal competition as a threat for social standards, giving rise to a downward spiral in social benefit provision sometimes dubbed as the race to the bottom.⁷ Still others point to important functions of federalism for the cohesion of society and the process of nation-building.⁸

Second, and more important, federalism is not a uniform concept across time and space. Considering a caveat of Paul Pierson, federalism is not a one-way arrangement that induces a specific policy outcome.⁹ In order to detect the impact of federalism on social policy in a given country, an in-depth study of the country's federal system is required that includes the following: the distribution of power and responsibilities between the central state and the constituent units in the policy field under consideration, the representation of the constituent units at the central state (i.e., the veto-points by which cantons

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.

FEDERALISM IN SWITZERLAND: MAIN CHARACTERISTICS

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 slightly enhanced. Moreover, the facultative referendum was introduced in 1874. With the collection of 30,000 (today 50,000) signatures, a parliamentary bill or decree is automatically subject to a referendum. In 1891, the constitutional initiative was introduced by which 50,000 (today 100,000) citizens can demand an alteration of the federal constitution. This instrument is frequently employed by opposition groups since it introduces new issues into the political system from the bottom up.

Federalism and direct democracy have historically proved to be the main instruments for the integration of Swiss society, which was (and partially still is) highly segmented according to several dimensions: religion, language, and region.¹² Swiss federalism has to be viewed as an institutional device originally designed to settle conflicts resulting from these societal cleavages. It still rests upon local autonomy rather than regional competition.¹³ The Swiss concept of federalism “tolerates, even celebrates, diversity.”¹⁴ From the very beginning, the protection of minorities and mutual support dominated competitive issues. This is institutionally secured by proportional representation in key decision-making bodies as well as several institutional veto-points by which political, ethnic and denominational minorities could and still can exert influence on the federal decision-making process.¹⁵ Moreover, these veto-points safeguard minorities from being overruled and by-passed by the will of the majority. The combination of federalism and direct democracy not only guarantees a strong representation of the cantons in the federal polity but gives them also a prominent voice in the federal arena. Parliament is strictly bicameral, supplying the National Council and the Council of States with exactly the same rights. The Council of States represents the cantons regardless of population size, privileging small and mostly rural cantons. Cantons also play

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 This formula set the basis for 40 years of an oversized cabinet providing two seats each for the Radicals, Social Democrats and Christian Democrats, and one seat for a representative of the Swiss People's Party. A similar process took place in the field of industrial relations. As already mentioned, the big business organizations and trade unions were incorporated formally into the pre-parliamentary decision-making process in 1947. As a result of this paradigmatic integration, decision-making by majority rule stepwise was replaced by consociational democracy and a liberal version of corporatism.¹⁹ More specifically, public policy-making in the postwar period is shaped by three highly interconnected bargaining arenas: a negotiation arena between the cantons and the federation, a bargaining arena comprising the political parties (the consociational forum) and, finally, the corporatist arena which consists of the interest organizations of business and labour and the public administration.²⁰ Since a negotiation-based logic of decision-making applies to all three arenas, a policy stalemate because of

clashing techniques of decision-making in the federal and electoral arena is rather unlikely in Switzerland.²¹ Nevertheless, the interplay of these three arenas of negotiation is decisive in understanding public policy-making in Switzerland.

The Distribution of Responsibilities between the Federation and the Cantons in the Field of Social and Labour Market Policy

With about seven million inhabitants, Switzerland is the least populous democratic federation in the world.²² It is a federation of 26 cantons and approximately 3,000 communes. These sub-units not only have considerable policy leeway but also receive the majority of the public tax revenues (56.5 percent of total tax revenues in 1996) providing a sound fiscal basis for funding autonomous policies. The federal polity is mirrored in the country's welfare state. According to the original federal constitution of 1874, the cantons have been responsible in almost all matters of social policy, whereas the federal state was only empowered to regulate the working conditions in factories. The federal government immediately made use of this constitutional amendment introduced in 1874, and set-up, inspired by some innovative cantonal laws, one of the world's pioneering factory laws (the *Federal Factory Act*) in 1877, regulating working time and working conditions in factories. However, given the federation's lack of responsibility in other fields of social security, the corresponding legislative process was split into two stages. The engagement of the federal government concentrated on implementing constitutional amendments to empower the central state in social security legislation. However, this process of conferring responsibilities to the central state in all fields of social security took about 60 years, since each constitutional amendment had to pass an obligatory referendum. The central state was entrusted with the right to enact health and accident insurance in 1890 and 35 years later it was given the right to legislate on old age, survivors', and disability insurance. In 1945, the federal government was empowered to regulate maternity insurance as well as family allowances. Finally, unemployment insurance was shifted to the central state in 1947. In the aftermath of World War II, the federation had received the right to regulate the most important branches of social security. Consequently (and facilitated by an exceptional economic performance) the Swiss welfare state was launched after World War II by establishing Old Age and Survivors' Insurance (AHV) in 1948, the introduction of a federal unemployment insurance (1952), family allowances for farmers (1953), and invalidity insurance (IV) in 1960. In light of this expansion of national social policy regulation the

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.

TABLE 1
Responsibilities of Cantons and the Federation in the Field of Social Security, 2000

<i>Program</i>	<i>Extent of Cover of Program</i>	<i>Legislation</i>	<i>Funding</i>	<i>Implementation</i>
Old Age and Survivors' Insurance	Universal insurance	0	1	1
Invalidity Insurance	Universal insurance	0	1	1
Supplementary Benefits	Universal insurance/ means-tested	0	1	2
Unemployment Insurance	Employment-related	0	– ^c	1
Accident Insurance	Employment-related	0	–	0
Sickness Insurance	Universal insurance	0	1	1
Family Allowances	Employment-related	1	1 ^b	1
Unemployment Assistance	Means-tested	2	2	2
Social Assistance ^a	Means-tested	2	2	2

Notes: 3-point scale: 0= federation's responsibility, 1=shared responsibility between federation and cantons, 2= cantons' responsibility; – = contributory funded.

^a=Social assistance for refugees and asylum-seekers excluded. Moreover, a federal law regulates cost reimbursement between cantons.

^b=Some cantons provide means-tested family allowances for non-employed people.

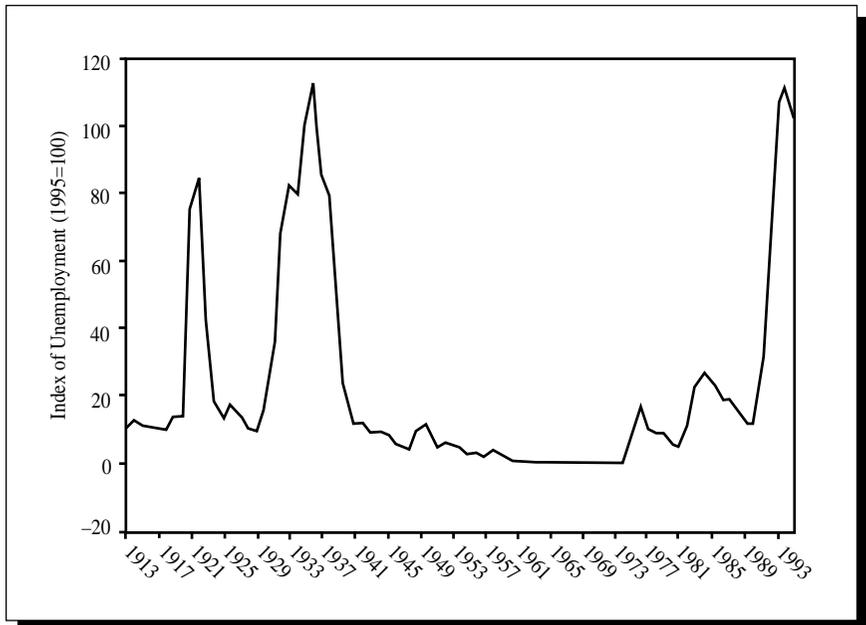
^c= The federation has to cover the deficit in times of severe unemployment.

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 strong policy feedback stemming from local social security arrangements, institutional factors and weak political will. Income support for the unemployed at the local and cantonal tier historically enjoyed a great tradition. Swiss cities established the first public unemployment insurance funds in Europe in the late nineteenth century. The capital Bern set up non-compulsory unemployment insurance in 1893. Other cities and trade unions followed.²⁴ This pioneering role of cities (and trade unions) clearly demonstrates the innovation capacities associated with federalism. However, these funds emerging at the local level faced similar problems. Most of them suffered from a lack of members so that a sufficient pooling of risk was not guaranteed. Moreover, employers were sometimes released from contributory payments. Adverse selection and the collapse of unemployment funds like that in the city of St. Gallen in 1897 were natural consequences. Other income support programs for the unemployed, like a public unemployment insurance in the city of Basel in 1900, were rejected in a referendum.

Although the Swiss labour movement launched a constitutional initiative called *Recht auf Arbeit* in 1893, the introduction of federal unemployment insurance should last more than 50 years. One aim of this initiative was to enhance social protection of the unemployed either by a federal unemployment insurance or by subsidizing the existing private funds from the general budget. Yet this initiative was strongly rejected by the people in 1894. Moreover, the bourgeois federal government blocked federal unemployment insurance for budgetary reasons. In 1924, however, the central state became engaged in the social protection of the unemployed. Given its lack of competence for legislation in the field of unemployment insurance, the Federal Council (Bundesrat) established a federal act that focused on subsidizing the existing autonomous unemployment funds.²⁵ Furthermore, the subsidies should stimulate the creation of new unemployment funds at local and cantonal levels. Yet this system was inadequate to cope with the rise in unemployment during the Great Depression. Hence, a further constitutional initiative (the so-called *Kriseninitiative*) was launched by the labour movement and called for, among other things, better social protection of the unemployed. Like almost all constitutional initiatives in the field of social policy, the *Kriseninitiative* was rejected by the people in 1935.²⁶ A further initiative launched by the Swiss trade union association (SGB) in 1936 demanding unemployment insurance was obstructed by the authorities and was finally withdrawn in 1947.²⁷ The reason for this withdrawal was the adoption of a new constitutional amendment in 1947 that

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 international comparison. Unemployment thus never had the devastating effects on social cohesion as in so many other countries. Even during the Great Depression Switzerland did not face mass unemployment to the extent experienced by the United States leaving a quarter of the labour force without a job.

FIGURE 1
Index of Unemployment in Switzerland, 1913–1995
(1995=100)



Note: The unemployment percentage rate in 1995 (=100) amounted to 4.2 percent.

Source: Federal Bureau of Statistics, Bern. At <<http://www.admin.ch/bfs/ch150/dfrach6.htm>>.

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.

THE SWISS LABOUR MARKET PERFORMANCE IN THE 1990s: THE END OF THE MIRACLE?

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 residential permits. Those with only short-term residency and work permits left the country when the economy slowed. Moreover, the number of new work permits was reduced. Together with the pro-cyclical participation rate of women, the labour supply was shortened in times of recession and was brought into equilibrium with labour demand. Hence, unemployment was not visible for decades. Switzerland's labour market policy therefore was first and foremost designed to protect the Swiss male labour force against the risk of unemployment.³¹

But what happened in the 1990s? The steep rise of unemployment is due to the introduction of mandatory unemployment insurance in 1977 and the creeping collapse of the two pillars on which the regulation of labour supply traditionally was based. In the 1970s, right-wing groups had launched several constitutional initiatives to limit the number of foreigners in Switzerland. Although these initiatives were rejected by the people, growing xenophobic attitudes toward foreigners going along with those referenda forced the federal government to revise its immigration policy.³² It focused on improving the integration of foreigners already living in Switzerland instead of providing new short-term one-year or seasonal work and residential permits. As a result of this policy shift the number of foreigners with permanent residential permits continuously increased while the number of foreigners with short-term status declined (Table 2).

TABLE 2
Foreigners According to Residential Status (end of December)

<i>Residential status</i>	1970	1975	1980	1985	1990	1995	1996	1997
Permanent	182,898	327,234	374,240	426,227	499,864	542,928	528,916	520,618
One-year	410,321	225,371	126,864	123,067	169,937	185,744	180,192	172,133
Seasonal workers	16,772	6,214	6,483	11,330	13,301	16,080	13,607	12,492
Frontier commuters	74,134	85,180	94,833	112,780	181,366	150,983	146,986	142,204
Total	684,125	643,999	602,420	673,404	864,469	895,735	869,701	847,447
Seasonal workers (August)	154,732	86,008	109,873	102,809	121,704	53,707	45,259	30,988

Source: Zahlenspiegel der Schweiz 1998/1999, p. 22.

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 residential permits and the increasing participation of women reduced the leeway for the traditional policy of adjusting labour supply to labour demand. When the recession hit Switzerland in 1991, women and foreign workers remained in the labour market. Because of mandatory unemployment insurance these groups had now qualified for unemployment benefits and had an incentive to be registered as unemployed. Moreover, the high replacement rates guaranteed by the Swiss unemployment insurance encouraged the employers to externalize labour costs.³³ Instead of traditional labour hoarding in times of an economic slump, employers now fired personnel since unemployment insurance guaranteed 70 and 80 percent of the last wage. About 233,000 jobs were cut in the early 1990s.³⁴ Consequently, unemployment became visible to a larger extent for the first time. Tables 3 and 4 summarize main indicators of recent developments in the Swiss labour market. Unemployment peaked in 1997 with a percentage rate of 5.2 percent. The sharp rise in unemployment was paralleled by a steep increase in long-term unemployment. In 1997, one-third of the unemployed were without jobs for more than 12 months. In 1991 this ratio amounted to only 4.4 percent.

TABLE 3
The Swiss Labour Market at One Glance

<i>Participation Rate^a</i>	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Men	81.3	86.2	n/a	n/a	84.5	83.4	83.0	82.4	82.1	81.5	n/a
Women	45.2	52.0	n/a	n/a	54.0	53.9	53.7	54.8	54.8	55.2	n/a
Total	62.7	68.6	n/a	n/a	68.7	68.2	67.9	68.1	68.0	67.9	n/a
<i>Unemployment Percentage Rate</i>	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Men	0.2	0.4	1.0	2.5	4.4	4.4	3.9	4.4	4.9	3.5	2.4
Women	0.2	0.6	1.2	2.7	4.7	5.2	4.8	5.1	5.7	4.4	3.3
Swiss	n/a	0.4	0.8	2.0	3.5	3.7	3.2	3.3	3.6	2.6	1.8
Foreigners	n/a	0.9	2.1	4.5	7.8	8.4	8.0	9.3	10.7	8.1	5.8
Total	0.2	0.5	1.1	2.5	4.5	4.7	4.2	4.7	5.2	3.9	2.7

Notes: a= Labour force as a percentage of population aged 15 and over.

Source: *OECD Economic Surveys, Switzerland* (various issues). Data for 1999 are drawn from Secrétariat d'Etat à l'économie at <<http://www2.seco.admin.ch/seco/seco2.nsf/AMSDe>>.

TABLE 4
Unemployment According to Region, Age and Duration

	1991	1992	1993	1994	1995	1996	1997	1998	1999
According to Region									
German-speaking	0.7	2.0	3.7	3.8	3.3	3.9	4.5	3.2	2.2
French- and Italian-speaking	2.0	4.0	6.5	7.1	6.6	6.7	7.0	5.4	4.1
According to Age									
15-24	1.1	3.0	4.9	4.7	3.9	4.3	4.7	3.3	2.2
25-49	1.2	2.7	4.8	4.9	4.4	5.0	5.5	4.1	2.9
50+	0.8	1.8	3.5	4.2	3.9	4.2	4.7	3.7	2.7
According to Duration (share in %)									
0-6 months	77.1	65.7	52.3	43.0	41.6	47.6	47.5	36.4	n/a
7-12 months	18.5	25.6	30.0	28.2	22.4	25.2	29.0	18.7	n/a
>12 months	4.4	8.7	17.7	28.8	25.7	25.8	33.6	26.5	n/a

Source: OECD, *Economic Surveys. Switzerland 1995*, pp. 12-13; 1999, p. 31. Data for 1999 are drawn from Secrétariat d'Etat à l'économie at <<http://www2.seco-admin.ch/seco/seco2.nsf/AMSde>>.

The incidence of unemployment is relatively stable during the 1990s. Unemployment is almost twice as high in the French- and Italian-speaking cantons compared with the German-speaking cantons. Women face a higher risk of becoming unemployed than men, although the gender gap is relatively narrow by international standards. However, there is a gender gap concerning the extent of employment: more than 50 percent of the female labour force is employed part-time, whereas the corresponding share for men is less than 10 percent. With respect to nationality, there exists a substantial cleavage between Swiss nationals and foreigners. The high unemployment risk of the foreign labour force is explained by a generally lower level of qualifications within this group.³⁵ According to age, youth unemployment is lower than the national average from the mid-1990s on. Moreover, judged by international standards, youth unemployment in Switzerland is comparatively low.

FEDERALISM AT WORK: RESTRUCTURING SOCIAL PROTECTION FOR THE UNEMPLOYED IN THE 1990s

Income support for the unemployed is provided by unemployment insurance, cantonal unemployment assistance, and cantonal social assistance. In light of the situation in the labour market in the 1990s these programs came under pressure because they were all tailored to the postwar boom economy. This section scrutinizes both the objectives and outcomes of the reforms undertaken in each of these schemes. All these reforms had to satisfy the three interconnected bargaining arenas. As it is typical for a consensus democracy, a considerable number of actors were involved in the decision-making process. Major breakthroughs were reached during roundtable negotiations behind closed doors in the pre-parliamentary decision-making process. Consequently, the policies employed are compromise-based and reflect different ideas and preferences.³⁶ Although negotiation-based decision-making is often supposed to be opaque, direct democracy enables citizens to overrule any major decision drawn by the political elite. As already mentioned, every bill or decree that has passed parliament is subject to a referendum, provided that 50,000 signatures are successfully collected within one hundred days. On the one hand this means that important decisions in principle are left to the people. On the other hand, it is exactly this institution of direct democracy that fuels consensus-based policy-making behind closed doors. Consocialism and direct democracy are thus mutually reinforcing. To avoid a referendum, a compromise has to be found.³⁷ The best way to do so this is to distribute gains and losses from a bill evenly among the electorate and interest groups. Such a decision-making process is regularly protracted so that the speed of reform is often slowed down, but there is no evidence that consensus democracy affects either the quality of democracy or the quality of legislation negatively.³⁸ If such a broad-based compromise fails, a referendum is likely. This is also true for the policy field under consideration.

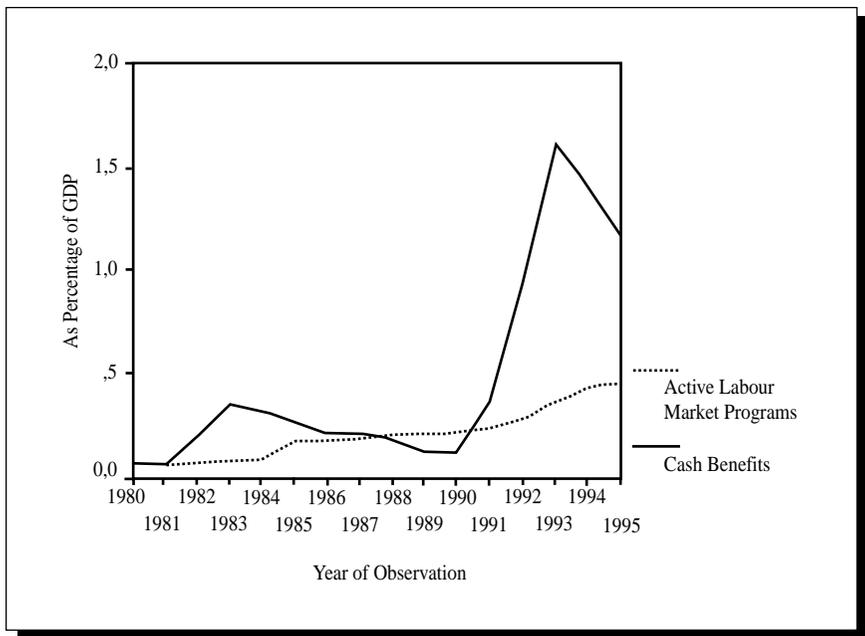
Unemployment Insurance

Swiss unemployment insurance in the early 1990s was characterized by a combination of generous benefits with tight controls and a short duration of benefits.³⁹ Since the unemployment insurance scheme was tailored to the boom period of the 1980s, two major problems emerged when the number of unemployed rose rapidly in the early 1990s. First, owing to the increasing number

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
Spending on Unemployment Benefits as a Percentage of GDP, 1980–1995



Source: OECD, *Social Expenditure Database*. CD-ROM (Paris: OECD, 1999).

and then to 3 percent (until 2003) in 1995. Table 5 reports the development of level and duration of unemployment benefits over the last 20 years. Moreover, the ceiling for contributory payments was enhanced in 1991 and in 1995.

TABLE 5
Evolution of Unemployment Benefits and Contribution Rates, 1978–2000

<i>Year</i>	<i>Replacement Rate</i>	<i>Duration of Daily Benefits (maximum)</i>	<i>Contribution Rate</i>
1978	65/70	150/180	0.8
1980	65/70	150/180	0.5
1982	65/70	150/180	0.3
1984	70/80	85/250	0.6
1990	70/80	85/250	0.4
1992	80	85/250	0.4
1993	70/80	170/300/400	2.0
1995	70/80	170/300/400	3.0
1997	70/80	520	3.0
2000	70/80	520	3.0

Source: OECD, *Economic Surveys: Switzerland 1997* (Paris: OECD, 1997), p. 63 (supplemented by the author).

In order to cope with long-term unemployment the maximum duration of daily allowances was enhanced to 400 days in 1993. On the other hand, waiting days as well as stronger sanctions against noncooperative claimants were introduced. Also the definition of “suitable work” was tightened. In 1993, the replacement rate for non-disabled people without dependants was reduced from 80 to 70 percent. People also were forced to accept a job that paid less than unemployment benefits if the difference was made up by compensation benefits from unemployment insurance. To cover the deficit accumulated by the unemployment insurance, the replacement rate was cut again by 1 to 3 percent in 1997 on the basis of a federal resolution. Yet a small interest group of the unemployed (*association pour la défense des chomeurs*) successfully launched a referendum removing the federal resolution. This referendum is an example showing that one-sided attempts of welfare-state retrenchment are not backed by the public.⁴⁰ Another example is the rejection of the federal *Labour Law (Arbeitsgesetz)* in late 1996 which aimed to promote deregulation

and flexibility in the labour market but did not sufficiently compensate employees. A renegotiated and more compromise-based bill that combined flexibility and deregulation measures with slight social compensations was strongly approved by the people in a referendum in 1998.

Based on a bill drafted by the federal government (the so-called *Botschaft*) parliamentary negotiations began in 1993 in order to translate the emergency resolutions into ordinary legislation. The National Council (the lower House of Parliament) launched an initiative for strengthening active labour market policy. This proposal was a radical break with the bill endorsed by the federal government favouring incremental reforms.⁴¹ National Council focused on extending active labour market policy at the expense of passive income support. Activating the labour force fits the ideological interests both of the right and the left since such programs can be justified by different economic schools of thought and contain not only elements of workfare, but also human capital formation.⁴² Although the Council of States principally backed the idea of upgrading activation measures, there also have been conflicts between both chambers of parliament. Although today unemployment insurance is the responsibility of the central state, according to the concept of cooperative federalism it is common practice to shift the implementation of a law to the cantons. Cooperative federalism also means cost-sharing between the different tiers of government. Entrusting cantons with implementation should improve the administrative efficiency and enable a flexible response to specific cantonal circumstances. In the case of unemployment insurance it was assumed that the local authorities were equipped with the best information about the regional labour market situation.

However, implementation and funding of unemployment insurance caused conflicts between the two chambers of parliament. More specifically, two issues were heavily contested: first, the National Council suggested that cantons should provide 66,000 slots for vocational training. Cantons should also contribute to the funding of the diverse measures of active labour market policy. They should cover 5 percent of the costs stemming from active labour market policy. Second, cantons should provide loans *a fonds perdu* to cover the unemployment insurance deficit in times of severe and persistent unemployment. The cantons strongly resisted these plans because they feared considerable financial costs. The Council of States strongly rejected these plans. The small chamber argued that cantons cannot provide more than 15,000 slots. A compromise had to be found. The breakthrough was reached by a working group staffed with representatives of the three bargaining areas, that is

politicians, social partners, and representatives from the cantonal and federal executive. This compromise, reached in spring 1995, was adopted by parliament without major modifications. Because it was a well-balanced reform package which served the interest of all key actors, no referendum was launched. This stands in sharp contrast to the major reforms to social insurance in the 1990s which have been subjected to a referendum.⁴³ The bourgeois parties welcomed the tightening of control and sanctions, the left approved the enhancement of benefit length and the policy shift toward activating measures was supported by both sides. The bill was implemented in two steps beginning 1 January 1996. It rests upon two pillars. First, the measures already introduced by urgent federal resolutions consisting of tighter controls and sanctions, waiting days, a staggered replacement rate, and the new funding mode were incorporated into ordinary legislation. Second, active labour market programs that played a marginal role up until the 1990s, were considerably enhanced. The maximum of passive benefits was drastically shortened and is now contingent on age. The older a person, the more benefits he or she can receive. Specifically, people up to 50 years of age can receive a maximum of 150 days, those unemployed up to 60 years of age are entitled to 250 days and those older than 60 can qualify for a maximum of 400 days support. The maximum of 520 benefit days falls to beneficiaries receiving an invalidity pension from disability or accident insurance. Additional daily allowances are only paid if beneficiaries participate in active labour market policy programs. Sanctions are applied if people refuse to participate in programs, thus giving active labour market policy a paternalistic image.

Activation programs are composed of training and retraining courses. These measures are aimed at improving job placement and are targeted primarily to young, females, and long-term unemployed (AVIG, article 59 and 59a). Combating youth unemployment focuses strongly on activation measures, though there are no special programs that exclusively focus on the young unemployed. On the other hand, young unemployed who have just finished school are exempted from contributory payments, but have to endure very long waiting periods until benefits can be received. However, judged by experiences in other countries, youth unemployment is not such a serious problem in Switzerland. Among other factors the apprenticeship-system is responsible for this, though it does not eliminate the risk of unemployment.⁴⁴ Nevertheless, the average duration of unemployment of persons aged 15–24 is the lowest of all age groups.⁴⁵

The insurance also provides subsidies for three years of vocational training, subsidies during the initial period (training on the job), and monetary

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 to their financing (AVIG, article 72a-c). Thus, the federal government has set-up negative and positive incentives which should mean that at least a minimum number of slots is supplied by the cantons. This incentive system has proved to be successful since the number of employment slots offered by the cantons exceeded the minimum target outlined by law in 1997.⁴⁸

Given this expansion of active labour market programs, spending on active labour market policies increased from 0.2 percent of GDP (1985) to 0.8 percent in 1997 which is exactly the average level of effort for the OECD. In terms of resources devoted per person unemployed, Switzerland exceeded both the EU and the OECD average in 1997.⁴⁹

Swiss active labour market policies (ALMP) were subject to a microeconomic evaluation. Gerfin and Lechner focused on the differences of

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

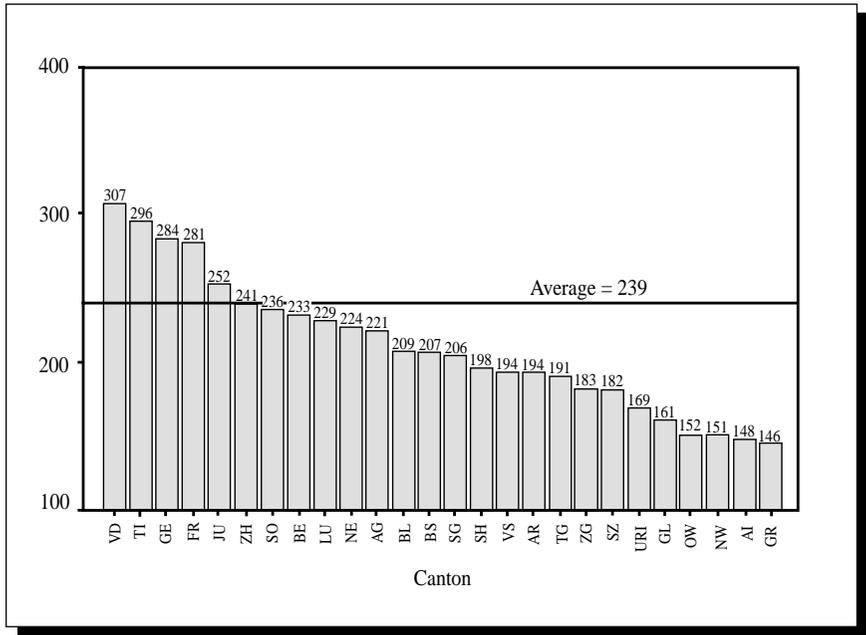
Since the local labour offices are primarily staffed with part-time workers and were overburdened in the wake of the recession, the organizational basis of the job-placement system was restructured. Cantons were to establish Regional Employment Services (RES) which were assisted by tripartite commissions 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 variations regarding the success rate of job placement.⁵³ On average, it took 239 days for an unemployed person to find a new job. Figure 3 shows that the duration of successful placement in a canton ranges from 146 to 307 days. Furthermore, successful placement depends inversely on age and is strongly influenced by nationality: foreigners, especially those from non EU-member countries, remain unemployed significantly longer than Swiss nationals. In contrast, duration of job search is almost the same for men and women.

However, the study also detected inefficiencies. Although a substantial variation between the 125 RES can be explained by exogenous variables like different regional rates of unemployment, an RESs internal organization and incentive structure as well as the staff’s skills are important determinants for successful placement.

Unemployment Assistance

After allowances have been exhausted, long-term unemployed are entitled to cantonal unemployment assistance. There is no universal unemployment assistance at the federal level, although the federal state was empowered to legislate on unemployment assistance in 1947. Unemployment assistance is thus the responsibility of the 26 cantons. However, not all cantons have

FIGURE 3
Duration of Average Job Placement According to Canton
(in days)



Source: ATAG Ernst & Young, *RAV-Evaluationsstudie: Schlussbericht* (Bern: Ernst-Young, 1999), p. 30.

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, Neuchatel, 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.

TABLE 6
Duration and Level of Cantonal Unemployment Assistance Benefits

<i>Canton</i>	<i>Maximum Duration of Daily Benefits (within a 2-year framework) and/or Guaranteed Slot in Employment Program</i>	<i>Maximum Level in Percent of Unemployment Insurance Benefits</i>
Zurich	150	90–100 (maximum only for age > 55)
Bern	90–150 (pending)	100
Lucerne	120	80
Uri	50–150 (according to age and dependants)	90
Glarus	60	90
Zug	90–150 (no framework period)	85
Solothurn	150	90
Basel-Stadt	200 (80–145)	100
Basel-Land	85–200 (maximum only for older workers)	Subsistence minimum
Schaffhausen	150	80–90
St.Gallen	60 (per calendar year)	80
Ticino	90	80
Vaud	40–110 (per calendar year)	100
Neuchatel	Public sector employment	2,700–4,000 sfr per month
Geneva	Temporary public sector employment, 85 daily benefits in case of hardship	100
Jura	Employment programs	ca. 2,700 sfr per month
Thurgau	90–150 (maximum duration if unemployment > 3 percent)	90
Valais	170–300 (maximum only when “persistent and significant unemployment”)	50
Fribourg	75–150 (maximum only in special cases)	90

Source: OECD, *Labour Market Policy in Switzerland* (Paris: OECD, 1996), p. 96. Data refer to 1994.

However, the data reported in this table refer to the situation in the mid-1990s. Meanwhile, several efforts of combating long-term unemployment at cantonal and local levels took place, supporting the view that federalism is a source of innovation. As is clear from Table 4, *unemployment* rates show a considerable regional variation. In the mid-1990s, some Latin (Italian- and French-speaking) cantons facing high rates of unemployment established new ways in which income support for the unemployed could be managed and provided. Inspired by the French RMI, these cantons introduced reintegration schemes that are overwhelmingly part of cantonal social-assistance legislation. These programs are described in more detail in the next section. Some Latin cantons also provide employment programs. Geneva, for instance, runs a 12-month employment program by which a claimant who has reached the end of entitlement to benefits can qualify for unemployment insurance benefits again. About 3,000 jobs are provided annually, most of them in the public sector.⁵⁶ One objective of an employment program is to prevent long-term unemployed from being reduced to cantonal social assistance. Since participation in these programs qualifies a person for federal unemployment benefits, cantons can externalize costs to federal unemployment insurance. Thus, this cost-reduction strategy used by some cantons stimulates a carousel-effect.⁵⁷

In contrast, some German-speaking cantons like Zurich did not alter their schemes. Other German cantons have adjusted their legislation regarding unemployment assistance in accordance with the federal unemployment law and have thus extended their activation programs. Schaffhausen, for instance, enacted new legislation on 1 October 1997. Apart from the existing passive cash benefits (which were slightly revised) the law now comprises a series of activating measures ranging from subsidies for vocational and retraining courses to employment programs in the non-profit sector. According to this new law the canton and the communes *can* supply such programs, but there is no obligation to do so.

Social Assistance

Social assistance serves as a safety net of last resort for those who lack support from their families, receive insufficient income or social security benefits, or have been taken off social insurance. Since income support provided by unemployment insurance and assistance is temporary, the long-term unemployed are finally doomed to social assistance. Until the 1990s, social assistance played only a residual role within the social security system. However, the rise in unemployment has challenged social assistance: the number of beneficiaries

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 communes.⁶⁰ Federal responsibilities in the field of social assistance are outlined by the federal *Law of Legal Responsibility for Support of the Needy* (*Bundesgesetz über die Zuständigkeit für die Unterstützung Bedürftiger*), which was enacted in 1977 (revised 1990). The law defines neediness, entrusts the resident canton with responsibility for support, and regulates cost-sharing and reimbursement between the home and the resident canton.⁶¹ Another federal responsibility is support for asylum-seekers and refugees which is regulated by a separate law.⁶²

Social assistance is individualized in order to help each client with his or her particular problems with the appropriate means. Every individual domiciled in Switzerland, independent of nationality, is entitled to receive support from social assistance if he or she is unable to maintain a subsistence level. Asset-tests are quite strict in Switzerland compared to other OECD countries.⁶³ Assets, earned income, alimonies, benefits from social insurance, and income from rentals are taken into account for the calculation of benefits. Based on information regarding financial and personal circumstances, social workers design individual packages for their claimants. Thus, help is tailored to the particular needs of the individual.

From a comparative point of view benefit levels are generous. However, there are three procedural mechanisms that deter people from applying for social assistance. In accordance with the subsidiarity principle close family members are obliged to support a claimant. Second, most cantonal laws state that benefits have to be repaid in the case of successful recovery of economic self-sufficiency, although in practice effective refunding is limited to only a few cases. And third, there is much evidence that social assistance in small

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 apply benefit rates below the SKOS-guidelines and 7 percent of the communes calculate benefits according to their own criteria.⁷⁶ Although SKOS-guidelines are increasingly accepted as norms so that 17 of the 26 cantons explicitly apply the SKOS-guidelines, a considerable share of communes in the cantons Aargau, Uri, Schaffhausen, Obwalden und Graubünden systematically deviate from the guidelines.⁷⁷ Four reasons for deviating from the guidelines can be distinguished.⁷⁸ First, the larger a commune, the more likely the SKOS-rates are applied. Second, benefit levels are determined by the organizational structure of social assistance. Where social assistance is operated by the local council, that is elected politicians forming the executive of a commune, deviations from the SKOS recommendations are more widespread compared to communes in which a special administrative body is responsible for social assistance.⁷⁹ Third, authorities adjust benefits to regional variations in living costs and, finally, deviations reflect the communes' varying fiscal abilities to finance public assistance. Although a system of fiscal equalization exists, its architecture is Byzantine and the overall redistribution effect is weak.⁸⁰ It is thus more likely that small communes facing major financial shortcomings do not follow the guidelines. Although almost 70 percent of the German-speaking communes apply the SKOS recommendations, one could conclude that the binding force of such a voluntary attempt of harmonizing benefit calculation is poorer than that of uniform standards defined by federal law. However, national norm-setting faces a higher risk of failing since cantons have a strong influence on federal policy-making and regard social assistance as their natural policy domain. Efforts of enlarging the competencies of the central state in the field of social assistance provoked massive cantonal resistance and deterred the federal government from interference.⁸¹

Federalism not only contributes to a fragmented social-assistance system, but it is also an engine of innovation. The best example is the recent development in the field of social assistance in the Latin cantons. Facing high unemployment, many Latin cantons have revised social-assistance legislation and adopted new programs specifically tailored to the long-term unemployment.

In some cantons (Ticino, Valais, Neuchatel) these programs that provide a re-integration income are also eligible for beneficiaries of general social assistance. Two cantons (Geneve and Vaud) have introduced special systems aimed at re-integration of the long-term unemployed. The *revenu minimum cantonal d'aide sociale (RMACS)* in Geneve and the *revenu minimum de réinsertion, (RMR)* in Vaud should prevent a drifting into social assistance. All these new programs were established in the second half of the 1990s and are either based on a contract between the public authorities and the claimant or commit beneficiaries to compensatory activities in the public and non-profit sector. Income support provided by these new schemes is calculated according to the SKOS guidelines and does not have to be repaid.

Like the recent promotion of active labour market policy at the federal level, this policy shift toward new forms of social assistance is backed by the political right and the left. The reasons, however, are different since these programs contain elements of workfare, but can also be justified by their emphasis on social (re)integration. Consequently, these programs show a considerable inter-cantonal variation depending on local political circumstances. Whereas in Ticino the claimant is legally entitled to participate in such programs (provided that a contract was signed), beneficiaries in Neuchatel merely have obligations (workfare) but no rights.⁸²

The high level of unemployment compared to the German-speaking regions is an important, but not the only, reason for why these cantons are experimenting with alternative forms of income support for the unemployed. Institutional, political, and cultural aspects have to be considered. In the Latin cantons the cantons play a stronger role in regulating and funding social assistance that allows for a more pronounced policy-making from the top down.⁸³ Moreover, there is some evidence that the Latin cantons are less hostile toward state intervention than the German-speaking cantons where direct democracy at the cantonal level is more established. Yet this does imply that there is no innovation or modification in social assistance in the German regions. Although most of the German cantons did not revise social-assistance legislation in order to enhance reintegration programs, similar efforts on a smaller scale take place at the local level — in cities and communes.⁸⁴

The System of Income Support for the Unemployed in 1999

The contemporary Swiss system of income support for the unemployed is summarized in Table 7 which reflects considerable diversity between the cantons

TABLE 7
Income Support Schemes for the Unemployed

Federal Unemployment Insurance	
<i>Cash benefits</i>	<i>Activation programs</i> (implemented by the cantons)
Cantonal Unemployment Assistance	
<i>Cash benefits</i>	<i>Activation programs</i>
Zurich, Zug, Fribourg, Schaffhausen, Ticino	Schaffhausen, Fribourg, Ticino, Geneve, Jura, Neuchatel, Valais, Basel-Land, Basel-Stadt, Bern, Uri
Special Cantonal Reintegration Programs	
Geneve (revenu minimum cantonal d'aide sociale, RMACS)	
Vaud (revenu minimum de réinsertion, RMR)	
Cantonal Social Assistance	
<i>Cash benefits</i>	<i>Special reintegration programs</i>
All cantons	Neuchatel, Ticino, Valais, Fribourg

Note: This table is based upon Kurt Wyss and Rosemarie Ruder, "Integrationismassnahmen zur Bekämpfung der Langzeiterwerbslosigkeit: Starke Segmentierung," *Soziale Sicherheit* 5 (1999):240.

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 on in Geneve and Vaud. Nevertheless, there is no doubt that the different reform

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

CONCLUSION

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 policy outcome reflects elements of a joint-decision trap which is prone to sub-optimal policy outcomes.⁸⁹

Nevertheless, an objection sometimes advanced against federal social policy-making does not apply to the Swiss case: cantonal jurisdiction did not induce a race to the bottom of social standards. This stands on a sound empirical basis. The level of benefits of cantonal unemployment and social assistance is rather generous by international standards.⁹⁰ The same is true for level and

duration of benefits supplied by federal unemployment insurance.⁹¹ However, this generosity is combined with strict administrative controls which are reinforced by social control as means-tested benefits are overwhelmingly rendered at the local level. As a result, take-up rates are low. Evidence can be found that some local communes and cantons strive to save costs by either shifting responsibilities to other tiers of government (carousel-effect) or cutting benefits; this did not result in a systematic and self-reinforcing downward spiral of benefit provision. This rigidity against a downward pressure in social benefit provision can be explained by the fact that most cantons stick to the SKOS guidelines so that the variation of benefit levels across different regions is low. The OECD argues that direct democracy also contributes to the harmonization of the system and serves as a ratchet against a downward spiral: “As bills can be challenged through referenda, policymakers will depart from national norms only if they believe that the measure concerned will stand such public scrutiny. There is a reasonable assumption that national guidelines will be supported, and departures from these treated more critically, leading to harmonisation of regimes.”⁹² Evidence from referenda held at the federal level corroborates this assumption since all attempts of one-sided welfare state retrenchment were rejected by the people.⁹³ Migration is not fuelled by variations in benefit rates, but rather by the fact that beneficiaries from rural areas move to larger cities in order to escape social control and to avoid stigma attached to social assistance. A system of cost reimbursement regulated by a federal law equalizes to some extent financial burdens between a claimant’s home canton and the canton providing income support.⁹⁴

Cantonal labour market policy undoubtedly shows the innovation capacities attached to federalism. Thus, cantons still act as laboratories of democracy where tested and proven policy solutions often have a demonstrable effect on other cantons, so that it is possible for cantons to learn from and share experiences with others. This holds true for the first attempts at providing income support for the unemployed in the late nineteenth century when Swiss cities introduced one of the first public unemployment funds in Europe. Moreover, the cantons and local communities reacted flexibly to regional problems facing each canton. While federalism provides the room to manoeuvre, the constitutional units’ strong fiscal basis enabled policy experiments: the cantons in the western and southern parts of the country severely affected by the recession launched more radical reforms than the German-speaking regions. Hence, federalism proved to be not only an engine of innovation, but also an elastic system allowing for flexible problem-solving.

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 heterogeneous across cantons, inter-cantonal migration is low, thus lowering the pressure on a downward spiral in social benefit provision.¹⁰⁰ Cantons still are the key political units to which the people have a strong affiliation. One element of the Swiss concept of federalism is a three-tiered citizenship consisting of a local, cantonal, and federal citizenship.¹⁰¹ Second, Switzerland's economic situation is still excellent compared to most OECD member countries. After a sudden and steep rise in the mid-1990s, the unemployment rate declined to a level of 2.7 percent in 1999, which many economists would characterize as a natural rate of unemployment. This lowers the pressure on the means-tested income support programs regulated by the cantons and gives them a residual role. These programs concentrate on a small percentage of the population, whereas the vast majority of social benefits is delivered by federal social insurance. Moreover, slight regional variations regarding income support for the poor is not a serious problem, since such measures typically are tailored to individual needs and are to some extent discretionary.

Finally, regional diversity in benefit provision does not challenge the legitimacy of state activity. The people themselves are entitled to make the final and most important decisions at all state levels by making use of direct democracy. This is also true, at least in the German-speaking regions, in the policy field under consideration. Several social assistance laws have been subject to a cantonal referendum. As a result, the decentralized method of combating poverty is deeply anchored within Switzerland's political culture and there is much evidence that contemporary task-sharing between the different tiers of government in the field of social and labour market policy is in line with the preferences of the Swiss people.

NOTES

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⁵²Martin, "What Works Among Active Labour Market Policies," pp. 91-99

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⁷⁰Eardley *et al.*, *Social Assistance in OECD Countries*; and Ditch *et al.*, *Comparative Social Assistance*.

⁷¹Schweizerische Konferenz für Sozialhilfe, SKOS/Conférence suisse des institutions d'action sociale (CSIAS).

⁷²Entrusting interest organizations of labour and capital with administrative tasks also marks the beginning of Swiss corporatism. See also Klaus Armingeon, "Swiss Corporatism in Comparative Perspective," *West European Politics* 20 (1997):164-79.

⁷³Danielle Bütschi and Sandro Cattacin, "The Third Sector in Switzerland: The Transformation of the Subsidiarity Principle," *West European Politics* 16 (1993):362-79.

⁷⁴Rosmarie Ruder, "Existenzsicherung durch Sozialhilfe? Die Bedeutung der SKOS-Richtlinien," *Caritas* (1999):121.

⁷⁵For details, see Herbert Obinger, "Minimum Income in Switzerland," *Journal of European Social Policy* 9 (1999):41.

⁷⁶Fluder and StremLOW, *Armut und Bedürftigkeit*, p. 145.

⁷⁷Ditch *et al.*, *Comparative Social Assistance*, p. 72; Fluder and StremLOW, *Armut und Bedürftigkeit*, p. 145; and OECD, *The Battle Against Exclusion*, p. 59.

⁷⁸Fluder and StremLOW, *Armut und Bedürftigkeit*, pp. 143-48.

⁷⁹This restrictive behaviour of the local council is due to the fact that it bears responsibility for a commune's financial situation. It is thus likely that social assistance benefits are scaled down for budgetary reasons (Fluder and StremLOW, *Armut und Bedürftigkeit*, p. 144).

⁸⁰OECD, *OECD Economic Surveys: Switzerland 1999* (Paris: OECD, 1999), p. 120. The contemporary system is also considered to be inefficient and non-transparent. Despite considerable transfers of SFR1.8 billion (1996), the prevalent system has failed its goal of narrowing the gap between rich and poor cantons. Moreover, 70 percent of these grants are tied to specific purposes. Consequently, this system of fiscal equalization is subject to political discussions and reform attempts at present. For an overview, see *Der Neue Finanzausgleich zwischen Bund und Kantonen. Schlussbericht der vom Eidgenössischen Finanzdepartement (EFD) und der Konferenz der Kantonsregierungen (KdK) gemeinsam getragenen Projektorganisation* (Bern/Solothurn, 1999).

⁸¹See Ernst Zürcher, "Wege zur Bekämpfung der Armut," *Soziale Sicherheit* 3 (1995):93-97.

⁸²Tecklenburg, "Leistungs," pp. 137-42.

⁸³Ibid., p. 132.

⁸⁴Ruder, "Existenzsicherung," p. 126; and Wyss and Ruder, "Integrationsmassnahmen," p. 240.

⁸⁵See Martino Rossi, "Ein kantonales Gesetz über die Harmonisierung und Koordination der Sozialleistungen," *Soziale Sicherheit* 5 (1999):235-38.

⁸⁶Armingeon, "Renegotiating the Swiss Welfare State."

⁸⁷OECD, *OECD Economic Surveys: Switzerland 1999*.

⁸⁸Gerfin and Lechner, *Microeconomic Evaluation of the Active Labour Market*, p. 8.

⁸⁹Scharpf, "Theorie der Politikverflechtung."

⁹⁰Eardley *et al.*, *Social Assistance in OECD Countries*; and OECD, *Labour Market Policy in Switzerland*.

⁹¹Martin, "What Works Among Active Labour Market Policies."

⁹²OECD, *The Battle Against Exclusion*, Volume 3, p. 135.

⁹³Obinger, "Federalism, Direct Democracy"; Herbert Obinger, "Der schweizerische Sozialstaat in den 90er Jahren," *Zeitschrift für Politikwissenschaft* 10 (2000):43-63; and Obinger and Wagschal, "Plebiszite und der Steuer."

⁹⁴Thomet, *Kommentar zum Bundesgesetz*; and OECD, *The Battle Against Exclusion*, Volume 3, pp.71-72, 163.

⁹⁵Caritas, *Sozialalmanach*.

⁹⁶The Swiss Federal Statistical Office is entrusted to record nationwide statistics on social assistance.

⁹⁷OECD, *The Battle Against Exclusion*, Volume 3, pp. 156-60.

⁹⁸Armingeon, "Renegotiating the Swiss Welfare State."

⁹⁹Pascal Coullery, "Diskussionsentwurf für ein eidgenössisches Sozialhilferahmengesetz," *Schweizerische Zeitschrift für Sozialversicherung und berufliche Vorsorge* 39 (1995):336-63.

¹⁰⁰Armingeon, "Swiss Federalism in Comparative Perspective."

¹⁰¹Linder, *Schweizerische Demokratie*.

5

FEDERALIZATION AND LABOUR MARKET POLICY IN BELGIUM

Marianne De Troyer and Valter Cortese

INTRODUCTION

Belgium's process of federalization presents many interesting characteristics, such as: the "step by step" process that progressively put the new institutional landscape into place; the intimacy of institutional debates and political life; the importance accorded by Belgium to the principle of territoriality; the opportunity to solve conflicts between two significant linguistic groups concentrated in distinct territories; and the parallel implementation of both a federalism reinforcing the power of the regions and an international policy seeking to ensure its integration into the European Union.¹ In the context of this chapter, should these characteristics be considered as a strength?

Labour market policies include a number of elements, which by and large fulfill the following functions: labour-force placement, income replacement, and orientation and training activities. Labour market policies can only be understood in their broader societal coherence. In other words, they are not independent from a series of other country-specific mechanisms such as labour law, the system of social protection, occupational training, social security, wage formation, and labour-management relations.

These dimensions are that much harder to analyze in an overall sense for Belgium since the relatively recent federalization process has given rise, on the one hand, to a splintering of responsibilities between different regional and community entities as concerns certain basic instruments of labour market

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) coexisted with Belgium's national federation (Federation of Belgium Enterprises) long before the state was reformed. The traditional political parties, in turn, have undergone a complete fragmentation. There are no longer any common bodies crossing the language barrier between political formations sharing the same ideology. The one exception is the environmental movement, which appeared in the early 1980s. This movement is largely organized in relation to the country's institutional reality and thus has created a common body, which nevertheless is not based on co-decision.

In this chapter, we will attempt to account for Belgium's federalization process by describing the institutional structures that were recently implemented to manage labour market policies, and enumerate their respective responsibilities.

In the second section, we will evoke Belgium's specific labour market characteristics. We will focus on trends in the evolution and structure of employment, the unemployment rate, the social assistance system, the distribution of incomes and poverty, union density, and public spending on labour market programs. We will also describe the organizations and actors who intervene in the labour market.

Section three will consider the evolution of employment policies at the federal level and at the level of the different regional governments (Flanders, Wallonia, and Brussels) since the early 1990s. It will also discuss the activation measures introduced into social benefits as well as the employment policies seeking to favour the occupational insertion of youth.

Finally, we will attempt to evaluate the institutional mechanisms implemented as part of Belgium's federalization process in terms of their impact on labour market policy. We hope to provide answers to the following questions:

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 information exchange permit orderly management even after the splintering of labour market responsibilities?
3. Would the re-federalization of certain regionalized labour market policy responsibilities make sense in terms of increasing policy coherence?

In our view, this chapter's attempt at evaluation must remain incomplete to the extent that we lack the necessary distance for a proper assessment. This is particularly the case with respect to the construction of labour market policies by the regional governments and the interaction of these governments with the federal government.

THE PRINCIPAL CHARACTERISTICS OF BELGIUM'S FEDERALIZATION PROCESS AND FEDERAL STRUCTURE

There were four stages in the implementation of Belgium's process of federalization.² They were:

- The addition of the concepts of Region and of Community to the constitution in December 1970.
- The definition of the responsibilities of the Communities and of the territories corresponding to the Walloon and Flemish Regions, and the "fusion" of the Flemish Community and the Flemish Region (in the Law of 8 August 1980).
- The creation of the Brussels-Capital Region in 1988–89, which despite having a constitutional status did not have a concrete existence, and the transfer to the Communities and Regions of a large number of responsibilities.
- In 1993, following the so-called "Saint Michael" and "Saint Quentin" accords, supplementary transfers without new responsibilities were accorded to the Regions and the Communities, while supplementary transfers tied to new responsibilities (foreign trade, agriculture) were transferred to the Regions.

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

TABLE 1
The Responsibilities of Each Level of Power

<i>Federal Responsibilities</i>	<i>Regional Responsibilities</i>	<i>Community Responsibilities</i>
Police and security	Way of life	Culture
Justice	– urbanism and urban planning	– theatres
National defence	– urban, rural and industrial renewal	– museums
Foreign policy	– housing	– radio and television
Social security	– environment and nature	– language protection
– occupational health and safety benefits	– water policy	– sports and leisure
– unemployment insurance	– forests	Education
– old-age and survivors' pensions	– hunting and fishing	– from kindergarten to university, night school, art school
– benefits for invalidity resulting from sickness or an accident in private life	Economy and employment	Personal matters
– health care insurance	– public economic initiatives	– personal aid (families, CPAS, disabled, youth child protection
– family allowances and birth benefits	– economic expansion	– health (hospitals, preventative health,...)
–social assistance	– regional credit	but so far social security remains federal
Economic and monetary union	– foreign trade	Language use within and between the administrations, in education, and in industrial relations.
Civil and commercial law	– natural resources	
Labour law	– worker placement	
Tax law	– putting the unemployed back to work	
Immigration	Local powers	
Nuclear energy	– intercommunal	
Railroads	– financing and control of the communes and the provinces	
Brussels National Airport	Transportation and public works	
Language use in Brussels, in the communities with facilities and the germanophone Commons.	– roads and highways	
The major cultural institutions in Brussels	– public transit	
	– waterways	
	– ports and airports	

Source: "L'avenir des Belges, le fédéralisme à l'épreuve," *Le Soir*, Supp. à l'édition du 18 mai 1999, p. 9. Réalisé avec le Centre de droit public de l'Université Libre de Bruxelles.

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).

TABLE 2
Belgium's Structure at the Level of the Executive and Legislative Powers

<i>Executive Power</i>				
National Level	Federal Government			
Community Level	Germanophone Community government	French Community government		Flemish government
Regional Level	Walloon government		Government of the Brussels-Capital Region	
Linguistic Regime	germanophone	francophone	bilingual F/N	netherlandophone
<i>Legislative Power</i>				
National	House		Senate	
Community Level	Council of the Germanophone Community	Council of the French Community		Flemish Council
Regional Level	Walloon Regional Council		Council of the Brussels-Capital Region	
Linguistic Regime	germanophone	francophone	bilingual F/N	netherlandophone

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

- national authority's administration and services (or the administration and services placed under its control); and
- application of norms concerning foreign workers' occupations.

The Flemish and the Germanophone Communities have kept their responsibilities in postsecondary occupational training and in socio-professional insertion.

There is an asymmetry between the north and the south of the country since, for the francophone part of the country, the exercise of a series of community responsibilities has been transferred from the French Community to the Walloon Region and toward the French Community Commission of the Brussels-Capital Region.⁹

Responsibilities in Unemployment Insurance

In Belgium, the unemployment insurance system is one of the branches of social security. The principle is that access to unemployment insurance is available through employment to all workers sharing the same regime. This framework provides a replacement or supplementary income to the worker who is temporarily (sickness, accident, unemployment) or permanently (invalidity, retirement) deprived of his or her work. Unemployment insurance is a regime for workers in paid work. Workers, firms, and the state fund it on a tripartite basis. It is a collective system, which includes an element of vertical redistribution. The unemployment insurance system is accessible to rights-holders (paid workers) through an intermediary public organization called the National Employment Office (ONEm), which reports to the federal Ministry of Employment and Work.¹⁰

At first, ONEm's services were dispensed by a central administration (located in Brussels) and 30 regional offices. After 1978, these offices became Regional Unemployment Offices and were joined within the same geographic-administrative framework by Subregional Employment Services that were solely responsible for employment and occupational training (AR 11/10/1978). This restructuring had the objective of separating unemployment and worker placement since "it was no longer a given that the job searcher fears facing sanctions if he or she refuses a job."¹¹

Following the reform of the state and the transfer of certain responsibilities in employment and training to the Regions and Communities, the ONEm and its services were significantly restructured in 1989. Since then, there have been adaptations in regulations dealing with unemployment in order to account

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.

Nevertheless, the right to social assistance is a responsibility that remains strictly federal. It is the General Directorate of Social Action and of Health that takes administrative responsibility.

Forms of Cooperation Between the Different Levels of Power

Procedures of collaboration and cooperation between the two levels of power were foreseen in an attempt to avoid conflicts where there is interference between the responsibilities of the different institutional entities.

Thus, article 92, subsection 1 of the new law on institutional reforms of 8 August 1988 notes that the Communities and the Regions "can reach accords of cooperation which deal with the joint creation of common services and institutions, on the joint exercise of exclusive responsibilities or on the development of common initiatives ... This article is founded on consensus both in terms of the opportunity for cooperation and on the means to be mobilized to realize this opportunity."¹³

The modalities of cooperation are freely agreed to by the parties, who are free to sign accords of cooperation in any matter related to their responsibilities.

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

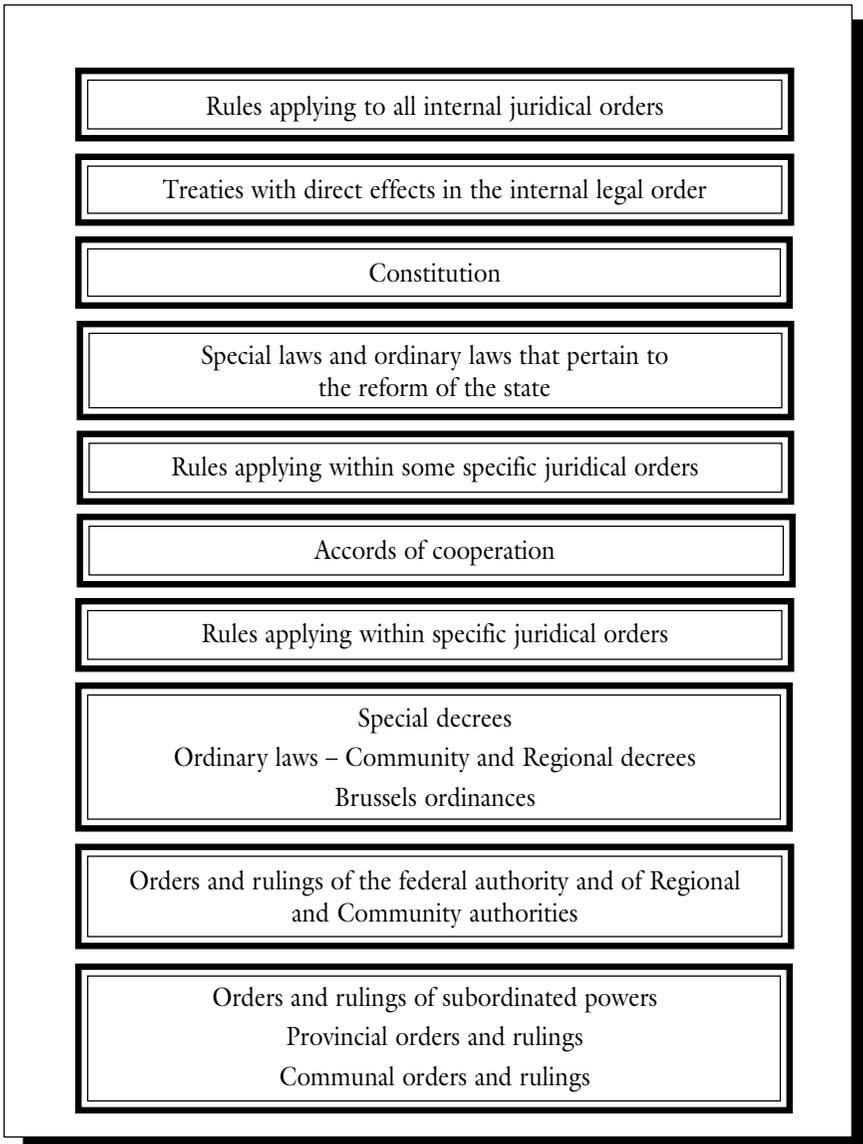
There are also accords of cooperation in limited domains between the federal Ministry of Employment and Work and the Regions' employment administrations. Here is one example. An accord of cooperation dealing with the occupational transition program was struck in March 1997 between the federal state and 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 collaboration between other organizations and institutions. Thus, ONEm and the three regional organizations (FOREm, VDAB, ORBEm/BGDA) meet regularly

FIGURE 1
Hierarchy of Norms and Rules Applicable to all Internal Juridical Orders



Source: M. Uyttendaele, *Institutions Fondamentales de la Belgique* (Bruxelles: Bruylant, 1997), p. 175.

in a college of senior bureaucrats, which has in turn created numerous permanent commissions dealing with technical questions. For instance, there is an Evaluation Committee for the Plan for Accompanying the Unemployed (PAC).

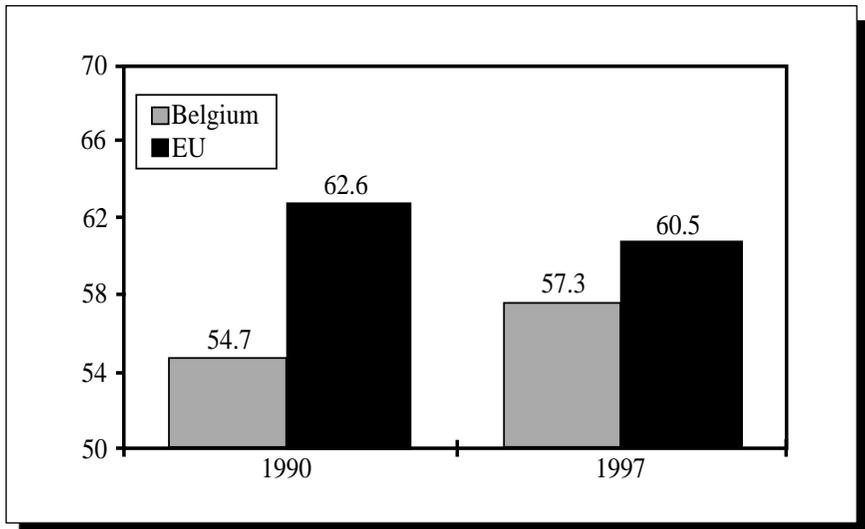
Let us nonetheless underline that the existence of procedures for cooperation and collaboration does not prevent the appearance of conflicts of interests and of jurisdictions.

LABOUR MARKET POLICY: BELGIUM'S PROFILE

The Labour-Market Situation

Evolution and Structure of Employment Rates. As Figure 2 indicates, Belgium's employment rate is fairly low.¹⁷ In 1997, it was 57.3 percent, compared to the European Union average of 60.5. The gap with respect to the European average is nevertheless declining because the respective figures were 54.7 percent and 62.6 percent in 1990.

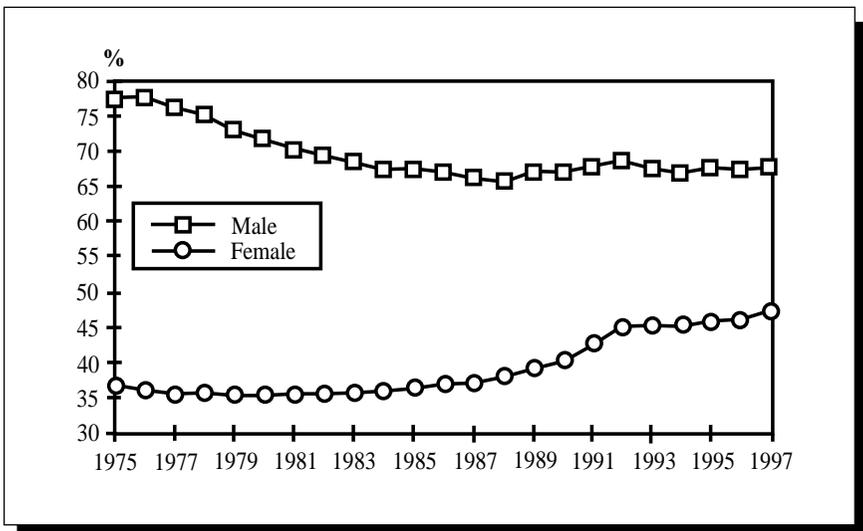
FIGURE 2
Employment Rate (percentage)



Source: Ministère fédéral de l'Emploi et du Travail, *La politique fédérale de l'emploi*, Rapport d'évaluation (Bruxelles: 1999), p. 163.

In terms of the employment rate by sex, there has been a strong decrease in male employment rates since 1975, declining from 77.5 percent to 67.1 percent in 1997. One nevertheless observes that it has been relatively stable since 1988 as the number of male recipients of early retirement has receded since the early 1990s. In contrast, female employment rates have constantly increased from 36.7 percent in 1975 to 46.7 percent in 1997. The result is that the gap between male and female employment rates is closing due to the ongoing increase of female employment.

FIGURE 3
Variation in Employment Rates by Sex



Source: Ministère fédéral de l'Emploi et du Travail, *La politique fédérale de l'emploi*, Rapport d'évaluation (Bruxelles: 1999), p. 163, Figure 18.

The employment rate in Belgium varies strongly according to age. It sits at 25 percent for youth between the ages of 15 and 24, at 77 percent for adults and at 35 percent for people aged 50 to 64. If the structure of employment rates by age group is compared with the European averages, Belgium's employment rates are below average for the groups at the extremes (namely the youngest and the oldest). In terms of the *youth* (15–24), it is worth remembering that 70

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 to 50 year age range, Belgium's employment rate (77.1 percent) is above the European average (74.4 percent). In terms of people aged 50 to 64 years, the intensive use of early retirement is at the origin of the low employment rates for men. Women, having been later entrants into the labour market than men, continue to see their share of employment in the over-50 group increase.

TABLE 3
Early Retirements per Region by Year

<i>As of June 30</i>	<i>Flanders</i>	<i>Wallonia</i>	<i>Brussels</i>	<i>Belgium</i>
1985	50.992	39.198	6.626	96.816
1990	83.831	47.309	9.559	140.699
1995	85.970	40.172	7.975	134.117
1997	84.826	37.138	7.148	129.112
1999	78.686	34.592	6.048	119.326

Source: Ministère fédéral de l'Emploi et du Travail, *La politique fédérale de l'emploi*, Rapport d'évaluation (Bruxelles: 1999), p. 100.

The Evolution of the Unemployment Rate. The persistence of unemployment not only in Belgium but also in all the countries of the European Union is a complex problem. In terms of our analysis it is important to note that the composition of unemployment has been fundamentally modified since the early 1980s. Since that time, unemployment has had the following characteristics:

- Unemployment is increasingly concentrated in the median age category (25–50 years). This category's weight in total unemployment has increased considerably, from 50 to 70 percent. It is striking to note that virtually all of the adult unemployed in 1980 were laid-off workers (99.5 percent), whereas the current share of the adult unemployed who have never worked has increased, albeit in less dramatic proportions than for youth (from 0.5 to 7 percent). The mismatch between labour supply and

demand also exists for adults. Faced with an abundance of labour with ever-higher levels of training and in a context where jobs are scarce, recruitment criteria have been progressively raised. As well, in response to both the conjuncture and to the always strengthening demands of competitiveness, flexible jobs have been created on a massive scale.

- The share of the unemployed who have never worked increased considerably even if job loss remained the main reason for registering as unemployed. Thus, while the majority of unemployed youth in 1980 (over 80 percent), regardless of their level of qualification, were workers who had lost their jobs, by 1995 over half the youth registered as unemployed had never worked. In 1980, employers' demands in recruitment were fairly loose: insertion, workplace training gained by learning on the job and occupational experience were closely tied together. Since 1980, entrepreneurial strategies have changed. Training and professional qualifications must increasingly be acquired earlier before getting a job. This has led people to note that there was a mismatch of labour supply and demand even while the young unemployed of 1995 are much better trained than their peers in 1980.
- Long-term unemployment has become a major aspect of unemployment.
- As for older workers, the male share of unemployment has decreased since the early 1980s, in part because most of the older laid-off workers and unemployed were provided the chance to leave active life early. Women who lose their jobs have benefited less from these measures because they were less likely to respond to the required age criteria. Since the early 1980s, the labour market has been characterized by the exclusion of older workers.

The standardized rate of unemployment (Eurostat) sat at 9 percent in June 1999. The Belgian rate is 0.4 points lower than the European average of 99.4 percent.

The Social Assistance Situation. In 1996, the average minimex rate in Belgium was estimated at 1.3 minimex per one hundred inhabitants aged 18 to 60. This age category was chosen because youth under 18 have no right to the minimex while those over 60 represent less than 10 percent of total beneficiaries. Over the ten-year period from 1987 to 1997, the number of minimex recipients grew 129 percent in Flanders, 170 percent in Wallonia, and 194 percent in Brussels. Lowering the civil age of majority to 18 years contributed to the increase in the number of beneficiaries, but this ranks as one among a series of factors that have contributed to the increase.

TABLE 4
Evolution of the Number of Unemployed with Full Benefits, 1980–2000

As of June 30	Absolute Numbers					Percentage of Total (%)				
	1980	1985	1990	1995	2000	1980	1985	1990	1995	2000
Total	294.870	455.530	331.767	490.297	361.764	100.0	100.0	100.0	100.0	100.0
Sex										
Men	106.393	196.234	129.101	207.563	154.314	36.1	43.1	38.9	42.3	42.7
Women	188.477	259.296	202.666	282.734	207.450	63.9	56.9	61.1	57.7	57.3
Age										
< 20 years	21.685	23.906	8.506	8.992	6.653	7.4	5.2	2.6	1.8	1.8
20–25 years	67.837	110.074	57.766	79.820	57.171	23.0	24.2	17.4	16.3	15.8
25–50 years	156.087	267.767	226.133	342.307	273.252	52.9	58.8	68.2	69.8	75.5
over 50 years	49.261	53.783	39.362	59.178	24.688	16.7	11.8	11.9	12.1	6.8
Duration										
< 1 year	124.230	144.414	123.748	176.295	130.781	42.1	31.7	37.3	36.0	36.2
> 1 year	170.640	311.116	208.019	314.002	230.983	57.9	68.3	62.7	64.0	63.8
Education Level										
< 25 years	89.522	133.980	66.272	88.812	63.824	100.0	100.0	100.0	100.0	100.0
Primary	36.452	31.950	13.541	16.070	10.445	40.7	23.8	20.4	18.1	16.4
Lower Secondary	28.371	49.641	25.446	29.489	20.903	31.7	37.1	38.4	33.2	32.8
Upper Secondary	17.454	37.227	19.836	31.629	25.618	19.5	27.8	29.9	35.6	40.1
Superior and university	4.663	8.729	3.672	7.066	3.822	5.2	6.5	5.5	8.0	6.0
Other	2.582	6.433	3.777	4.558	3.036	2.9	4.8	5.7	5.1	4.8
> 25 years	205.348	321.550	265.495	401.485	297.940	100.0	100.0	100.0	100.0	100.0
Primary	145.370	187.501	129.385	153.412	93.358	70.8	58.3	48.7	38.2	31.3
Lower Secondary	34.536	65.047	61.889	102.486	80.790	16.8	20.2	23.3	25.5	27.1
Upper Secondary	14.960	35.931	36.617	77.172	67.081	7.3	11.2	13.8	19.2	22.5
Superior and university	7.164	19.160	15.383	32.547	24.842	3.5	6.0	5.8	8.1	8.3
Other	3.318	13.911	22.221	35.868	31.869	1.6	4.3	8.4	8.9	10.7

Source: Ministère fédéral de l'Emploi et du Travail, *La politique fédérale de l'emploi*, Rapport d'évaluation (Bruxelles: 2000), p. 40.

TABLE 5
Evolution in the Number of Minimex Recipients per Region, 1976–1996

Region	February 1976		February 1986		February 1996	
		(%)		(%)		(%)
Wallonia	3.301	35	18.167	42	34.399	49
Flanders	4.599	49	20.459	47	24.312	34
Brussels	1.536	16	5.148	12	11.476	16
Total	9.436	100	43.774	100	70.187	100

Source: Ministère de la Prévoyance Sociale, *50 ans de sécurité sociale et après?* 10 brochures éditées à l'occasion des 50 ans de la sécurité sociale (Bruxelles: Bruylant, 1996).

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 precautions taken in sampling and in ensuring a representative sample, the results obtained with this analysis are not equivalent to those revealed by using other samples. As such, these observations must constantly be verified and confronted with others. Nonetheless, the interest in using panels is their recurrence, which eventually allows an analysis of the evolution of the individual and household situations studied.

Wallonia has the highest level of poverty, regardless of the measure used. In Brussels, we see that the sample's household size is smaller, that rates of significant poverty are lower than in Wallonia or Flanders, and that the rate of precariousness is higher than that in Flanders.

TABLE 6
Poverty by Region and by Household Size, in Relation to Poverty Levels Based on the Median Income

<i>Region</i>	<i>Regional Share (%)</i>	<i>Unadjusted Average Income</i>	<i>Average Household Size</i>	<i>Poverty Rate in Relation to Median Income</i>	
				<i>at 50%</i>	<i>at 75%</i>
Belgium	100.0	91,874.5	3.36	4.7	26.9
Brussels	11.1	94,579.6	3.29	3.3	26.6
Flanders	56.6	93,551.9	3.39	4.6	25.8
Wallonia	32.3	88,001.6	3.36	5.5	28.9

Source: B. Delhousse and S. Perelman, "Inégalités et pauvreté : mesures et déterminants," in *Wallonie et Bruxelles: évolutions et perspectives, Portrait socio-économique de la Belgique*, Commission 4, 13ème Congrès des économistes belges de langue française, 26-27 November 1998, CIFop, Charleroi, pp. 25-44.

TABLE 7
Poverty by Age Group of the Head of the Household

<i>Age Group</i>	<i>Share in Percent</i>	<i>Unadjusted Average Income</i>	<i>Average Household Size</i>	<i>Poverty Rate in Relation to the Median Income</i>	
				<i>at 50%</i>	<i>at 75%</i>
<30 years	1.5	74,310.9	2.87	9.4	35.7
30-40 years	18.9	100,059.7	3.82	3.1	19.3
40-50 years	28.6	106,676.3	3.98	5.3	26.1
50-60 years	19.9	105,010.2	3.49	3.6	23.7
60-70 years	12.4	70,282.1	2.56	6.2	31.7
70-80 years	14.6	59,690.2	1.97	4.4	34.8
>80 years	3.9	50,087.4	1.78	5.5	38.1

Source: B. Delhousse and S. Perelman, "Inégalités et pauvreté : mesures et déterminants," in *Wallonie et Bruxelles: évolutions et perspectives, Portrait socio-économique de la Belgique*, Commission 4, 13ème Congrès des économistes belges de langue française, 26-27 November 1998, CIFop, Charleroi, pp. 25-44.

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 whole. In Flanders, the rate is 27 percent, against 35 percent in Wallonia.

Finally, the situation of people from the European Union is clearly more favourable than that of people from outside the European Union, and this difference is most acute in Flanders. The level of significant poverty for those from outside the European Union is 15 percent for Belgium as a whole, 20 percent for Flanders, and 10 percent for Wallonia. The rates of precariousness

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).

At the poverty level set at 75 percent of the median income, 35 percent of households have assets below FB100,000, and two-thirds of this group have less than FB25,000 at their disposal. This category's profile is one of old people, of isolated individuals (widows, widowers, separated and divorced people), more often Belgians than foreigners, more often women than men. Below the 75 percent poverty line, the category of the poor-rich takes on a different profile. It is made up of single people, workers, and employees with between FB3 and 5 million in assets: homeowners, with heads of households whose average age is 55, and half of whom are employed.

In these conditions, the study cannot avoid questioning the definition of the poverty line: "Can one truly consider a household as poor when it remains under the poverty line in terms of flows (income) but holds an important stock of capital (assets)?"²²

In fact, we do know that what is particularly important for the older population is the question of owing one's housing. The sale of his or her house by an elderly homeowner does not have the same meaning as in the case of an adult. In this latter case, it could signal upward mobility, or at least the pursuit of a project. For the elderly person, the question is quite different. The sale implies the choice of another living solution. This solution may be more onerous for the household since liquidating this asset means renting housing without necessarily gaining benefits equivalent to those of ownership, or moving into an old-age home, which has become an increasingly expensive choice.

In brief, if it is indeed true that a large part of total assets are held by the elderly, with the negative effects that that holds for society in terms of tying up capital and favouring low-risk investments, it is worth asking if this possession alone is enough to hive off this category from those who lack a sufficient income stream to look after their basic needs, notably in terms of food, heating, and health. Would a policy of adapted and moderate rent control run counter to this investment sought after by most Belgian households (with the exception of Brussels' residents, for obvious reasons of price)? There would be a need for offsetting social policy guarantees which would provide a sort of equivalent to the expected advantages of home ownership which, in the case of the elderly, acts as a kind of income supplement or pension. Finally, in terms of the housing stock held by owners with incomes below the poverty line, there is an (unestimated) risk of it losing its value, failing proper upkeep.

Given these observations, should we not consider as "poor" only those who fall below the poverty line (regardless of the chosen income cut-off), and

treat as “precarious” those households whose incomes are also below this threshold but who possess assets above a certain level. This would prevent us from perverting the notion. Gouyette’s examples clearly show that the whole notion of “poverty” loses its meaning if such limits are not added. At the level of social measures, we must correct our notions or risk increasing inequalities by using measures that are not adapted to real situations.

Union Density. Belgium is among the countries with the highest rates of unionization. One explanation for this involves the unions’ particular vocation in terms of playing a social role and of providing a certain number of services to their affiliated members. The most notable of these is the payment of unemployment benefits. The state played a decisive role in the interwar years by creating policies to support the unions’ unemployment funds. This had the effect of associating union membership and unemployment benefits. In addition, the union organizations which are associated with the management of social security and occupational training organizations, and which act as a social partner in numerous fields, also provide mechanisms of judicial, medical, and social assistance to their members. Finally, official recognition of unions also serves to “normalize” membership for each worker. The three principal union federations, the *Fédération Générale du Travail de Belgique* (FGT, Belgian General Labour Federation), the *Confédération des Syndicats Chrétiens* (CSC, Confederation of Christian Unions) and the *Centrale Générale des Syndicats Libéraux* (CGSLB, General Federation of Liberal Unions) declared a total membership of 2,706,282 in 1993.²³ According to a newspaper survey conducted in April 2000, the three principal union federations surpassed the three million members mark in 1999.²⁴ Despite the fact that members can have very different statuses (active workers or unemployed, pensioners or pre-pensioners, youth waiting for jobs), the number of members is nevertheless indicative of the strong union presence among the active population.²⁵

Another way to verify union representation is to consider the results of social elections organized every four years in private sector firms. While they give an idea of the relative influence of each union organization, they do not permit a straight membership count since the vote is only open to active workers in firms of more than 50 people. As well, the vote takes place by universal suffrage, and is thus open to both unionized and non-unionized workers. There is nothing that obliges a member to vote for the representative of his or her own union. Finally, voting is not obligatory.

TABLE 8
Regional Distribution of Votes in Private Sector Firms Taken as a Whole

	<i>Wallonia</i>		<i>Flanders</i>		<i>Brussels</i>	
	<i>CE*</i>	<i>CPPT**</i>	<i>CE</i>	<i>CPPT</i>	<i>CE</i>	<i>CPPT</i>
FGTB	48.35	40.20	32.06	32.52	475.00	40.590
CSC	44.70	48.04	57.97	58.27	44.83	46.770
CGSLB	4.25	4.75	8.58	9.20	10.47	12.620
CNC	1.40		0.84		1.97	
Independent Lists	1.30		0.55		1.98	

Notes: *CE = Conseil d'entreprise — Business Council.

**CPPT = Comité pour la prévention et la protection au travail — Workplace Health and Safety Committee.

Source: E. Krzeslo, *Les relations collectives du travail en Belgique: Acteurs et institutions*, Dossier 16, Point d'appui Travail-Emploi-Formation (Bruxelles: 1996), p. 61.

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 above FB343 billion, or 3.96 percent of gross domestic product (GDP). Measures labelled "active" accounted for FB1,12.3 billion, while passive measures accounted for FB231.3 billion. Overall, public labour market spending declined 3 percent from 1996.

So-called passive measures still account for two-thirds of Belgian public spending dedicated to the labour market, compared to one-third for active measures. This is despite both the Organisation for Economic Co-operation and Development's (OECD) recommendations and strategies developed to increase

TABLE 9
Estimate of Public Expenditures Dedicated to the Labour Market (in % of GDP)

<i>Programs</i>	1985	1990	1994	1995	1996	1997
Administration of employment services	0.17	0.18	0.23	0.23	0.20	0.19
Occupational training	0.20	0.21	0.29	0.29	0.30	0.29
Direct job creation	0.79	0.55	0.54	0.54	0.53	0.47
Hiring subsidies	0.04	0.05	0.09	0.16	0.28	0.15
Career sabbatical	0.08	0.07	0.07	0.06	0.07	
Measures favouring the disabled	0.15	0.16	0.15	0.14	0.13	0.13
Unemployment benefits	2.61	1.89	2.22	2.14	2.12	2.06
Early retirement	0.87	0.75	0.69	0.67	0.64	0.60
Total	4.83	3.87	4.28	4.23	4.26	3.96
So-called active measures	1.35	1.23	1.37	1.42	1.50	1.29
So-called passive measures	3.48	2.64	2.91	2.81	2.76	2.67

Source: Ministère fédéral de l'Emploi et du Travail, *La Politique fédérale de l'emploi*, Rapport d'évaluation (Bruxelles: 1999), p. 79.

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

pay unemployment allowances. There are four of the latter, three of which are managed by the biggest Belgian unions (CGSLB, CSC, and FGTB), while the fourth is a public organization (CAPAC). These four unemployment allowance organizations are mandated to prepare benefit requests for the unemployed and to pay allowances once the ONEm provides authorization. In other words, ONEm transfers the funds for the allowances to these four organizations rather than transmitting benefits directly to the workers.

The ONEm is responsible for applying the regulations concerning unemployment insurance, early retirement, career sabbaticals, and certain employment subsidies. It thereby also provides some administrative and financial support to the local employment agencies (ALE).

Second, at the regional level, there are Regional and Community ministries for matters relating to Regional and Community responsibilities. There is also the Communities' Fund for the social and occupational integration of the disabled. For example, the Walloon Region's ministry contains a number of general directorates dealing with three categories of jurisdiction: economic matters (employment, training, agriculture, aid to large firms, SMEs); quality-of-life related matters (housing, social affairs, health, etc.); and matters of authority (public service, budget, etc.).

Third, four distinct public organizations have been created to implement the Regional and Community ministries' employment (job creation and hiring subsidy measures), training, and occupational training programs:

- The Community and Regional Office of Occupational Training and Employment (FOREM, Office communautaire et régional de la Formation professionnelle et de l'emploi²⁸) exercises the occupational training responsibilities for the French and Germanophone Communities and the placement and employment responsibilities for the Walloon Region.
- The Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding (VDAB²⁹) took up the placement, occupational training and employment mandates devolved to the Flemish government; the Flemish government is also responsible for the occupational training of the Dutch-speaking job-seekers in Brussels, and the VDAB fills this task as well.
- The Brussels Regional Employment Office³⁰ (ORBEM/BGDA,³¹ Office Régional bruxellois de l'Emploi), a bilingual organization, exercises placement and employment responsibilities for the Brussels-Capital Region.
- The Brussels Francophone Institute for Occupational Training (IBFFP, Institute Bruxellois Francophone pour la Formation Professionnelle),

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.

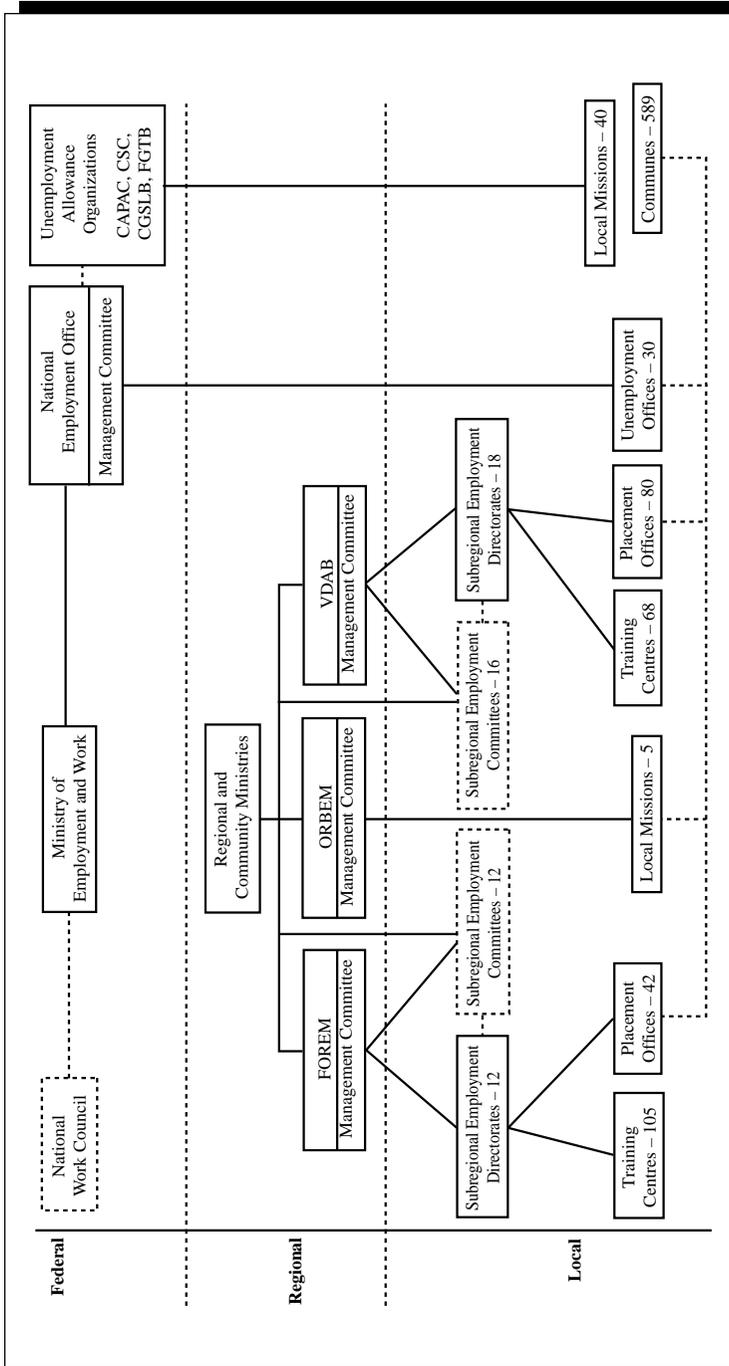
Fourth, there are many other organizations that intervene in the labour market, such as:

- 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 of decentralizing power and of fragmenting the public social and economic institutions run by parity management. Third, in a desire for clarity, 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 tradition of concertation

FIGURE 4
Principal Actors and Organizations Intervening in Employment, Placement and Occupational Training Policies



Source: Organisation for Economic Co-operation and Development, *Le Service Public de l'Emploi Belgique* (Paris: OECD, 1997), p. 26.

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.

TABLE 10
Organizations of Concertation, Belgium

	<i>Economic Questions</i>	<i>Social Questions</i>
Political power	Ministry of Economic Affairs	Ministry of Employment and Work
Concertation at the national level	Central Economic Council	National Work Council
Concertation at the sectoral level	Special consultative commissions	Parity commissions
Concertation at the firm level ¹	<ul style="list-style-type: none"> – Business council – Union delegation 	
Concertation at the regional level	<ul style="list-style-type: none"> – Sociaal-economische raad voor Vlaanderen (SERV)² – Brussels Region Economic and Social Council – Economic and Social Council of Wallonia (CESRW) 	

Notes: ¹In terms of firm-level concertation, this varies with the number of workers employed by the firm (business councils, union delegation or workers).

²SERV advisory on the decentralization of labour market policy in Flanders, 12 March 1997.

Source: Van der Linden, "Het Belgisch arbeidsmarktbeleid," *Nieuwsbrief van het Steunpunt Werkgelegenheid, Arbeid en Vorming* 6, 4 (1996):167-71.

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.

The social partners also have a significant role within the subregional employment and training committees (CSEF/STC's). These committees are mandated to create and promote cooperation between the different actors of the employer and union worlds. They work at the subregional level and deal with questions of employment, learning, and training.

Table 10 underlines the importance of concertation between the social partners at the other levels of the federal state.

THE EVOLUTION OF EMPLOYMENT POLICIES SINCE THE EARLY 1990s

Public policies for employment are difficult to distinguish since they involve multiple instruments and a diversity of objectives. In this chapter, we attempt to highlight the general tendencies in the evolution of Belgian employment policies both at the federal level and at the different regional levels. We then evoke the elements of activation policies that are specific to Belgium.

The Evolution of Employment Policies at the Federal Level

From the early 1990s, Belgian labour market policy has been influenced by accords to promote employment that were passed at the European level. The European Commission's White Paper (1993)⁴⁵ was followed by the European Council of Essen (December 1994) where it was agreed that the member states would implement employment creation measures that fell into five principal fields. These were: improved investments in occupational training; reinforced measures for groups particularly at-risk of labour market exclusion (youth, women, older workers, long-term unemployed); the reduction of indirect labour costs in order to encourage hiring; the implementation of active employment policies; and the introduction of more flexible work organization and the promotion of job-creation initiatives. At the Belgian federal level, this gave rise to three successive plans to create employment using the means described above.⁴⁶

These three successive plans initially evolved within Belgium's long tradition of social concertation, in that their elaboration was left to the social partners in the framework of inter-occupational negotiation. There was nevertheless a fairly strong break with this tradition since the federal government set the boundaries for the negotiations, intervened in the process, and reserved

the right to unilaterally impose a decision if the social partners were in disagreement.

This is, in fact, what happened in all three cases. Each time, the negotiations between the social partners resulted in failure. In all three cases, the union organizations made their agreement conditional upon the establishment of an enforceable linkage between reduced social security contributions and employment levels, and the employers refused this condition each time.

One of the federal government's most important initiatives was the 26 July 1996 framework law with respect to employment creation and the preventative protection of competitiveness. This law involved the introduction of a wage norm that tried to maintain the competitiveness of Belgian firms.⁴⁷

In 1997, the government once again set the framework for sectoral and firm-level negotiations. Wage freezes gave way to the possibility of increased pay, but this was fixed to a maximum of 6 percent beyond indexation and included measures with an influence on labour costs. These measures were as follows:

- supplementary measures for reducing employer payroll taxes and for providing public wage subsidies were given to firms in difficulty or in the process of restructuring, and where employees accepted a 32-hour work week;
- specific measures were taken for target groups (youth, older unemployed, long-term unemployed, social assistance recipients);
- local services were developed through the activation of unemployment and social benefits (occupational transition program);
- a budget of roughly 84 million euros was provided for job creation in non-market health and social action sectors. This amount allowed for contractual reductions in employers' social security contributions for every worker put to work.

The majority of agreements concluded in the different sectors favoured work redistribution (early retirement, career interruptions, part-time work) which resulted in reduced payroll taxes. Only the insurance sector chose a collective reduction in working time as a means to increase flexibility.

In June 1997, a distinct new chapter on employment was opened with the treaty instituting the European Community. Among other things, this new chapter stipulates that the European Union will annually draft guidelines for employment that the member states must take into account in their employment

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. In every year since 1995, the Regional Flemish government and the Flemish social partners have struck job accords within the framework of the Flemish Committee of Economic and Social Concertation (Vlaams Economisch en Sociaal Overlegcomité). In their view, employment policy must include measures that are balanced in both economic and social terms. These accords are essentially built around five axes.⁵⁰ They are:

1. to strengthen the economic foundation by reducing work costs and improving the economic climate;
2. to share and redistribute work, notably by extending the existing bonus system;
3. to encourage new employment in the service sector, particularly by creating supplementary jobs (for poorly qualified people) in the for-profit social sector;
4. to improve the active population's training and knowledge through the effective use of available methods by calling upon existing instruments (like the sectoral funds, among others) and in undertaking actions aimed at specific target groups; and
5. to improve the functioning of the labour market by implementing existing initiatives and by making the target-group policy more dynamic.

In terms of the participation of the Flemish government and of the Flemish social partners in the National Action Plan for Employment (March 1998), the agreement reached by the parties dealt with the necessity of improving the employment situation for youth and for unemployed adults as well as with the move from passive to active employment measures. As a result, measures for the long-term unemployed and for the poorly qualified unemployed gave priority to work experience coupled with intensive accompaniment, instead of to jobs of an indeterminate length (which typified classical back-to-work programs).

In the 1999 National Action Plan for Employment, the most important contributions of the Flemish social partners and of the Flemish government involve the generalization of accompaniment actions (increasing occupational

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 workshops, learning centres), and to support the creation of jobs in the non-market sector.

The Employment Policy of the Regional Walloon Government. The Walloon Regional government and the social partners have, since 1995, been signing accords seeking to stimulate the Walloon economy and to create more jobs. All in all, the Walloon employment policy involves two axes.⁵² The first of these is the reinforcement of federal back-to-work programs, and the second is the development of its own voluntary initiatives.

The Walloon accords mainly emphasize: (i) training (literacy, support for insertion firms, development of training by rotation, training of the middle classes, individual on-the-job training, reinsertion of social assistance recipients); (ii) the collective redistribution of work (supplementary support is provided by the Walloon government to firms that participate in federal work-time reduction experiments, through subsidies for the reorganization and for training personnel); (iii) the individual redistribution of work (a partial wage compensation is provided to workers who reduce their working time); (iv) rapid access of young job-seekers and the long-term unemployed to certain federal programs (accompaniment plan for the unemployed, Hiring Support Plan, occupational transition program); (v) jobs for youth: the application of certain measures is tilted toward poorly qualified job-seekers under 25 years of age; (vi) the development of new fields of employment, and particularly the development of the social economy sector; and (vii) the development of employment in the waste sector, in water conservation, in social housing, and in heritage upkeep and restoration.

Since 1998, and much like in the Flemish Region, the Walloon government and social partners have agreed on an accord giving concrete form to the European guidelines for employment. The introduction to this accord underlines

the deep restructuring of the industrial fabric that Wallonia faces, as well as the importance of subscribing to the guidelines and of actively collaborating on the National Action Plan for Employment. In order to respect the European accords, the Walloon government and social partners have agreed to undertake action on a series of themes that were more or less described in the preceding paragraph. To those measures, we can nevertheless add:⁵³

- wage subsidies (under certain conditions) for small and medium-size enterprises (SMEs) who hire the unemployed in order to undertake economic expansion programs;
- entrepreneurship development through training and accompaniment programs for young entrepreneurs;
- training secondary school students and SME owners in new information and communications technologies in order to develop the telecommunications sector;
- applying the equal opportunity policy in terms of selecting participants for the different training and back-to-work programs, of improving childcare structures, and of reinserting the disabled.

As in the Flemish Region, and despite several specific arrangements, measures or actions, the Walloon employment policy is very close to the European guidelines for both 1998 and 1999.

The Employment Policy of the Regional Government of Brussels. Since the mid-1990s, the employment policy of the Brussels-Capital Region rests on three principles.⁵⁴ First, employment creation must provide financial benefits to the residents of the Brussels-Capital Region; second, concertation with the social partners and with other actors concerned with the training and employment questions must be ongoing; and third, initiatives must be coordinated, and their results evaluated.

Several areas of activity have also retained the decisionmakers' attention: (i) the ordinary job-seeker must be supported in his/her search for an adequate job; (ii) the socio-professional insertion of job-seekers from at-risk groups must be improved (paths to insertion, training by rotation, accompaniment of target groups); (iii) job creation must be encouraged in Brussels (personal services sector, social utility jobs, supplementary work in Public Social Assistance Centres); (iv) Brussels' businesses must be assisted: different programs have been tested within the context of employment policy in order to stimulate job creation in firms, and particularly in SMEs (occupational

transition bonus, financial support for occupational training, hiring bonus). These three measures are aimed at firms with fewer than 250 workers; (v) work-time redistribution in firms (collective reduction of work-time with compensatory hiring); and (vi) support for the development of the social economy.

In its contribution to the National Action Plan for Employment in both 1998 and 1999, the government of the Brussels-Capital Region developed the following solutions.⁵⁵

- *In terms of training:* developing measures favouring training by rotation; developing firm-specific training in order to adapt workers' knowledge and aptitudes to the firm's needs and to technological change; developing training and accompaniment activities for youth under 25 who are starting their sixth month of unemployment, as part of the Plan to Accompany the Unemployed (PAC).
- *In terms of firm creation:* favour the creation of new firms in artisan trades through self-employment measures; reduce wage costs for the unemployed hired by SMEs to complete well-defined projects (A.R. no. 123 and 258).
- *In terms of hiring and occupational transition bonuses:* the bonus system to encourage the reinsertion of the long-term unemployed was overhauled in 1997; this system will be evaluated and adapted if necessary in 1999.
- *In terms of back-to-work programs:* supplementary means will be invested to increase the number of jobs in these programs; these programs will be supplemented in 1998 by occupational transition programs (PTP) offered to the poorly qualified and the long-term unemployed.
- *In terms of insertion:* specific programs have been developed for the most disadvantaged categories of job-seekers, in collaboration with local professional insertion operators as well as public occupational training organizations.
- *In terms of work redistribution:* financial assistance is reserved to allow firms to undertake a feasibility study (financial and economic consequences of work-time reduction); subsidies will be offered for accompaniment measures where a regime of work-time reduction is introduced through concertation (firms of fewer than 250 workers).
- *In terms of equal opportunity:* emphasis is placed on non-discrimination in the hiring of people with foreign origins.
- *Accompaniment of unemployed youth and the long-term unemployed* (socio-professional accompaniment services, job clubs, language testing, hiring bonuses).

- *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 time, but allow the holder to exit from unemployment and to benefit from a conventional wage and social protection. Jobs of this sort distributed to certain types of local social services, such as family aids and childcare workers, are increasingly giving way to forms of activated jobs, because they are considered costly and demand low qualifications for public associations and collectivities.

There is already a form of activated work in legislation dealing with the attribution of social assistance by the Public Social Assistance Centres. This authorizes the centres to put social assistance recipients to work for the period required to gain the value of social coverage. Still, this old measure (1974) was not properly speaking an employment device, but a measure for re-establishing social rights.

There are only three forms of activated work in Belgium, in the sense of jobs for which remuneration is an unemployment or social allowance with a supplementary top-up. These are: service jobs; local agencies for employment (ALE) jobs; and the occupational transition program (PTP).

The job-creation programs are developed around the notion of “new fields of employment” and “proximity jobs.” All of these are supposed to respond either to social needs or to human needs (thus located in a non-productive logic).

The three programs are reserved for the poorly qualified, the long-term unemployed, and social assistance recipients considered unemployable on the labour market. Since these groups have already dropped out from classical conceptions of work, it seems justified to offer them work conditions which no longer refer to the normal, contractual forms, such as those regulating working time, relations with the employer, and conventional levels of pay.

The *characteristics* of these activated jobs are more or less the following:

- They are always jobs with reduced work-time, between very short hours for services to people to at least half-time when performed for an employer; they are often four-fifths time for a public service.
- The jobs are temporary, sometimes even odd jobs.
- The pay is not linked to the specific job, and is unlikely to increase through bonuses or seniority pay. It is a pay ceiling, and generally is determined with reference to the minimum wage.
- In all cases, the employer's wage cost is reduced.
- The employer's autonomy is limited.
- In principle, some form of training must accompany the jobs.

Activation measures are increasingly inscribed with a logic where acquiring or conserving a replacement income requires work effort by the recipient. Henceforth, the notion of activation implies that the right to social allowances is conditional upon doing work.

All in all, during the 1990s, the European accords increasingly guided employment policy in Belgium, as was highlighted by the declarations of the new governments (federal and regional) formed after the 13 June 1999 elections. Thus, while there are accents and outcomes that are particular to the Belgian labour market in all its diversity, it remains that the European guidelines for employment are increasingly present in the employment policies that the federal and regional governments intend to develop over the coming months and years.

BY WAY OF CONCLUSION

Are the state structures, as they have been redefined since the institutional reform, functional in terms of labour market policy? In other words, is the division of powers between the Regions, the Communities, and the federal state clear? Are the mechanisms for cooperation between the different institutional entities adequate? Is there a need to re-federalize certain responsibilities?

In his attempt to answer the last question, Deneve reproduces at length the view of the general secretary of the Ministry of Employment and Work, who, in the 1996 evaluation report wrote:

Paradoxically, the regional authorities, who gained most of the responsibilities for employment policy during the last State reform, are relatively powerless to

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 have been underlined most notably by the OECD. It has signalled to Belgium that the situation prevents efficient responses to the exclusion of the unemployed caused by long-term joblessness, and reduces control of this group's availability in the labour market.

In our opinion, the situation has not genuinely improved since 1996 in terms of the plethora of existing measures. The most recent report of the federal Ministry of Employment and Work notes the existence of about 160 measures and devices favouring employment when one looks at the federal, Regional and Community levels. "Among these, many were implemented over a decade ago, were sometimes amended many times, but they still have yet to find their public, and thus have yet to fulfill their objectives."⁵⁷

This gives rise to a number of remarks concerning the effectiveness of labour market policy at the federal and regional levels. In effect, it is difficult to differentiate between a new measure and the renewal, sometimes in modified form, of older measures and devices favouring work. Beyond risks of overlap,

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:

- the Plan to Accompany the Unemployed (PAC), initiated by the federal government and implemented by the Regions;⁶⁰
- Local Employment Agencies (ALE), which attempt to put unemployed job-seekers back to work for a certain number of hours at the Community level, but which the federal level implements.⁶¹

The federal government, keen to reduce unemployment insurance expenses, also takes initiatives in fields of Regional and Community responsibility. It pilots these initiatives without controlling them directly.

Moreover, besides Belgium's federalization process, the translation of the employment guidelines adopted by the European Union since 1997 has had its effects. The Ministry of Employment and Work and each of the member states has seen the centre of gravity of employment policy shift toward labour market reintegration measures, coupled with the necessity of adopting structural policies dealing with the re-engineering of work structures. The European guidelines for employment have clearly reinforced the weight of the federal government in the field of labour market policy.

To this day, the differences that we note in the Regional employment policies are most evident in terms of unemployment reduction programs, initiated in response to economic crisis (since the early 1970s) and to the disengagement of the then national state from public services.⁶² The eligibility conditions for certain unemployment reduction programs vary from one Region to another. For instance, eligibility may be one day of unemployment in the Walloon Region and one year in the Brussels Region. This has the effect of reducing worker mobility at the national level since the measures are territorialized, even while Belgium has a particularly small area (30 507 km²).⁶³ It is worth noting that the situation is similar inside the European Union's member states; generally, the job offers inscribed in the national unemployment reduction plans cannot be transferred or exported to job-seekers from elsewhere in the community.

In terms of the other aspects, we can consider that the Regions have elaborated measures that supplement and support the federal employment policy. Thus, the employment policy of the Regional bodies has also supported activities favouring target groups, particularly by reintegrating the long-term unemployed into the labour market.

In our view, certain mechanisms regulate the potential for jurisdictional conflict and confusion. First, there are mechanisms of information-sharing, concertation, cooperation, and feedback at all levels of political power between the governments of the federated entities and the federal government. Thus, for labour market policies,

the law foresees that concertation linking the associated governments (regional and community) and the federal government should occur in order to exchange information between the training, unemployment and placement services as well as for all initiatives to do with back-to-work programs for the unemployed. In addition to the Federal State, the Communities and Regions can reach accords of cooperation which deal in particular with the joint exercise of individual responsibilities or the joint development of initiatives.⁶⁴

For instance, successive programs and accords of cooperation have included financial incentives from the federal state, as well as repeated commitments to the development of so-called active policies and to information-sharing about the real labour-market availability of the unemployed.

Second, the specificity of our institutionalized model of collective negotiations allows for some regulation and articulation of policies in ways that bypass a strict juridical reading of the division of powers. The presence of the

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 and too likely to create windfall effects by the union organizations.

Many meetings were organized between the minister and the social partners in order to hammer out an accord, but it was all in vain. The government was forced to decide between two positions: the revised version (without the plan) which was more or less supported by the unions and the position of the employers.

In November 1999, Belgium’s Council of Ministers approved a law offering youth a first-job contract, which came into force in April 2000. The goal is to allow youth “to avoid getting stuck in unemployment and to complete their school training with an occupational qualification that is indispensable for their durable insertion into the job market.” The plan establishes a structure that takes account of the economic and social differences between the country’s regions. As well, the plan covers youth under the age of 25 in their first six months after school. Where there is a shortage in this first category, young job-seekers under 25 are covered, and where a shortage still persists, young job-seekers under 30 can qualify.

The existence of concertation organs and mechanisms at the different levels of power between the social partners and the different levels of political power has so far guaranteed a certain level of coherence in labour market policies. This holds even if we take into account the economic and social differences between the Regions because industrial relations have not been officially regionalized and the initiative of regional social partners is limited by federal bodies and by interprofessional accords. We still see this in the framework of the Rosetta Plan which the social partners would have accepted in its first version. In Belgium, “the social landscape has been fashioned through concertation more than in many other countries. “Contract Law” occupies an enormous place in the functioning of the labour market.”⁶⁶

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 outplacement 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.

NOTES

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* (Bruxelles: CRISP, 1998), pp. 23-24.

³Vlaamse Gemeenschapscommissie = Flemish Community Commission.

⁴J. Brassinne, *La Belgique fédérale*, Dossiers du CRISP No. 40 (Bruxelles: CRISP, 1994), p. 178.

⁵Financing for social security comes from three sources, namely salary deductions, state subsidies, and the resources of social security's Fund for Financial Balance (FEF). There are six branches to social security: unemployment insurance, early retirement and career interruption; family allowances; health care; workers' compensation; old age pensions, survivors' benefits, social assistance (financed in equal parts by the state and by the communes).

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 or 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).

⁸Ibid.

⁹Accord of 4 June 1993, in effect as of 1 January 1994.

¹⁰ONEm's missions are defined in article 7 of the royal decree of 28/12/1944 on workers' social security. This article was modified on numerous occasions and was the foundation of the ministerial decree of 16 May 1984 which describes the distribution of ONEm's different missions between the national, Community and Regional levels of government as part of the reform of the state.

¹¹M. Ducharlin, "Réforme de l'Etat et restructuration des services publics, le cas de l'Office National de l'Emploi," *L'Année Sociale*, pp. 185-93, translation.

¹²Organic Law of the CPAS of 8 July 1976.

¹³M. Uyttendaele and Ph. Coenraets, *Les accords de coopération*, No. 1325 (Bruxelles: CRISP, 1991), pp. 3, 5 (translated).

¹⁴Ibid., p. 6 (translated).

¹⁵Uyttendaele, *Institutions Fondamentales de la Belgique*, p. 49 (translated).

¹⁶*Le Soir*, 3-4 April 1999.

¹⁷According to the federal Ministry of Employment and Work, "the employment rate can be defined as the relation between employment and the active population (ages 15-64); the employment rate in Belgium is determined based on the results of the labour force survey (FT) administered by the National Institute of Work on behalf of Eurostat." (translation)

¹⁸Some specifics on the methodology: if the unit of analysis is the individual, the socio-demographic characteristics used will be those of the family head. The total income available per household must be transformed, using an "equivalency scale," in order to be comparable and take into account household composition. B. Delhousse and S. Perelman, "Inégalités et pauvreté: mesures et déterminants" in *Wallonie et Bruxelles: évolutions et perspectives, Portrait socio-économique de la Belgique*, Commission 4, 13ème Congrès des économistes belges de langue française, 26-27 November 1998, CIFop, Charleroi, pp. 25-44. This equivalency scale is based on the hypothesis of an equal distribution of income between the partners, but supports itself with the principle of scale economies. Its pertinence is brought into question by studies dealing with women's incomes.

¹⁹Which means that any family with a child whose net income is below FB37,900 is considered poor. For a single person, the poverty level is FB17,200. See Delhousse and Perelman, "Inégalités et pauvreté."

²⁰C. Gouyette, "Revenu et richesse en Belgique" in *Wallonie et Bruxelles : évolutions et perspectives, Portrait socio-économique de la Belgique*, Commission 4, 13ème Congrès des économistes de langue française, 26-27 November 1998, CIFO, Charleroi, pp. 97-108. This is a study based on gross wealth, evaluated before deductions for the eventual repayment of debt. It was drawn using the 1992 *Panel CSB* poll. This is a database that precedes the *Panel Study on Belgian Households*, from which we drew the data presented in the preceding paragraph. As well, it does not provide a representative sample of the Belgian population but a sample targeting a disfavoured population. The enquiry was based on the respondents' subjective evaluations of basic needs.

²¹*Ibid.*, p. 102.

²²*Ibid.*, p. 106.

²³In 1993, according to this method of calculation, the FGTB had 1,117,264 members, the CSC has 1,374,290 members and the CGSLB had 214,738 members.

²⁴See *De Morgan*, 14 April 2000, p. 1. According to this newspaper, the CSC had 1,614,526 members in 1999, the FGTB had 1,186,038 and the CGSLB had 217,000.

²⁵In Table 8, the Independent Lists are lists of a firm's officials. The Confédération Nationale des Cadres (CNC, National Confederation of Officials) has been a recognized organization since 1985.

²⁶OECD, *Perspectives de l'emploi*, September 1988.

²⁷Ministère fédéral de l'Emploi et du Travail, *La politique fédérale de l'emploi, Rapport d'évaluation 1999* (Bruxelles: 1999), p. 79.

²⁸The 16 December 1988 Decree of the Walloon Region mandating the creation of a regional employment office that could, if necessary, be invested with a mandate for occupational training in the French and Germanophone Communities. The 23 December 1988 Decree of the French Community, executed 27 December 1988. Germanophone Community Decree of 19 December 1988, modified by the Decree of 27 May 1989, and executed 23 November 1989. See B. Graulich and P. Pasterman, *Les droits et obligations du chômeur dans le nouveau code du chômage* (Dordrecht, The Netherlands: Kluwer, 1998), p. 5.

²⁹Decree of 21 December 1988.

³⁰Royal Decree of 16 November 1988.

³¹Brusselse Gewestelijke Dienst voor Arbeidsbemiddeling.

³²According to ORBEM's 1995 annual report, these local information centres informed the unemployed on existing employment offers, on ORBEM's services, on their personnel file, on training and employment possibilities, on employment bonuses and programs, on occupational insertion initiatives, and on social and labour legislation.

³³Organisation for Economic Co-operation and Development (OECD), *Le Service Public de l'Emploi, Belgique* (Paris: OECD, 1997), p. 33.

³⁴Ministère fédéral de l'Emploi et du Travail, *La politique fédérale de l'emploi, Rapport d'évaluation 1998* (Bruxelles: 1998), p. 54.

³⁵The CSEFs were created in their current form on 1 March 1990, following an agreement between the executives of the Walloon Region and the French Community reached in November 1989. The CEFES are consultative tools created by the CSEFs.

The CSEFs and the CEFES have the objective of observing local labour market realities in order to determine which measures should be taken. They are also used for maintaining contact with businesses and authorities responsible for teaching and employment. There are ten CSEFs and CEFES in the Walloon Region. They have a common structure and mode of functioning, but act according to the socio-economic specificities of the subregions (Arlon, Charleroi, Huy/Waremme, Liège, Mons/La Louvière, Namur, Nivelles, Saint-Vith, Tournai, Verviers). The CSEFs have the following principal mandates: continuously examining employment levels and trends; researching, proposing, and recommending useful measures for job-creation policies; analyzing training; linking problems of pedagogical rotation and of socio-professional insertion to those of employment and training; providing advice to the executive on subregional issues relating to public support for employment in the context of unemployment reduction measures.

³⁶Missie van de STCs Besluit van 21 December 1988, De STC's beschikken over "een 'autonome studie-advies- en aanbevelingsbevoegdheid inzake tewerkstelling en beroepsopleiding binnen hun ambtsgebied. De STC's hebben onder meer tot taak de samenwerking en het overleg te bevorderen tussen de werkgevers en de werknemers, en tussen de sociaal-ekonomische actoren enerzijds en het onderwijs en de beroepsopleiding anderzijds." L. Struyven, "Naar meer of minder? Sturing van het subregionaal arbeidsmarktbeleid in Vlaanderen," *Steunpunt WAV, Nieuwsbrief* 1, 2 (1997):24.

³⁷For the Walloon Region, these services take the form of not-for-profit associations and necessarily bring together the local public authority, the FOREM, and various private partners. The creation of these services in the Walloon communes is based on a certain number of criteria such as the number of job-seekers registered with FOREM, the absence of a permanent FOREM placement office, and the difficulty of getting to the FOREM services.

³⁸The creation of an ALE in a commune or in a group of communes satisfies two demands. On the one hand, it answers requests for a number of activities not provided by the regular circuits of work and not in competition with these circuits. On the other hand, it satisfies demands for work made by the long-term unemployed and the minimexers who often have trouble finding a place on the labour market.

³⁹The regional missions have the function of organizing, coordinating, and running social accompaniment activities and training in order to insert occupationally targeted publics. The target public includes: job-seekers without a postsecondary education diploma and who are recipients of the minimum means of existence (minimex), the long-term unemployed, etc.

⁴⁰The local missions play an identical role to the regional missions, but are located in the Brussels-Capital Region.

⁴¹Social workshops seek to create jobs in a sheltered workshop environment through the creation of business activities. They target job-seekers who, due to an accumulation of personal and environmental factors, cannot acquire a job on the regular labour market, but who are capable of performing tailor-made jobs when supervised.

⁴²The SERV was created by the decree of 25 June 1985. It is a tripartite structure (union federations, employer organizations, and political representatives). The

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.

⁴⁹*Investir dans la personne et l'emploi. Plan d'action belge 1999 établi dans le cadre des lignes européennes pour l'emploi*, Cabinet du Ministre de l'Emploi et du Travail, 1999.

⁵⁰Ministère fédéral de l'Emploi et du Travail, *Rapport d'évaluation 1998*.

⁵¹Ministère fédéral de l'Emploi et du Travail, *Rapport d'évaluation 1998*, p. 55.

⁵²*Ibid.*, pp. 55-57.

⁵³*Ibid.*, p. 57.

⁵⁵Ministère fédéral de l'Emploi et du Travail, *Rapport d'évaluation 1997*, p. 44.

⁵⁵Ministère fédéral de l'Emploi et du Travail, *Rapport d'évaluation 1998*; Ministère fédéral de l'Emploi et du Travail, *La politique fédérale de l'emploi, Rapport d'évaluation 1999* (Bruxelles: 1999).

⁵⁶M. Jadot, "Présentation et lignes de force du rapport," in *La politique fédérale de l'emploi, Rapport d'évaluation, Ministère de l'Emploi et du Travail* (Bruxelles: 1996), p. 22, reproduced in C. Deneve, "Arbeidsmarktbeleid in een federale staat," in *Sociaal*

Beleid en Federalisme, Staatsrechtconferentie 1998, Vlaamse juristenvereniging, ed. S. Vansteenkiste and M. Teymans (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, les Relations Industrielles et les Affaires Sociales 1996), pp. 134-35, translation.

⁵⁹When concluding the 1989–90 interprofessional accord, the social partners decided to give particular attention to the unemployed having difficulties inserting themselves into the labour market, and belonging to the “at-risk group” category (the long-term unemployed, young job-seekers, the poorly-qualified unemployed). The federal government supported this initiative. As such, during 1989–90, a sum equal to 0.18 percent of total payroll was invested in training or hiring “at-risk groups.” When no initiative is taken within a firm or a sector, the employer is required to contribute 0.18 percent to the federal fund for employment. The fund uses these monies to implement its own projects favouring the reinsertion of “at-risk groups.”

⁶⁰The Plan to Accompany the Unemployed (PAC), created in January 1993, provides intensive accompaniment for the unemployed. This plan initially foresaw that each jobless person entering his or her ninth month of unemployment would be forced to follow an accompaniment program. This program would attempt to define how to maximize the person's chances of reintegrating into the labour market. The PAC still exists, but it been overhauled on various occasions.

⁶¹The creation of the ALEs in the Communities has two goals. On the one hand, they seek to meet the demand for a certain number of activities not performed by, and not in competition with, regular circuits of work. On the other hand, they seek to satisfy the demand for work expressed by the long-term unemployed and social assistance recipients.

⁶²The principle of these unemployment reduction programs is the drawing rights which the federal state provides to the Regions to subsidize a certain number of jobs in non-market sector associations or specific public or parapublic institutions. The Regions that benefit from the program determine the criteria for attributing these funds in the context of their political and economic choices, but must do so from the point of view of the job-seeker.

⁶³These arguments were gathered during a seminar on the non-market sector held by the TEF-ULB in February 2000.

⁶⁴Observatoire de l'Emploi, Commission de l'Union européenne, Emploi et affaires sociales, MISEP, *Rapport d'information de base* (Belgique: 1998), pp. 1-2.

⁶⁵This plan closely follows the European guidelines for employment. The proposed law explicitly referred to these guidelines.

⁶⁶Ministère fédéral de l'Emploi et du Travail, *Rapport d'évaluation*, 1999, p. 15.

⁶⁷See the ILO's Convention No. 96 dealing with the Public Employment Service's monopoly.

APPENDIX

1999 NATIONAL ACTION PLAN FOR EMPLOYMENT OF THE FEDERAL GOVERNMENT OF BELGIUM

A. Improving the Capacity for Professional Insertion¹

Fight Against Youth Unemployment and Prevention of Long-term Unemployment¹

- Plan for Accompanying Unemployed Youth, 1/01/1999 (accord of cooperation between all concerned authorities): this obliges every unemployed youth under the age of 25, who has been jobless for five months and who does not have a postsecondary diploma, to submit to an accompaniment seeking to improve his or her employability.
- Reinforcement of specific measures for unemployed youth: simplification of the legislation governing youth internships; faster accessibility to the Hiring Support Plan or for the acquisition of occupational experience.
- Accompaniment for the 25 to 45 year-old unemployed person who has reached their twelfth month of unemployment and who does not possess a postsecondary diploma (accord of cooperation between all concerned authorities): screening, accompaniment, and orientation for the unemployed as a complement or as an element of the possibilities for accompaniment, training, or labour market reinsertion.
- Acquisition of professional experience by the 25 to 45 year-old unemployed person who has reached their twelfth month of unemployment and does not possess a postsecondary diploma, through occupational transition programs, the Hiring Support Plan, employment services, and local employment agencies.

Moving from Passive to Active Measures

- Activation of unemployment benefits: promote the return to work of the long-term unemployed through local employment agencies, employment services and occupational transition programs, return-to-school with benefits, and self-employment incentives.
- Extension of activation to recipients of the minimum subsistence (minimex) and of social assistance, as well as the extension of activation measures to older workers.

- 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

- The social partners and the government agree to more means of continuous training: the sectors are invited to strike training and employment accords oriented to all categories of workers, including job-seekers.
- Efforts for at-risk groups: 0.10 percent of total payroll.
- Extension and generalization of the industrial apprenticeship field.

A Labour Market Open to All

- Facilitate labour market access for handicapped people (contribution to the application of the minimum wage to the adapted work sector through a complementary reduction of social security contributions) and for ethnic minorities (fight against discrimination).

B. Developing Entrepreneurship

Aiding Business Start-up and Management

- Facilitate access to independent professions: creation of the “independent-intern” status, relaxation of eligibility conditions for loans to the unemployed, continued receipt of unemployment benefits in the period before becoming an independent worker.
- Reduction of administrative formalities for firms.

New Job-Creation Possibilities

- Specific measures for convalescent homes, via the “social Maribel” scheme.
- In terms of social economy: juridical definition of the insertion economy, access to public markets for social economy firms, intern status in work-

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.

6

CANADIAN LABOUR MARKET POLICY: FEDERALISM AND POLICY REALIGNMENT AT THE MILLENNIUM

Rodney Haddow

This chapter examines major trends in Canadian labour market policy, with particular attention to the impact of federalism in this sector. It defines this field broadly to include both *passive* initiatives (those designed to provide income support for employable unemployed persons), and *active* ones (measures such as training, employment counselling, and job creation that are designed to help people improve their employability or to expand employment opportunities). When contemporary policy developments are described later in the chapter, specific attention will be paid to youth initiatives, now a major preoccupation of the federal government in Canada, and to interprovincial labour mobility.

The first section reviews the main features of Canada's labour market in a comparative perspective. The second explores the institutional and historical background of current labour market policy, identifying how the roles of the two levels of government evolved over the years. It suggests that on the eve of the most recent round of changes in the area, Canadian policymakers faced two main challenges: an increasingly acrimonious federal-provincial relationship, and a long-standing imbalance between passive labour market programs, traditionally predominant in Canada, and active ones. Policy developments since the early 1990s are the subject of the third section of the chapter; it documents four main trends in recent years: (i) a shift in emphasis from passive to active measures; (ii) substantial curtailment in government spending on labour market

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.

CANADA'S LABOUR MARKET IN COMPARATIVE PERSPECTIVE

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

12 months or longer) unemployment. The percentage of the unemployed who belong to this category has risen from 8.8 percent to 13.7 percent between 1988 and 1998; but in the latter year it remained well below comparable rates in France (44.1 percent), Germany (52.6 percent) and the UK (32.7 percent), though, again, above the US proportion of 8 percent.⁵

Various explanations have been offered for Canada's relatively high unemployment rates between the 1940s and the 1970s. Some argue that the main factors were political: lacking a strong social democratic party or a powerful labour movement, Canada made a more timorous commitment to Keynesian macroeconomic policy, and to its key objective of full employment, than did most European countries.⁶ For other observers, Canada's higher post-war unemployment reflected structural factors: a larger portion of the Canadian workforce was employed seasonally; also, the relatively large distances required to move to new jobs in a large but thinly populated country, and linguistic and cultural differences among the Canadian regions, impeded the efficient matching of labour supply with demand. In any case, as will be demonstrated in the next section, Canada's main policy response to persistent high unemployment was to provide relatively ample income support to its unemployed.

Analyses of Canada's labour market performance during the past two decades focus much more attention on where Canada has failed (by comparison with the US) than where it has succeeded (compared to Europe). This reflects Canada's proximity to, and close economic and cultural integration with its southern neighbour. These analyses largely concentrate on microeconomic factors, usually related to government policy, that cause structural unemployment to be higher in Canada than in the US: Canada's Unemployment Insurance (UI) program was considerably more generous than the one in the US; the US incarcerates a significantly larger percentage of its working age population; Canada's workforce is much more unionized than its American counterpart (37.5 percent, compared to 15.5 percent in the US in 1994); earned income inequality is lower in Canada, raising the relative cost of employing low-wage workers; and Canadian minimum wages rose during the 1990s, while they fell in the US. Keynesian arguments about the impact of macroeconomic policy on unemployment have not, however, disappeared; it has been argued that part of the Canada-US unemployment gap reflects the fact that Canadian interest rates were significantly above American ones, especially between 1986 and 1992.⁷ Nevertheless, the most influential interpretations of Canada's aggregate labour market performance during the past two decades focus on structural factors and on government policy as their

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 was much lower in West Germany (7.8 percent in 1978), France (7.9 percent in 1979), the UK (6.9 percent in 1979) and Sweden (6 percent in 1975); only the US rate for this measure of poverty (15.8 percent in 1974, in a country whose welfare state was even more modest than Canada's) was comparable to Canada's.⁹ Canada's mid-1970s score on the Gini index, a standard measure of inequality, was also higher than it was in each of these European nations, except France, though lower than the comparable American rate.¹⁰

As with the unemployment and participation data reported above, however, Canada's post-1970s record regarding income distribution diverged somewhat from the postwar pattern. Most strikingly, inequality of *final income* and poverty in Canada did not rise significantly between the late 1970s and the mid-1990s, in sharp contrast with the pattern in many other OECD nations. The Gini index for disposable income rose by over 2 percent per year in the UK between 1979 and 1995, and by almost 1.5 percent per year in the United States and over 0.5 percent per year in Germany during similar periods. In Canada, by contrast, it was virtually the same in 1994 as it had been in 1979.¹¹ In 1994, according to LIS data, only 10.6 percent of Canadian households experienced final income poverty, as defined above. While this rate is still much higher than in many smaller European nations, it is now comparable to UK levels (10.6 percent in 1995) and considerably below the American rate of 17.9 percent in 1994.¹²

With respect to *earned income* — remuneration prior to taxes and transfers — Canada's comparative post-1970s evolution has been somewhat

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 considerable between 1975 and 1984, it changed very little over the next 11 years.¹⁶ Concentrating instead on family market income, Myles Zyblock and Iain Tyrrell report, in contrast, that "increasing market income inequality among families indicates that a growing proportion of families are doing relatively poorly in the labour market."¹⁷ The Gini coefficient for market income for non-elderly families, reported in their research, increased from 0.340 in 1989 to 0.377 in 1993.¹⁸ Nevertheless, it is clear that by any measure earnings inequality in Canada has not increased during the past 15 years as rapidly as in the US. Why is this the case? A variety of factors have been cited to explain earnings polarization since the 1980s in the US: on the demand side, technological change and shifts in international trade have increased the advantage that high-skilled workers have over the less well educated; various forms of labour market

regulation — minimum wages, UI benefits, unions, etc. — have also been weakened significantly.¹⁹ While the demand-side factors have been present in Canada as well, the Canadian labour market has not likely been subject to the same degree of deregulation. Supply-side features of the Canadian labour market, which would also have impeded earned income polarization, include a particularly rapid growth in the number of postsecondary education graduates in Canada (a theme discussed at greater length below), and the rapid increase in female labour market participation. Since these trends are unlikely to continue at the same pace in the future, one might expect that more rapid earnings polarization will occur in Canada in the foreseeable future.²⁰

That Canada's record with respect to *final income* inequality and poverty is so much better than its record regarding earned income is a testament to the relative generosity (compared to the US, though not compared to Europe), of its income security measures. "In the United States, reductions in social benefits during the Reagan-Bush years exacerbated the rise of inequality and poverty. In Canada, rising inequality in the labour market has so far been offset by *social transfers* so that, unlike the US, the final distribution of *total family incomes* remained relatively stable during the 1980s." While Canadian social assistance rates were 14 percent more generous than their American equivalents in 1979, for instance, "the gap had grown to 42 percent in 1986."²¹ And while assistance rates for single parents with dependents fell by an average of 1 percent in the ten Canadian provinces between 1986 and 1995, they were reduced by an average of 5.5 percent in the American states during this time period.²² Social transfers reduced the American poverty rate for all persons by 8.9 percent in 1991, but by 15.8 percent in Canada in the same year.²³

Variations: Gender, Age and Region

The most striking change in Canada's labour market during the past half-century was the substantial change in its *gender* composition. A labour force that was overwhelmingly male — far more so than in most other western nations — developed a gender mix that is now fairly typical for an OECD country. The female civilian labour market participation rate (for women aged 14 and over) was 24.7 percent in 1946, and rose only to 28 percent in 1960. But by 1970 it had reached 35.5 percent, and it climbed to 40.9 percent in 1975.²⁴ Between 1976 and 1991 the rate (now calculated for women aged 15 and over) rose from 45.6 percent to 58.5 percent. Since then, the overall female participation rate has stagnated: it was 57.4 percent in 1997. Although the male participation

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, creating the relatively static pattern in overall individual earnings inequality that was noted above.³⁰

The *age* profile of the Canadian labour force has been the subject of particular concern in recent years. In 1997, when the overall unemployment rate was 9.2 percent, young men (those aged 15 to 24) experienced a rate of 17.6 percent, and young women a rate of 15.7 percent. This pattern — youth unemployment rates twice the national average rate — is quite typical of advanced economies in recent years; similar patterns prevail in the US, France, Sweden, and the UK.³¹ That young people experience above-average unemployment rates is not new; evidence of this alone may not justify a conclusion that youth now face significantly worse circumstances than in the past. But other data suggest that this is indeed the case: the employment rate (percentage of the relevant population that is employed) for youths declined substantially between 1990 and 1997: from 60 percent to approximately 51 percent; the employment rate for adults 25 and older declined by only a couple of percentage

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 pronounced in Canada. In 1950, when the national unemployment rate was 3.6 percent, the average rate in the Atlantic provinces (Nova Scotia, New Brunswick, Newfoundland, and Prince Edward Island) was 7.8 percent; in Quebec it was 4.4 percent. By 1975, when the national average was 7.1 percent, it was 11.6 percent in the Atlantic provinces and 8.8 percent in Quebec. Participation rates were also well below national norms in the Atlantic provinces, though not in Quebec, during the postwar era: 49.3 percent (compared with a national participation rate of 53.7 percent) in 1950, and 47.1 percent (compared with 54.2 percent nationally) in 1975.³³ The substantial gap in labour market performance between Ontario and the western provinces on the one hand, and Quebec and Atlantic Canada on the other, continues today. The national unemployment rate of 6.8 percent in October 2000 masked considerable interprovincial variations: from 4.6 percent in Manitoba and 4.7 percent in Alberta (the lowest rates) through 5.9 percent in Ontario and 8.5 percent in Quebec to 13.5 percent in Prince Edward Island and 16.6 percent in Newfoundland (the highest rates). Participation rates varied from 56 percent in Newfoundland to 71.9 percent in Alberta.³⁴ Canadians who live in provinces with higher unemployment rates have a long tradition of leaving home to find employment in the provinces, Ontario, Alberta, and British Columbia, where jobs are more plentiful. But the size of the country, the strength of local attachments, and the linguistic divide between English- and French-speakers have prevented interprovincial mobility from ever fully eliminating these regional variations. According to an OECD study, during the 1970s and 1980s interregional migration rates in Canada were about half what they were in the US.³⁵

The Education Premium

The substantial labour market advantage that well-educated workers have over poorly educated ones attracted much attention in Canada during the 1990s. In 1996, male university degree-holders of all ages benefited from an “earnings premium” of 44 percent in comparison with males with some postsecondary

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.

LABOUR MARKET POLICY: THE INSTITUTIONAL AND HISTORICAL SETTING

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 *passive* labour market policy (PLMP) then available to Canadians. That the provinces had the main responsibility here was widely accepted, as section 92 (7) of the BNA Act assigned to the provinces jurisdiction over “Hospitals, Asylums, Charities and Eleemosynary Institutions.” Little in the way of what would now be called active labour market policy (ALMP) was done in Canada at that time; but inasmuch as adult job training occurred, provincial jurisdiction would have been judged paramount here too; section 93 of the BNA Act granted them the authority to “make laws in relation to education.”

The mass unemployment that Canada experienced during the 1930s disrupted these water-tight distinctions. Many provinces lacked the financial resources to cover their relief expenses, and came to rely on annual transfer payments from Ottawa to do so. An amendment to the BNA Act in 1940 granted Ottawa the authority to launch a national unemployment insurance (UI) scheme. The 1940 legislation was modest both in coverage and in benefit levels. However, numerous amendments were made to the UI Act from the late 1940s to the early 1970s; these extended the program’s coverage and benefits: for instance, a 1955 amendment established seasonal benefits for persons unemployed during the winter months; and coverage was extended to fisherman in 1956, the most significant of many extensions of coverage to seasonal workers. These changes culminated in a 1971 reform that made coverage almost universal and raised benefit levels to 75 percent of average insured earnings for many

recipients. The Canadian UI program was then among the most generous in the world. Thereafter, amendments took the program in the opposite direction, by increasing the waiting period required to qualify for benefits, cutting benefit rates, tightening eligibility criteria, etc.³⁹ The most severe of these cuts came in the 1990s, and are discussed in the third section of this chapter.

The provinces continued to administer social assistance after World War II. In the UI Act's wake, provincial social assistance became a "residual" PLMP measure, the last resort available to employable unemployed persons once they had exhausted their UI eligibility. Each extension of the federal UI program until 1971 had the effect of shifting responsibility for PLMP further from the provinces to Ottawa. Having committed itself in 1944 to the Keynesian goal of maintaining high levels of employment, moreover, the federal government now acknowledged an ongoing responsibility for employable assistance recipients. In 1956 an *Unemployment Assistance Act* was passed by Ottawa, pursuant to which it undertook to cover 50 percent of the provinces' social assistance costs for employable persons. This legislation was replaced by a Canada Assistance Plan (CAP) in 1966, with similar cost-sharing provisions but broader coverage. Neither of these statutes imposed significant conditions on how the provinces administered their assistance programs; the main federal conditions were that assistance benefits be provided on the basis of need, that provinces not use residency requirements to deny benefits to persons newly arrived from other provinces, and that there be an appeals mechanism for persons denied benefits.

As Ottawa began its succession of cuts in UI benefits during the 1970s and 1980s, provinces complained bitterly about the resulting extension in their social assistance caseloads. By reducing its UI coverage, Ottawa was, in effect, unilaterally reversing the postwar arrangement that saw Ottawa assume an ever-increasing share of PLMP costs. Provincial protests became even more vociferous in 1990 when Ottawa "capped" (set a 5 percent limit on the annual increase in its contribution to), CAP-financed social assistance programs in the three most affluent provinces (Ontario, British Columbia, and Alberta). But as with its UI program, Ottawa's most radical cuts lay in the future, and are discussed below.

By contrast with passive benefits, where Canada developed a relatively generous program during the postwar era, *active* labour market programs (ALMP) developed more slowly and more modestly. Initiatives in this sector did not, however, lack for complexity and they have occasioned considerable federal-provincial conflict. (While university funding clearly has an ALMP

component, this is not its primary objective; federal-provincial arrangements in this area are therefore not addressed in detail here.) From 1945 to the late 1950s Ottawa did little to stimulate skills training or direct job creation, the key components of ALMP; its main contribution was to administer a National Employment Service (NES) to help unemployed persons find work and identify skills shortages. In keeping with the then-ascendent Keynesian economic theory, Ottawa saw macroeconomic policy as its primary tool for minimizing unemployment. As we have seen, however, this goal was never accomplished as satisfactorily in Canada as elsewhere during the postwar period. Moreover, by the late 1950s federal officials were becoming increasingly influenced by supply-side theories that attributed much unemployment to a mismatch between available skills and those sought in the labour market. ALMP measures would be required to rectify this mismatch, and to remedy regional and seasonal job shortages.⁴⁰

Ottawa now extended its involvement in ALMP in two ways: by providing money to the provinces to stimulate training and by engaging in direct job creation. The job-creation efforts took the form of a purely seasonal Winter Works program from 1958 to 1968; during the late 1960s and early 1970s this was replaced by a plethora of job-creation measures designed to meet the particular needs of young people, students and older workers who experienced difficulties in the workforce. In the early 1980s, during a major recession, federal job-creation expenditures reached historic levels.⁴¹ During these years, the provinces also began to spend on direct job creation, although these efforts were more substantial in larger and more affluent provinces than elsewhere.

In 1960, Ottawa also began to pay for 50 percent of the cost of training in provincially-administered technical colleges. In 1966, these arrangements were modified so that federal expenditures took the form of “seat purchases” within these institutions. Which seats were bought, and in what colleges, quickly became subject to effective provincial control: the provinces acquired substantial discretion in determining where these federal training dollars were spent. Because the colleges were provincial institutions, and were regarded protectively by provincial bureaucrats, this authority was typically used to ensure that the colleges received a constant and predictable supply of federal dollars.⁴² Needless to say, this did not facilitate rapid shifts in the allocation of training dollars in response to evolving labour market needs. Because training institutions received the lion’s share of federal training budgets, furthermore, there was little money left for “industrial” training (provided on-the-job), which frequently is cheaper and more clearly linked to a real need in the labour market.

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 dollars were spent and to make sure that this spending moved to areas of greater labour market need. During the mid-1980s, the federal government also reduced its spending on ALMP.⁴³ Since these steps represented a direct challenge to provincial officials, and threatened their colleges' budgets and the employment security of their staffs, they occasioned considerable federal-provincial conflict. Many provinces, above all Quebec, had long resented Ottawa's interventions in the ALMP field, arguing that the field properly belonged entirely to them. Provincial anger became even greater when, in 1989, Ottawa went beyond its CJS reforms with a new Labour Force Development Strategy (LFDS). For the first time, the federal government now linked its ongoing series of cuts in UI, its main PLMP commitment, with its ALMP objectives: UI benefit cuts introduced at that time were used to finance an expansion in training and job-creation activities.⁴⁴ While the general direction of this innovation was not opposed by most provinces (many of whom were modifying their passive social assistance regimes to enhance such active objectives as employability), they were angry that they had not been consulted about it. The Charlottetown Accord, a constitutional reform proposal that was submitted to Canadians for their approval in a November 1992 referendum, consequently included a provision that was designed to appease this growing provincial resentment; it stipulated that Ottawa would withdraw from most aspects of the training field in those provinces that wished to assume the responsibility. However, the Accord was rejected in that referendum, but Ottawa then vowed to remain active in the field.⁴⁵

In the Charlottetown Accord's wake, labour market policymakers in Canada faced two main challenges. First, active policy had become the subject of ongoing dispute; and programs in the area were complex, and jurisdictional responsibilities regarding them were highly ambiguous. Both levels of government had, over the years, become involved in job-creation activities; these were subject to very little coordination. The provinces administered most technical training, but relied on federal money to support these efforts; since the mid-1980s, the expenditure of federal ALMP budgets in the provinces had become the focus of bitter conflict between the two levels of government. The

larger and more affluent provinces also operated their own employment services, paralleling Ottawa's efforts in this area as well. Although the degree of real "duplication" within the ALMP system was subject to considerable dispute, at the very least this system seemed ripe for simplification.

The second challenge concerned the balance between passive and active measures. Despite the intergovernmental acrimony that has long been associated with ALMP in Canada, active measures were, in fact, underdeveloped in comparison with those of most other OECD nations; the federal UI program was, by contrast, relatively generous. According to an OECD study, benefits available under UI were well above those offered by its American and Japanese equivalents throughout the period from 1961 to 1995. By the end of this period (and in spite of repeated benefit cuts since the mid-1970s), Canadian benefits were also well above those available in the UK, and comparable to those available in Germany and Sweden; among larger European nations covered by the survey, only France offered more generous PLMP unemployment benefits. Moreover, in 1996, according to the study, 30 percent of labour market program spending in Canada was devoted to active measures; this percentage had been lower, 26 percent, in 1986. By contrast, the average OECD nation devoted 35 percent of its spending to active measures.⁴⁶

Although Ottawa's post-LFDS redirection of some UI money toward active purposes had, then, reduced the extent by which Canada lagged behind other countries in this respect, it did not eliminate the lag. During the postwar era from 1945 to 1975, Canada did not develop a welfare state that was nearly as extensive in most areas as those of most Continental European OECD nations; but Canada's ample PLMP benefits were an important exception to this pattern. As we have seen, Canada also experienced higher unemployment rates than most of those countries until the 1970s. Canada's postwar welfare state therefore had a strongly "compensatory" quality: unable to achieve the employment objectives of many of its OECD counterparts, it compensated for this by providing relatively generous income support to those left outside the labour market.⁴⁷ Efforts to reinsert this inactive population into the labour market were consistently modest, in terms of macroeconomic policy and with regard to more active labour market measures.

By the early 1990s, this pattern was increasingly seen as inappropriate. In its famous *Jobs Study* of 1994, the OECD recommended that countries "strengthen the emphasis on active labour market policies and reinforce their effectiveness," and it raised concerns about the deleterious consequences of PLMP benefits.⁴⁸ In keeping with these recommendations, which quickly

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.

LABOUR MARKET POLICY: CONTEMPORARY DEVELOPMENTS

These two challenges, intrinsic to the labour market policy sector, were only part of what motivated radical reforms in Canadian labour market policy during the 1990s. Other factors were exogenous to the sector. One was the ballooning budgetary deficits that most Canadian governments, federal and provincial, faced in the early 1990s. These encouraged governments to make substantial cuts in program spending in order to balance their books; labour market policy would not be spared from these cuts. This fiscal need for restraint was reinforced by an ideological one. A more conservative political mood became apparent in Canada during these years. This was most evident in several provinces, notably Alberta and Ontario, which elected right-of-centre administrations. But it was also evident at the federal level. Although the post-1993 administration in Ottawa was Liberal, key policy debates there were influenced by the neo-conservative Reform Party (now the Canadian Alliance), which became the second most successful party in English-speaking Canada in the 1993 election.

Four main policy changes emerged at this time: a shift in emphasis from passive to active labour market measures; substantial cuts in labour market program spending, with the cuts concentrated almost entirely on passive measures; devolution of an important part of Ottawa's ALMP responsibilities to the provinces; and efforts to strengthen intergovernmental coordination in the labour market field. The first and second of these trends are dealt with first in this section, starting with federal policy and then examining the provinces. The devolution process and efforts to increase intergovernmental cooperation are addressed in the last two parts of the section.

Federal Policy

Ottawa curtailed passive benefits under its UI program in two stages in 1994 and 1995. A change in the program's name accompanied the 1995 cuts; henceforth, it would be known as Employment Insurance (or EI) in order to stress the government's desire to move benefits in a more active direction. The cuts

were substantial; in their wake, the cost of Ottawa's passive labour market benefits fell from a peak of \$17.4 billion in 1992 to \$11.7 billion in the 1995–96 fiscal year.⁴⁹ This was accomplished by reducing benefit rates available to most claimants, with especially deep cuts for individuals who applied for benefits frequently; by increasing the minimum period of prior employment required to qualify for benefits; by reducing the maximum benefit period; and by taxing back benefits for higher income earners.⁵⁰ The federal government eliminated its deficit in 1998, and thereafter began to run budgetary surpluses. In 2000, on the eve of a general election, it reversed some of these cuts — eliminating, for instance, the penalty for frequent users of EI. But these changes were modest, and not considered likely to significantly affect the overall impact of the earlier changes.

The burden of the 1994–95 cuts was expected to be borne disproportionately by low-income earners, and others with a tenuous attachment to the labour market. Two recent analyses of the cuts differ in detail, but concur in suggesting that the consequences have been dramatic. A government-sponsored study calculated that while 83 percent of unemployed Canadians qualified for UI benefits in 1989, the proportion who qualified for EI in 1997 was only 42 percent.⁵¹ A union-sponsored study put these figures at 74 percent and 36 percent respectively.⁵² The government study calculated that slightly less than half of this reduction resulted from the program cuts, with the rest caused by changes in the composition of the unemployed (more long-term unemployed persons in 1997 than in 1989, etc.). Even by this calculation, however, the 1994 and 1995 cuts had reduced the rate of coverage by 20 percent.⁵³ The cuts are also being felt disproportionately among the three relatively vulnerable groups addressed in the first section of the chapter. The 1994 cuts, according to an early economic analysis, would have a particular impact in Atlantic Canada.⁵⁴ This was less true of the 1995 reductions, whose impact on that region was softened by strenuous lobbying by its members of Parliament. Even in the wake of these pressures, however, the percentage of unemployed persons qualifying for EI benefits in each of Canada's five poorest provinces (Quebec and the four Atlantic provinces) fell, between 1989 and 1997, by more than it did in the country as a whole.⁵⁵ The impact was even greater with respect to two other vulnerable groups: women and youth. According to the union calculations, the number of women receiving regular benefits declined by 41 percent between 1989 and 1997; the percentage decline for men was 31 percent. Among young people, the impact was dramatic: the percentage decline over this period was 65 percent for young people between 15 and 24 years old; it was 47 percent for those between 25 and 34.⁵⁶

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 Separately, the federal government allocated new funds to post-secondary education for the young. Most prominently, it announced a Millennium Scholarship Fund; commencing in the year 2000, the fund would spend about \$325 million per year, for ten years, on financial assistance to students enrolled in postsecondary educational institutions. It should be noted, however, that in 1995 Ottawa substantially cut its financial transfers to the provinces in support of university education; this was done as part of its massive overhaul of these transfers, discussed below. These cuts resulted in a large rise in tuition fees in the universities. Most of the money made available to students through the fund is likely to be absorbed by these higher fees, leaving the (predominantly youthful) students no better off than they were before.⁶¹ Of course, the federal government gains a political advantage by funding higher education in this way: students now receive an education subsidy directly from Ottawa, rather than an indirect (and much less visible) one channelled through the provincial Treasury.

Substantial cuts in UI/EI benefits were not the only steps taken by Ottawa to reduce its PLMP spending. It also radically curtailed its financial contribution to provincial social assistance programs. In 1990, Ottawa had already "capped" its 50 percent cost-sharing arrangement under the Canada Assistance Plan (CAP) for the three richest provinces. In 1995, CAP was abolished altogether. The money that the provinces had received under CAP for their social assistance regimes was now combined with previously separate federal financial transfers for health insurance and postsecondary education in a new Canadian Health and Social Transfer (CHST). While merging these transfers, Ottawa also cut their value substantially. According to its own estimates, it would transfer to the provinces \$4.6 billion less in 1997–98 than in 1995–96 (a reduction of 22 percent). The cuts caused fiscal crises in the provinces, which were then compelled to reduce their program spending. Of the three areas financed by the CHST, social assistance typically is much less politically salient than postsecondary education or, above all, health care. It therefore quite likely bore a disproportionate share of the reduced provincial spending that resulted from the new federal cuts. Subsequent federal budgets from 1997 to 2000 reversed these cuts considerably.⁶² But the money flowing back into provincial treasuries was now widely expected to be spent on health services, not education or social assistance. As public discussion during the November 2000 federal election campaign made quite clear, health was a much higher public priority.

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 percent; these cuts were implemented quickly. The new government also launched a workfare program, designed to compel employable recipients to work in exchange for their benefits. Ontario's assistance caseload fell substantially in the wake of these changes.⁶⁴ Alberta made significant cuts in benefits levels for employable recipients in 1993; this, and a crackdown on benefits abuse, were intended to encourage these recipients to return to work. Alberta's caseload fell by 63 percent between 1993 and 1997.⁶⁵ In Quebec and British Columbia, two provinces with left-of-centre governments in the mid-1990s (Parti Québécois or PQ in Quebec, NDP in BC), cuts were not as deep, and efforts to stimulate a return to work were not as punitive; but ventures along these lines nevertheless were made. Quebec had reduced rates and strengthened efforts to eliminate abuse before the PQ administration was elected in 1994; some of these efforts were curtailed thereafter, but rates for many categories of employable recipients declined moderately in the subsequent two years. Since 1989, assistance rates for employable recipients in Quebec have been explicitly designed to encourage re-entry to the labour market.⁶⁶ BC tightened eligibility rules in 1995; prominent among these changes were measures

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 the Liberals' subsequent election promises were quite vague about what the party planned to do.⁷²

For provinces that were less ambitious about taking over federal programs — a mood that prevailed particularly among the poorer and smaller Atlantic provinces — Ottawa offered a “co-management” formula. Under this model, Ottawa continued to administer its ALMP measures in the province, but coordinates these with provincial programs through a joint Management Committee. Four provinces accepted a variation on this proposal. The one larger

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

Devolution is not the only tool that Ottawa used to defuse intergovernmental animosity in the labour market field. It also called for greater coordination between its own youth employment programs and the provinces. Second, it sought a reduction in barriers to interprovincial labour mobility. Federal-provincial cooperation is required here too. Both of these efforts reflected Ottawa's broader objective of demonstrating that the Canadian federation can work, and that the massive overhaul of the Canadian constitution now sought by Quebec is unnecessary.

In March 1998, social policy ministers from Ottawa and nine provinces agreed to work together to negotiate "a framework agreement for Canada's social union," in effect promising a wide-ranging accord on the appropriate social policy role of each level of government.⁷⁴ Quebec refused to participate formally in these deliberations. Youth employment, now a prominent political priority for the federal Liberal administration, was mentioned in the ministers' press release as an area that required more coordination. Two weeks later, another meeting of federal and provincial ministers promised to form "a new partnership arrangement on youth" to help young people acquire skills and work experience.⁷⁵ With Quebec again dissenting, Ottawa and the other provinces agreed to enter into "bilateral arrangements that will focus on programs and services in youth." In effect, Ottawa wanted to coordinate its youth measures, enhanced since the announcement of YES in February 1997, with similar ALMP measures in the provinces. It is hard to assess the impact, to date, of this commitment. Quebec has refused to enter into bilateral discussions. Moreover, not all other provinces were satisfied with how discussions proceeded. A 1997 review of non-institutional labour market programs in Nova Scotia includes many criticisms of the negative consequences for them of changing federal cost-sharing rules.⁷⁶ The federal-provincial commitment to greater cooperation regarding youth employment may bear fruit, but there is as yet little evidence of this.

Efforts to reduce barriers to interprovincial labour mobility have had a more discernable impact. Canada entered into two major international trade agreements in recent years: the Free Trade Agreement with the US in 1989,

and the North American Free Trade Agreement (NAFTA) with the US and Mexico in 1993. In their wake, a widespread concern emerged in Canada — especially in the business community, which had strongly supported the international agreements — that freer trade now existed between Canada and its southern neighbours than prevailed among the Canadian provinces. Although the federal government has jurisdiction regarding interprovincial trade under section 121 of the *Constitution Act, 1867*, Ottawa historically has not used this power to prevent provinces from favouring local firms and workers over those from other provinces. A provision in section 6 of the *Constitution Act, 1982* that gave every Canadian the right “to pursue the gaining of a livelihood in any province” also had little tangible impact on interprovincial barriers facing workers. Consequently, Ottawa and the ten provinces signed an Agreement on Internal Trade (AIT) in July 1994 to curtail these barriers.⁷⁷ This AIT committed its signatories to eliminating provincial residency criteria from hiring and professional licensing standards, to reducing delays and costs associated with professional licensing, to making sure that licensing is competency-based, and to recognize and standardize professional standards across the country. A group of federal and provincial officials were charged with the responsibility to implement the agreement.⁷⁸

Two assessments of the AIT’s impact, completed at the end of 1997, reported significant progress in implementing the agreement’s labour market provisions. Several complaints made under the AIT’s disputes-resolution provision had been resolved to the satisfaction of the complainant. Participating governments were also making progress toward identifying licensing provisions that were in violation of the agreement’s principles; in 1997, Ottawa provided financial support for this undertaking.⁷⁹ A March 1998 communiqué reaffirmed the federal and provincial governments’ commitment to eliminating interprovincial barriers.⁸⁰ When *A Framework to Improve the Social Union for Canadians* (the document promised by Ottawa and nine provinces in March 1998) was released in February 1999, it committed its signatories to “full compliance with the mobility provisions of the [AIT]”; a deadline of July 2001 was set for accomplishing this.⁸¹

There are grounds for some scepticism, however. When the AIT was signed in 1994, provinces were adamant that it must not erode any existing constitutional authority; the AIT therefore stipulates that no federal or provincial powers are altered by its terms.⁸² Consequently, a key problem with the agreement is that it does not include an enforceable disputes-resolution procedure. “The AIT does have a dispute settlement mechanism ... but there is little

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.

EVALUATION AND ASSESSMENT

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 considerable scepticism when each of the four considerations is examined closely. It is not clear that a substantial change in federal and provincial responsibilities in the labour market field would alleviate any of these problems.

The extension of federal involvement in ALMP during the 1960s resulted in some *duplication* of services between the two levels of government. Ottawa thereafter operated an employment service, and was involved in job creation and in funding training. The provinces had responsibilities in each of these areas. But it is unclear how much real duplication there ever was. It is quite possible that, as Lazar argues, significant duplication “almost certainly did not exist.”⁸⁷ Employment services and job-creation measures have always been modest in the smaller provinces. In the mid-1980s, moreover, a fairly clear division of labour emerged regarding these measures, which saw Ottawa provide them for persons who were eligible for UI/EI, and the provinces do so for other people, especially social assistance clients. Needless to say, the merging of ALMP services that followed the federal devolution offer of 1995 should make duplication even less likely. Duplication has always been very limited regarding training: here, Ottawa’s role was that of a purchaser of services; in the 1995 changes, it abandoned this function. The provinces, by contrast, directly administer the main training institutions.

The federal-provincial arrangements for allocating training expenditures that existed before 1985 clearly impeded *change* in the ALMP area. (This was less evident regarding PLMP spending, since federal and provincial initiatives in this area were never much coordinated.) As we have seen, until 1985 provincial officials effectively brokered the expenditure of federal training dollars within their jurisdiction in such a way as to maximize financial and employment stability in provincial technical colleges. This arrangement was widely decried as it prevented ALMP spending from evolving to meet changing labour market needs. But it is now much harder to find evidence of this. Ottawa reoriented its ALMP spending three times during the past 15 years: with the CJS (1985), the LFDS (1989), and the EI reforms of 1994 and 1995. Simultaneously, provincial authorities became less loyal to their colleges, and more willing to force them to adapt to changing skills demands. Ottawa’s initiatives in this area seem, indeed, to have broken a “log jam” that impeded change in the provinces. One might speculate, then, that having both governments involved in ALMP has recently *encouraged* change, rather than impeded it.

Shared jurisdiction creates problems regarding policy *coordination*. Where one government makes changes in labour market programs unilaterally, as Ottawa often has during the past half-century, it disrupts the other jurisdiction's programs and foments interjurisdictional conflict. By contrast, where efforts are made to coordinate federal and provincial initiatives, as in the youth employment and mobility areas recently, the results may be unsatisfactory. (On the other hand, the two levels of government have moved some distance toward co-locating their labour market programs in many localities.) Better, one might argue, simply to abolish the need for coordination by granting one jurisdiction a monopoly. But this argument is unconvincing. First, it is unlikely that Ottawa will abandon its role in PLMP (through the EI program) or in funding postsecondary education; the need for coordination is therefore unlikely simply to disappear. Second, there is no consensus among the Canadian provinces that Ottawa should abandon its PLMP role, or even that it should leave ALMP entirely to the provinces. (The fact that many provinces chose the co-management model, rather than devolution, in response to Ottawa's 1995 offer, demonstrates the latter point.) Moreover, a simple federal withdrawal would raise important issues of interregional equity, which would have to be resolved (via more coordination!). It should be noted that Quebec, which alone advocates that Ottawa devolve its PLMP responsibilities to the provinces, receives a share of federal labour market spending that is in excess of what it would receive if the allocation was based purely on Quebec's share of the national population or economy. Indeed, Ontario has refused to sign an ALMP agreement with Ottawa because it is being offered terms that are so much less favourable than other provinces', especially Quebec's. Finally, some issues — such as interprovincial labour mobility — would require coordination even if Ottawa no longer spent money in the field.

Considerations such as these are also relevant to assessing the potential impact on federal-provincial *conflict* of a major change in jurisdictional roles. Unquestionably, the labour market field has witnessed considerable friction between Ottawa and the provinces over the years. The recent devolution initiative, and efforts to expand cooperation, responded to this. But further federal withdrawal could itself cause conflict between provinces anxious to take on new responsibilities and those reluctant to do so, and between affluent and poorer provinces over the division of the federal funds that would have to accompany additional devolution. It should also be noted, finally, that according to surveys conducted by Ekos Research in 1995, Canadians wanted the federal government, as well as the provinces, to be active in the labour market field;

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 impact of these changes is assessed below with respect to each of the four categories of labour market data that were discussed in the first section of this chapter. The discussion will concentrate on the potential effect of these changes on labour market *equity*, that is, equality of opportunity among labour market participants.

With respect to *unemployment, participation, and job creation*, Canada has not performed as well as the US in recent years. This comparison, rather than the more favourable one with Europe, has been of most interest to Canadian policymakers, who have concentrated on the supply-side of the labour market in seeking solutions. The potentially beneficent consequences of cuts in UI/EI benefits for the unemployment rate was cited by federal labour market officials as an important rationale for them. Provincial governments also explicitly intended social assistance cuts to induce a return to work among employable recipients. What has been ignored by these arguments is the likely importance of macroeconomic factors in sustaining relatively high unemployment rates in Canada. Forcing larger numbers of unemployed people onto the labour market will not increase demand for their labour. Many people who lost their benefits likely became dependent on family members or friends; to the extent that they do find work, it is likely to be at the bottom end of the labour market.⁸⁹

Cuts in PLMP benefits are likely to have a particular impact on *final income inequality and poverty*. As we have seen, the past two decades witnessed much less growth in inequality and poverty in Canada than in the US. The relative generosity of passive UI benefits in Canada's compensatory welfare state largely explained this pattern. Radical reductions in UI benefits, and cuts in provincial social assistance, remove this impediment to final income polarization and growing poverty. There is preliminary evidence of the effect that these cuts have had: the National Council of Welfare's reported poverty

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 factors that have prevented Canadian *earned income inequality* from increasing in recent years are also less likely to be as influential in the future, income inequality could be expected to grow even without these recent changes in government policy.⁹¹ The shift of federal and provincial labour market measures in a more active direction, while laudable in terms of its ability to create a more skilled and competitive labour force, may also have negative consequences for labour market equity. A joint study by the OECD and Human Resources Development Canada found that the individuals who are most likely to benefit from public training programs had the longest prior attachment to the labour market and the highest prior earnings.⁹² This is likely to be especially true of federally-funded ALMP measures (even those now delivered by the provinces), because, legally, they must be directed mostly at individuals with a fairly enduring record of labour market attachment. Provincial social assistance initiatives designed to enhance employability have also been accused of targeting these measures mainly at their most eligible clients.

Similar concerns have been raised with respect to three vulnerable groups addressed earlier in this chapter: *women, youth, and residents of high unemployment regions*. As we have seen, each of these categories was hurt disproportionately by the federal UI/EI cuts of 1994 and 1995; their labour market disadvantages can be expected to increase in the wake of these changes. The more active orientation of EI is particularly questionable in high unemployment regions of the country, where the role of limited demand for labour (rather than a lack of skills or job-preparedness) is particularly obvious as a cause of joblessness. The recent focus of many federal and provincial ALMP measures on youth is also debatable. OECD research suggests that ALMP programs for young adults have encountered very limited success; youth are more likely to benefit from earlier childhood interventions.⁹³

Federal and provincial governments have also made the expansion of opportunities for a postsecondary education a key aspect of their policy agenda for young people. Recent steps in this direction have been alluded to in this chapter, although postsecondary education lies outside the focus here. Here too, equity concerns must be raised: only those with above-average records of success in the formal educational system will benefit from these measures; these young people already have the best long-term employment prospects. Moreover, data about the *education premium* in Canada that were reported

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

CONCLUSION

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 probably cause increasing inequality in final income and reinforce non-policy factors in fostering a polarization of earned income. While Canadian governments have made particular efforts to address the problem of youth unemployment, these may at best mitigate the negative consequences for youth of program cuts that disproportionately affected this age group. The 1990s' policy changes may also contribute to a convergence of Canada's record of unemployment and job creation with that of the US, which has been superior, but this convergence may not be great if macroeconomic policy is significantly more restrictive than in the US.

There was also a noteworthy adjustment of the federal-provincial relationship in this policy field during the late 1990s; Ottawa ceded to the provinces an important part of its active programming. Efforts were made to extend federal-provincial cooperation, particularly with respect to youth and labour market mobility; these met with mixed success. Federal-provincial relations in this field likely will continue to be complex and sometimes fractious. It has been argued here that there is no compelling argument in favour of a further substantial adjustment in the division of responsibilities between Ottawa and the

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 changes in the international environment that foster earnings polarization, and by diminishing the capacity of states to respond with policies that equalize labour market opportunities. According to this perspective, recent policy changes in Canada have been entirely predictable, even inevitable. One can envisage a possible second globalization scenario that would contest the first: Governments that respond to increasing polarization by sustaining the livelihood of less advantaged citizens face fewer of the dysfunctions associated with poverty. And if they reinforce active measures to enhance the skills of less advantaged workers, they will improve the competitiveness of their economy; the resulting benefits would outweigh, in this view, the negative consequences of the higher taxes needed to sustain this path. About the possible merits of this second scenario one can say very little. It runs counter to the prevailing policy consensus in most developed economies; its postulates therefore are unproven. They are also very far from having found an ear among Canadian governments.

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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, 1999, p. 22.

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⁸²Knox, "Economic Integration in Canada," p. 144.

⁸³Schwanen, "Canadian Regardless of Origin," p. 172.

⁸⁴Knox, "Economic Integration in Canada," p. 154; Schwanen, "Canadian Regardless of Origin," p. 184.

⁸⁵CICS, "FLMM Endorses New Partnership on Youth."

⁸⁶Eric Reguly, "Harris Strikes a Blow for Free Trade," *The Globe and Mail*, 2 April 1999, p. B2.

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.