

Shifting Roles: Active Labour Market Policy in Canada under the Labour Market Development Agreements

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Executive Summary

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Executive Summary

Federal and provincial governments have been in the business of providing active labour market programs to Canadians for several decades. Since the late 1990s, many of the services and benefits in this area have been designed and delivered by provincial/territorial governments within a framework of bilateral federal-provincial and federal-territorial agreements. While there was considerable intergovernmental acrimony around which order of government should control these programs in the years leading up to these agreements, they have received little public attention since then. It was thus timely that a conference was held in Edmonton in February 2002 to examine recent developments in active labour market policy in Canada and lessons flowing from the initial years of experience with the Labour Market Development Agreements. This paper reports and comments on the proceedings of that conference.

The Labour Market Development Agreements (LMDAs)

Part II of *the Employment Insurance Act* provides for Employment Benefits and Support Measures (EBSMs) to help unemployed people return to work. Employment benefits are long-term services that are available to unemployed persons who are currently or who have recently been eligible for Part I income support (i.e., employment insurance [EI] benefits). Support measures are short-term services available to all Canadians. Funding for all of these services comes from the Employment Insurance Account, which is paid for solely through employer and employee EI contributions.

In 1996, Ottawa began bilateral negotiations with the provinces and territories to establish partnerships for the delivery of Part II EI programs and services. The first LMDA was signed between Ottawa and Alberta in December 1996, and since then the federal government has signed bilateral LMDAs with all provinces and territories except Ontario. The agreements with Alberta, Manitoba, New Brunswick, Quebec, Saskatchewan, the Northwest Territories and Nunavut are referred to as “fully-devolved” arrangements, while the agreements with British Columbia, Newfoundland and Labrador, Prince Edward Island and the Yukon entail “co-management.” The agreement with Nova Scotia is sometimes referred to as a “strategic partnership.” The asymmetry in these arrangements reflects the preferences of the provinces and territories at the time of the initial negotiations.

The EI Act requires that the effectiveness of the benefits and services be monitored and assessed and that annual reports be tabled in Parliament. Three performance indicators are mandated in these reports: the number of clients served, the number of clients who returned to work, and the savings to the EI Account as a result of clients returning to work. These indicators have a short-term focus. The EI Act also contemplates that federal and provincial/territorial governments will jointly develop medium-term indicators and other forms of evaluation.

Since the federal funding comes from the EI Account, people who are not or who have not recently been EI contributors are not eligible for employment measures. The ineligible include new immigrants, other new labour force entrants and people with little or no labour force involvement, often due to multiple barriers to entry. Prior to 1995, Human Resources Development Canada (HRDC) had funded large active labour market programs for these groups through the federal Consolidated Revenue Fund (CRF). CRF funding cutbacks in the 1995 budget, however, dramatically reduced the money available to these groups. Since then, HRDC has concentrated its remaining CRF dollars mainly on

Aboriginal clients and youth, and also continues to finance a relatively small program for people with disabilities.

In total, the federal spending on active labour market measures (ALMMs), through the LMDAs and directly in Ontario, is around \$2.2 billion annually. Provincial and territorial governments are calling for expanded funding, through expanded Part II spending and additional CRF moneys.

With the above as context, the remainder of this summary highlights the different panel discussions in Edmonton. A detailed account of who said what is contained in the main report.

Panel 1: The Context and Background to the LMDAs

- In the first panel, **Chris O’Leary** of the W. E. Upjohn Institute for Employment Research discussed broad labour market trends in the OECD. He noted both the increase in labour market “flexibility” in Canada over the 1990s and the decline in spending on ALMMs. Whereas Canada had been one of the leading OECD spenders on ALMMs at the beginning of the 1990s, by 2000 it had fallen to a middle spender.
- **Rodney Haddow** (St. Francis Xavier University) focused on the executive dominance of government at both the federal and provincial levels. Because the LMDAs are agreements between the executives of the two orders of government, there is only a limited role for social partners in the way ALMMs function in Canada. Haddow also speculated about the benefits and risks of spending incremental dollars on active measures versus passive.
- Decentralization of ALMMs was raised in both presentations. Both Haddow and O’Leary were comfortable with the idea of labour market programs being devolved to the local level, although O’Leary noted that the experiences of other countries suggest that decentralization can be overdone. Equally, a need was expressed for an accountability relationship between local administrators and funding providers. The panel also discussed Canada’s performance in active programming. Haddow argued that English-speaking Canada lacks a strong societal commitment to technical training, although he also noted that the need for such training depends on whether the evolving industrial structure is creating the intermediate level jobs for which training is necessary.

Panel 2: Lessons Learned from the LMDAs

The second panel featured one federal and three provincial officials discussing their experience with LMDAs and the lessons learned.

- **Phil Jensen** (HRDC) noted the diversity of federal-provincial agreements and the absence of an agreement with Ontario. One result is considerable variation in the role played by the federal government in the different provinces and territories. He also discussed joint pilot projects under way with some provinces on information exchange and medium-term indicators. Jensen declared that available evidence points to effective delivery, a growth in partnerships and high levels of client satisfaction. Nonetheless, HRDC has been working with the provinces to improve accountability measures. He also flagged the need to make sure that Canadians are fully aware of the federal contribution to ALMMs.

Jensen posed a series of questions. Are client needs being met? Are the right clients being served? Is programming responding to changing labour market conditions? Are governments taking advantage of private sector opportunities? Is the accountability framework the right one? And are resources being allocated to get the best possible results?

- **Heather Dickson** (Government of British Columbia) spoke of the BC-federal co-managed LMDA. She discussed the challenges in bringing two large bureaucracies together, highlighting the necessity of ongoing interagency communication, the need for adequate resources and authority to be delegated to those responsible for joint planning and priority setting, and the importance of developing clear roles and responsibilities. She noted that bottom-up joint target setting and resource allocation achieves local buy-in and a better allocation of funds. Dickson emphasized the need to provide services to clients with multiple barriers, to respond quickly to changing conditions in the resource industries, and to establish performance measures and standards for employment assistance services, especially for non-insured clients.
- **Jean-Yves Bourque** (Government of Quebec) discussed Quebec's full devolution LMDA with the federal government. Bourque provided basic information on the role that the Government of Quebec plays under the agreement and on the accountability regime. He declared that the LMDA improves the operation of the labour market, enables the people of Quebec to receive high quality services, and reduces duplication. He also noted that all LMDA-related targets had been met. Finally, Bourque indicated that the Government of Quebec wishes the agreement to continue and called for the removal of remaining duplication between federal and provincial governments, for enhanced federal funding, for broader client eligibility under EI Part II, and lower EI premiums.
- **Susan Williams** (Government of Alberta) discussed the Alberta labour market scene prior to the fully devolved LMDA with Ottawa. There had been HRDC offices, a province-wide network of career development centres and, in the urban areas, co-located Canada-Alberta Service Centre sites. Alberta sought an LMDA because it saw the inherent efficiencies in the co-located sites and wanted these extended province-wide. Williams discussed the start-up challenges Alberta faced, including the transfer of federal personnel to the province, incompatibility of computer systems, privacy regulations, and EI claimants' lack of awareness of available services. In terms of achievements, Alberta has exceeded the required levels for all three standard performance indicators.
- In the subsequent discussion, there was an exchange about groups who were said to be under-serviced by ALMMs (women, youth, persons with disabilities, recent immigrants, single mothers, and Aboriginal peoples). On this point there was a tension between those speaking from the floor, who raised concerns about the needs of these groups, and the government panelists, who pointed to specific initiatives intended to service them. There was no disagreement, however, that many people in these groups are not eligible for LMDA-supported programs, often because of poor access to the labour market and consequently few (or no) contributions to the EI account. A related issue had to do with whether program evaluations were focusing adequately on the special needs of these groups.

Panel 3: Meeting Training and Skill Development Needs: LMDA-Supported Programs and Other Initiatives

- In the third panel **Wayne McElree** and **Rick Pawliw** from the Government of Saskatchewan discussed Saskatchewan's Training Strategy. Key themes in McElree's remarks included a collaborative relationship with the federal government and strong partnerships at the local level. Pawliw elaborated on this, focusing on the JobStart/Future Skills program. Components of the program include work-based training, an institutional quick response mechanism, and sector

partnerships. The program is open to all, whether on EI or social assistance (SA), and funding is received from federal and provincial sources. Pawliw subsequently discussed Saskatchewan's 28 sector councils.

- **Léa Cousineau** described the composition and mandate of the Commission des partenaires du marché du travail. The Commission works closely with government to set annual priorities and approves Emploi-Quebec's annual action plan, including financial allocations, targets and results. Cousineau noted that the Quebec payroll training tax serves as an incentive for employers to make investments in training, and discussed the recently adopted framework for skills enhancement.
- **Doug MacPherson** of the Canadian Steel Trade and Employment Congress (CSTEC) began with a demographic profile of the steel industry, noting that about one-half of its skilled trades people will be eligible to retire in the next five years. Consequently, most workplaces expect to be hiring replacement workers and many workplaces view recruitment and the upgrading of skilled trades as the most critical issues for the industry. CSTEC has moved away from a traditional apprenticeship program to a more "co-op" approach, including formal courses interspersed with terms of work-based learning. MacPherson also noted the need for cost-effective training for the current workforce (a point noted by Cousineau in her remarks).
- **Hans Schuetze** (University of British Columbia) presented lifelong learning as a strategy that is important for both economic and democratic reasons, and argued that it is still the case that too little education and training occur beyond youth. Schuetze also noted that it is well-educated adults who typically receive additional training and education. He argued that high schools need to develop more practical curricula for students who are not university bound and that post-secondary institutions need to provide relevant courses through flexible scheduling and delivery to facilitate adult participation. Most important, "we need a system of prior learning assessment and recognition so that know-how and skills learned outside the formal system are recognized."
- A common thread through the presentations was the importance of combining classroom and workplace instruction. This was linked to the importance of involving employers, worker representatives, and educational institutes in the practical design and delivery of programs. A second theme was the importance of prior learning assessment and recognition, although there were differences of opinion about how best to make progress in this area. There was a degree of consensus in the discussion on the need for continuous skill upgrading among the employed labour force, with this seen as essential to both collective and individual development. Concern was also expressed that current services are not adequately meeting the needs of disadvantaged groups.

Panel 4: Achieving Full Labour Market Participation

- **Gerry Boychuk** (University of Waterloo) argued that with tighter rules around EI and SA eligibility, people who might previously have been covered by these programs may have now fallen off the rolls of both programs. There are therefore an unknown number of people who are no longer known to governments and who have large unmet needs. Boychuk also observed that provincial authorities increasingly require training and work-related programs to help people get off welfare, but that this kind of policy would be hard to sustain during periods of high unemployment.
- Using Statistics Canada data, **Gary Birch** of the Neil Squire Foundation documented the low rate of labour force participation and interrupted employment patterns of people with disabilities. Consequently, the great majority of people with disabilities are marginalized. The solution, Birch argued, is for targeted, client-centred programs that meet each individual's specific range of needs. In

contrast to that model, programming now concentrates on individuals most able to work, with the more marginalized simply being left out. Long-term political commitment is one factor needed to change this situation.

- **Chief Roy Mussel** of British Columbia spoke about federal Aboriginal Human Resource Development Agreements (AHRDAs). The purpose of these agreements is to reduce the gap between Aboriginal people and the rest of Canadian society on unemployment rates, income levels and other indicators. The evidence suggests that the gap is not narrowing. Mussel underscored the importance of partnerships and discussed initiatives with school boards designed to persuade Aboriginal students to remain in school and to help them make the transition from school to work.
- The extent to which the eligibility criteria of LMDA-supported programs exclude individuals in need of assistance was a prevalent theme in this session. In terms of outcomes, there was a sense that little or no progress has been made with respect to especially disadvantaged groups. Further, the reduction in federal CRF funding during the 1990s had most hurt the groups that had previously relied on it most.

Panel 5: Indicators Used to Assess Labour Market Outcomes

- **Peter Hicks**, an Ottawa-based social policy consultant, declared that the future of ALMMs is in doubt unless Canadians learn how to use information more effectively. He repeated the frequent observation that not enough is known about which ALMMs works and why. Hicks' ideal information system includes data on inputs and processes, outputs (to assess program performance), and outcomes (cost-effectiveness), and the integration of all three to allow for continuous learning. He noted that while decentralization makes the integration of information systems more difficult, without integration, governments will not be able to explain the relationships between program expenditures and outcomes.
- **Andrew Sharpe** (Centre for the Study of Living Standards) identified trends in "labour market well-being," measured by four factors: labour market income; human capital; equality of labour market income; and labour market security. Sharpe observed a steep decline in labour market security in the 1990s, with much of it associated with changes in EI policy.
- **Yvonne McFadzen** (Alberta Human Resources and Employment) and **Jim Blain** (HRDC) acknowledged the limitations of the three indicators currently used to evaluate LMDAs. They provided a report card on an Alberta-Canada project aimed at developing and implementing medium-term indicators of performance as required by legislation. This requires an assessment of cost-effectiveness, improvement of employability, and impacts on worker earnings. On the intergovernmental process, McFadzen described a collegial and intense relationship, not the federal unilateralism that had characterized the choice of the primary indicators.
- A concern expressed from the floor is that there is a huge disconnect between this detailed methodological work being undertaken by governments and the reality of unserved and underserved clients from various disadvantaged groups. Governments are constantly working things out among themselves but excluding the community groups that are often the delivery agents and/or the representatives of the disadvantaged themselves. Clearly, whatever progress is being made at the intergovernmental level, there are groups who feel excluded from the programs and the process.

Panel 6: Future Challenges and Directions for Labour Market Policy

- **Eric Newell** (Syncrude Canada) spoke of the need to provide opportunities to disadvantaged groups not only to improve individual well-being but also to meet future skill shortages. He highlighted the role that partnerships can play in facilitating the school-to-work transition and described a partnership called *Careers: The Next Generation* in which Syncrude is involved. Newell portrayed such partnerships in win-win-win terms. For business, they help to generate a motivated workforce of the future. For students, they provide pathways to rewarding careers. And communities are able to foster opportunities for their youth, which helps to strengthen their economic and social base.
- **Barbara Byers** (Saskatchewan Federation of Labour and the Saskatchewan Labour Force Development Board) also focused on the role of partnerships. Her key messages included a call for the development of new skills and access to income support for workers while learning, as well as access to learning opportunities, and recognition of learning. She pointed to a need for federal leadership on skills, learning, and labour mobility and for the development of national standards.
- **Ben Levin** (Government of Manitoba) talked both of the need to ensure that new workers have the required skills and of the importance of skills upgrading for the existing workforce. He identified a need to strengthen the connections among institutional players engaged in education and skill development so that people can move easily across programs and institutions. Credentials also need to be connected to create greater system coherence. It is essential that governments and educational institutions work with employers to ensure that students have the skills needed to prepare them for the work world.
- **Ron Hicks** (Government of Alberta) identified trends in Alberta, including skill shortages, rising education and training requirements, an increasingly diverse workforce, and new technologies that require new skills. Hicks pointed to the need to pay more attention to primary and secondary education, noting that too many students drop out, including 70 percent of Aboriginal children. He also underscored the importance of well-developed vocational training programs to facilitate the school to work transition. However, even with such programs in place, immigrants remain an important source of skilled labour and it is important to ensure that foreign credential assessment is fair, accessible and affordable. Finally, he questioned why the EI fund could not be used to improve the skills of employed workers.
- Potential uses of the large surplus in the EI account were raised in the subsequent discussion. There was also discussion of the “third system” (K-12 and post-secondary being the first two) – a loose collection of arrangements that include the LMDAs, AHRDAs, employer-based arrangements, welfare-to-work programs, community literacy programs, and programs for youth and immigrants. These programs arise in part because of the deficiencies of the first two systems. However, these “add-ons” are fragmented, typically underfunded and never seem to achieve sufficient scale or interconnectedness to make a coherent whole. What can be done to make this plethora of programs an integrated system?
- One theme that ran consistently through this panel was the importance of having industry intimately involved in school-to-work transitions and in ongoing skill upgrading of the existing workforce. Panelists appeared to paint a much rosier picture of apprenticeship and transition vehicles than was presented in the first panel.

Some Final Comments

The remaining pages of this summary are an analysis of the current state of the LMDAs in the light of the Edmonton proceedings.

The LMDAs and Canadian Federalism

- Progress has been made in reducing the level of federal-provincial acrimony that once surrounded ALMMs. Yet this improvement is neither as wide nor as deep as it might be. On the breadth front, there is the absence of a LMDA with Ontario. As for depth, an open question is whether the federal government is content with its decision to vacate the role of program delivery agent for major labour market services. The fact that Ottawa continues to do direct programming with youth certainly suggests that the decentralization imbedded in the LMDAs is still not universally embraced within federal circles.
- While the design and delivery of ALMMs may well make sense as a provincial responsibility, duplicating the design of much of the infrastructure (e.g., occupational standards, techniques of prior learning assessment and recognition, etc.) on a province by province basis makes much less sense. In this regard, national sector councils play a role in defining emerging skill needs, developing occupational standards, and helping to design training modules. Some of these councils are being replicated in some provinces. While replication can involve roles that are complementary, no one seems to be systematically exploring the relative roles of these two types of organisations. More generally, examining who does what in a systematic way does not appear to be a big part of the federal-provincial-territorial (FPT) agenda.
- While much co-operation is taking place at the federal-provincial level, representatives from stakeholder groups feel excluded from the FPT deliberations on medium-term indicators and evaluative process.

The LMDAs and Canadian Democracy

- The transparency side of the LMDAs warrants consideration. The *Employment Insurance Act* requires annual monitoring reports to be tabled in Parliament with respect to the effectiveness of ALMMs. Yet, unless legislators and journalists make it their business to read and comment publicly on what these documents have to say, it is most unlikely that they will make any impact on the public. Even interested stakeholder groups will be hard-pressed to marshal the resources to engage in a public debate on issues raised in monitoring and evaluation reports. In this regard, Canada's legislative bodies have been little involved in the LMDAs or ALMMs in the past. Whether the tabling of the monitoring reports creates an adequate opening for federal and provincial legislators to become more engaged is an open question.
- The role of social partners and other stakeholders in the governance of ALMMs needs further clarification. Based on the conference proceedings, there appears to be a consensus that stakeholders must be engaged at the local level, where actual services are provided to real clients. But whether and how they should be engaged in designing programs and determining priorities remains an unsettled issue. Spokespersons for the Quebec and Saskatchewan labour force boards asserted that social partners are deeply engaged in such activities within their jurisdictions. But these may be exceptions to the rule. Most of the labour force boards have disappeared, at least in part because elected political leaders did not see the purpose or virtue of having people who were not elected by the federal or

provincial electorates making decisions about how to spend taxpayers' dollars. There is a tension between this last consideration and the belief that social partners have the "on the ground" knowledge to make a difference. Finding the appropriate role for the social partners in LMDAs thus remains an important but unresolved issue of governance.

The LMDAs and Policy Considerations

- There was wide agreement about:
 - The underlying rationale for ALMMs – the need to match labour supply and demand in terms of skills and regional location; the need to develop vocational standards that meet the emerging needs of employers; and the need to develop appropriate training courses to satisfy industry standards. Such training may be important for employed and unemployed persons.
 - The need for ALMMs for individual clients to be designed and delivered at the local level. Local employers are most likely to know what kinds of jobs need filling and, in conjunction with local educators and local community and labour leaders, are likely to know what kinds of interventions will work best.
 - The importance and need for a strategy based on a commitment to lifelong learning at the individual level. Such a commitment would not only improve individuals' prospects of maintaining gainful employment but would also improve civic literacy. The difficulty is that past evaluations of ALMM effectiveness have been uneven in supporting this logic. The question that arises is: What should be done when the macro-analysis points in one policy direction, but the assessment of micro-interventions is uneven in confirming the validity of that direction.
- There was also wide agreement that marginalized or special needs groups are poorly served. This is not surprising in that almost all the LMDA money comes from the EI Account and is thus by definition spent on people who are, or who have recently been, in the labour force. Some provincial officials called for fewer strings on EI money, but representatives from business and labour opposed using this money for client groups who have not contributed into the EI Account.
- Debate continued over whether incremental funds would be best used to improve passive or active labour market programs. On the one hand, several provincial officials spoke of the need for a greater financial commitment to improve the supply side of both training and the life skills that are often a prerequisite to successful training. Others noted, however, that income replacement programs have been cut back dramatically. No serious debate emerged about how public authorities should handle such trade-offs.

A Work Agenda for the Future

The following is a suggested work agenda in the light of the proceedings in Edmonton.

Short-term Agenda

1. Federal, provincial and territorial governments should continue to put a heavy emphasis on the development and implementation of medium-term indicators and summative evaluations in the context of LMDAs and other ALMMs. In so doing, they should make space for other labour market

participants to provide input. They should also make sure that the results of these efforts receive serious attention from all labour market parties, inside and outside of government.

2. Federal, provincial and territorial governments should pursue aggressively and implement a system of labour market information that integrates inputs, outputs, and outcomes. In so doing, they should consider whether an arm's-length body may be useful as a coordinating agency.
3. FPT officials should minimize duplication in developing the infrastructure of successful LMDAs. This includes the development costs of occupational standards, training standards, information systems, evaluation techniques, methods of prior learning assessment and credentials recognition, etc.
4. Linked to the third item in this action plan (specifically the cost of occupational standards), federal, provincial and territorial governments should continue with ongoing work to remove barriers to labour mobility pursuant to commitments of all parties under the Agreement on Internal Trade. The Forum of Labour Market Ministers should give more priority to communicating the improvements in this field over the last few years.
5. Governments and other labour market partners should continue to focus on developing local partnerships as essential mechanisms for improving the skills and employability of individual labour market participants and potential participants.
6. The federal government and industry, with relevant educational institutions, should continue to develop the sectoral approach to determining skill needs, national occupational standards, and training programs. The Canadian Tourism Human Resources Council (CTHRC) should be studied as a model that effectively integrates national and provincial dimensions to labour market policy.
7. Governments and other labour market participants should begin to develop an explicit methodology for examining trade-offs between expenditures on active labour market programs relative to passive programs, recognizing that the relationship is not always dichotomous. This should entail consideration of needs, inputs, outputs, and outcomes of different groups.
8. The research community should examine the characteristics of the Quebec training tax and other forms of tax incentives, including their effectiveness as a vehicle for improving the skills of the employed labour force.
9. More employers, and employer organisations, should enter into partnerships to facilitate career awareness among students and school-to-work transitions.
10. Given the range of mechanisms for designing and delivering ALMMs that exist as a result of the diversity of LMDA arrangements in the country, the research community should study these alternative mechanisms, including the absence of a LMDA in Ontario, and attempt to determine if some governance mechanisms are more effective than others.

Medium- and Longterm Agenda

11. Provincial, territorial and federal governments should work toward the development of an integrated labour market development strategy that recognizes explicitly the relationships and linkages between LMDAs and other ALMMs, on the one hand, and surrounding government and private systems, on the other. The focal point of such a strategy should be the individual client and the ease with which that client can move between systems and programs. The ease of movement for clients should also apply in respect of Aboriginal clients who move between provincial or federal programs and Aboriginal Human Resource Development programs.
12. Provincial, territorial and federal governments should address barriers that prevent some client groups, such as persons with disabilities and single parents, from accessing necessary ALMMs. This may entail either providing additional funds for ALMMs that are not directly linked to client eligibility for social assistance or unemployment insurance. Alternatively, in a cost-neutral context, this could necessitate broadening client eligibility for ALMMs within social assistance and unemployment insurance programs, without some of the restrictions and conditions that normally apply in those programs (e.g., run-down of assets or substantial labour market history).

13. More generally, federal, provincial and territorial governments should attempt to use the collaboration referred to in the short-term agenda as a basis for building trust over the medium term.
14. Provincial governments, in partnership with employers and labour, should continue to focus on developing further appropriate educational opportunities for students who are not bound for university.
15. Federal and provincial governments should give enhanced attention to challenges associated with immigration settlement, including a stronger financial commitment to English/French language training and internships or other techniques for acquiring Canadian workplace experience.
16. Federal and provincial governments should give greater priority to developing a national system of prior learning assessment and recognition that effectively covers both Canadian and non-Canadian prior learning. This should be accomplished in conjunction with regulatory bodies and other stakeholders.
17. National and provincial human resource councils should work to minimize duplication of activities. Analysis of the Canadian Tourism Human Resources Council, as noted above, may provide a useful starting point.