

**Contrasting Milieus and Common Constraints:
The Labour Market Policy-Making Capacity
of Peripheral Regions in Canada and Germany**

by

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Abstract/Résumé/Zusammenfassung

The devolution of responsibilities in the labour market field to subnational units of federal states has been proposed as a means to respond to regional labour market inequalities and dysfunctions induced by globalization and structural change. This article examines the capacity of two comparable marginal jurisdictions – the province of Nova Scotia in Canada and the *Land* of Saxony-Anhalt in Germany – to formulate and implement active labour market policies. Our findings show that their (divergent) institutional and societal contexts, as well as (shared) economic and fiscal challenges, make it difficult for the governments of both jurisdictions to assume new responsibilities in the field. We therefore conclude that decentralization does not represent a panacea for regional labour market dysfunctions; peripheral subnational units will continue to require interventions from the centre with regard to active labour market policies.

Als Antwort auf regionale Arbeitsmarktdisparitäten und –probleme, wie sie Globalisierung und ökonomischer Strukturwandel in föderalen Systemen entstehen lassen, wird zunehmend die föderalistische Dezentralisierung beschäftigungs-politischer Zuständigkeiten vorgeschlagen. Wir untersuchen den Spielraum zweier politischer Einheiten – der kanadischen Provinz Nova Scotia und des deutschen Bundeslandes Sachsen-Anhalt – in der Formulierung und Implementation aktiver Arbeitsmarktpolitik. Es zeigt sich, dass sowohl (divergierende) institutionelle und gesellschaftliche Rahmenbedingungen als auch (geteilte) ökonomische und fiskalische Restriktionen die Übernahme neuer Zuständigkeiten in diesem Feld erschweren. Wir folgern daraus, dass Dezentralisierung kein Patentrezept zur Lösung regionaler Arbeitsmarktprobleme darstellt; vielmehr bedürfen periphere politische Einheiten föderaler Systeme weiterhin nationaler Interventionen im Bereich der Arbeitsmarktpolitik.

La délégalion des responsabilités dans le marché du travail aux unités régionales des états de type fédéral a été proposée comme une réponse aux inégalités des régions dans le marché du travail et un remède aux disfonctionnements causés par la globalisation et les changements structurels. Nous avons considéré deux juridictions marginales et comparables, celle de la province de la Nouvelle Ecosse au Canada et celle du *Land* de Saxe-Anhalt en Allemagne. Nous avons examiné la capacité de chacune à formuler et à réaliser une politique active pour le marché du travail. Nos recherches ont montré que la divergence de leurs contextes institutionnels et sociaux, ainsi que leur défis économiques et fiscaux rendent difficile pour les gouvernements de ces deux juridictions d'assumer de nouvelles responsabilités en ce domaine. Nous concluons donc que la décentralisation ne représente pas la panacée pour les disfonctionnements régionaux du marché du travail. Les unités régionales périphériques continueront à avoir besoin de l'intervention du pouvoir central en ce qui concerne une politique active du marché du travail.

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I. Introduction

Canada and Germany have each, since the early 1990s, experienced persistently high national unemployment levels combined with considerable regional disparities in unemployment rates, labour market and economic conditions (Klassen and Schneider 2002). In Germany, these disparities are most pronounced between east and west. The five new *Länder* established in the former German Democratic Republic remain the most disadvantaged region of the country more than a decade after reunification (Carlin 1998). In Canada, such disparities have long been greatest between the four Atlantic provinces and the remainder of the nation (Bickerton 1994, 429-34).

This paper examines the capacity of marginal jurisdictions in federal states to address high unemployment levels through active labour market policy (ALMP). The analysis is based on the experiences of the *Land* of Saxony-Anhalt in eastern Germany and the province of Nova Scotia in Canada's Atlantic region.¹ An influential reform discourse now advocates the devolution of active measures to subnational governments, as these are thought more likely than national ones to be able to develop labour market policies that suit unique regional needs in the face of globalization and structural change (OECD 1994, 2000). In this view, the governments of countries whose jurisdictions are plagued by high and variable unemployment rates should decentralize responsibility for ALMP. Further in line with this reasoning, advocates of devolution often argue that federal regimes have a comparative advantage over unitary ones in dealing with disparities in labour market conditions, because their institutional arrangements seem particularly suitable for, and their jurisdictions particularly interested in the decentralization of active measures.²

Such decentralization proposals resonate with the broader theoretical literature. It is now widely argued that nation-states are poorly equipped to address the unprecedented

1. This research was funded by a grant from the Social Sciences and Humanities Research Council of Canada and assisted by a grant from the Canadian Centre for German and European Studies. We express our thanks to the ten Saxony-Anhalt and thirteen Nova Scotia participants in, or observers of active labour market policy who were interviewed for this study.

2. A growing literature probes into the effects of federalism, and varying types of federalism, on the reform capacity and policy output of national governments, and on macro-economic performance indicators such as unemployment levels. However, to date the results of this literature remain inconclusive. See Braun, Bullinger and Wälti 2002; Castles 2000; Keman 2000; Wibbels 2000.

pressures of globalization: They are simultaneously too small to regulate international financial flows and too large and diverse to promote effectively regional “niches” in global markets (Bell 1988). According to this view, “glocalization” (Swyngedouw 1992) is a necessary by-product of globalization; nation-states are being, and perhaps should be, “hollowed out” (Jessop 1993) as their authority escapes upward to transnational institutions and global markets, and downward to subnational polities. Stephen Clarkson and Timothy Lewis (1999: 294) use a morphological imagery to describe these trends, according to which state systems are mutable, and are experiencing “shape shifting” in response to a changing environment. Labour market policies, key adjustment policies in this new setting, might then be expected to shift to lower tiers of government to augment regions’ capacity to strengthen their competitiveness and to benefit from local synergies among firms and proximate economic actors.³

Our analysis leads us to question this perspective and the OECD’s specific hypotheses regarding the superiority of decentralized active labour market policy-making. We proceed in five steps. In section two, we describe the largely similar demographic, macroeconomic and labour market trends in the two jurisdictions under consideration since 1991. Both have been faced with the effects of de-industrialization and out-migration, as well as persistently high unemployment rates and other labour market dysfunctions. In section three, we analyze the diverging institutional and societal context in which the governments of Nova Scotia and Saxony-Anhalt formulate and implement their active measures. The quite distinctive arrangements of the Canadian and German federal regimes, as well as the forms of interest intermediation prevailing in the two nations, are reviewed here. Against this backdrop, we demonstrate that the governments of Nova Scotia and Saxony-Anhalt have only modest resources and limited state capacity relative to other jurisdictions in the two federal regimes. In section four, we examine the making of ALMP in Nova Scotia and Saxony-Anhalt. A discussion of our findings ensues in the conclusion, where we question the claim that decentralization is a

3. Hence two rationales for the decentralization of ALMP to subnational or federal jurisdictions can be distinguished. One rationale, inspired by public choice theory, stresses the efficiency-promoting effect of competition on these units and their active measures (Kincaid 1991; Peterson 1995; Weingast 1995). The other, drawing on the experience of industrial districts, highlights the importance of trust and cooperation among regional and local actors for the success of strategies aiming at fostering endogenous potentials (Piore and Sabel 1984; Cooke and Morgan 1998).

panacea for the labour market challenges faced by peripheral regions. Both of our cases rather suggest that a successful devolution of active measures would face enormous obstacles. Inasmuch as these obstacles exist in spite of the institutional contrasts and diverging forms of interest intermediation identified in the third section, we argue that similar limitations are likely to prevail in other relatively poor and marginal regions of affluent countries, regardless of their institutional and societal context. We then discuss the implications of our findings for future reform efforts in this policy field.

II. Shared Marginality: Demographic, Economic and Labour Market Trends

Nova Scotia and Saxony-Anhalt are small and peripheral units of much larger federations. Their marginality is not, as we demonstrate below, restricted to only labour market conditions, but more generally with regard to macroeconomic conditions and developments. In other words, there is a linkage between labour market circumstances and macroeconomic performance, a matter we return to at the end of this section.

The challenges facing ALMP are, in each case, formidable. With 940,000 and 2.6 million inhabitants (in 2001), respectively, Nova Scotia and Saxony-Anhalt comprise roughly three per cent of the Canadian and German population (tables 1, 2). Nova Scotia's population increase of 3.0 per cent between 1991 and 2001 was far less than the 10.9 per cent increase for Canada as a whole. And while the German population expanded by 2.9 per cent between 1991 and 2001, Saxony-Anhalt lost 8.4 per cent of its inhabitants as a considerable number of residents, many of them young and educated, left its borders.

Economic performance indicators also reflect the peripheral status of the two jurisdictions, both of which experienced de-industrialization during the past decade. Nova Scotia's per capita GDP declined steadily from 79.7 to 75.7 per cent of the national level between 1991 and 2000 (table 1). The almost complete de-industrialization of the province today is the result of a much longer historical process. In the late nineteenth century, Nova Scotia had industrialized rapidly. However, over the last century manufacturing in the province suffered a gradual decline in the face of competition from

central Canadian industries that were larger, more modern and located closer to markets. In the past decade the industrial base has withered further with the closure of steel mills and coal mines, so that by 2002 there remained only nine private sector employers with more than 1,000 (but none with more than 5,000) employees (Nova Scotia, Department of Finance 2002). The province's economy is now largely service-oriented, with more than three quarters of the GDP coming from, and nearly 80 per cent of workers employed in the tertiary sector; manufacturing represented only twelve per cent of the GDP and less than 10 per cent of employment in 2000. Labour productivity, the average level of output produced per hour worked, is about 22 per cent lower than the national average. Finally, only a very small and declining percentage of Nova Scotia goods and services is exported to international markets, so that in 2001 only 1.5 per cent of Canada's exports originated from Nova Scotia (McMahon 2000; Statistics Canada 2002).

Table 1: Demographic, Economic and Labour Market Data, Nova Scotia, 1991, 1996 and 2001

	1991	1996	2001
Population as % total Canadian	3.3	3.1	3.0
GDP growth rate	-0.3	0.3	2.4
GDP as % total Canadian	2.5	2.3	2.3
GDP per capita as % Canadian	79.7	73.9	n.a.
Unemployment rate	12.1	12.3	9.7
Ratio Nova Scotia / Canada	1.2	1.3	1.3
Employment as % total Canadian	3.0	2.8	2.8
Participation rate	61.6	59.5	62.4
Ratio Nova Scotia / Canada	0.9	0.9	0.9

Sources: Statistics Canada; own calculations.

Table 2: Demographic, Economic Data and Labour Market Data, Saxony-Anhalt, 1991, 1996 and 2001

	1991	1996	2001
Population as % total German	3.6	3.3	3.1
GDP growth rate	n.a.	3.4	-0.5
GDP as % total German	1.3	2.1	2.1
GDP per capita as % German	37.3	63.4	61.8
Unemployment rate	10.3	18.8	20.9
Ratio Saxony-Anhalt / Germany	1.4	1.6	2.0
Employment as % total German	3.6	3.0	2.7
Participation rate	80.6	75.5	n.a.
Ratio Saxony-Anhalt / Germany	1.1	1.1	n.a.

Sources: Bundesanstalt für Arbeit, *Amtliche Nachrichten der Bundesanstalt für Arbeit: Arbeitsstatistik 2001 (2000) – Jahreszahlen*; Bundesarbeitsministerium, *Statistisches Taschenbuch 2002*; Landesarbeitsamt Sachsen-Anhalt-Thüringen 2000; Statistisches Bundesamt, *Statistisches Jahrbuch 2001* and [www-genesis.destatis.de](http://www.genesis.destatis.de); Sachsen-Anhalt, Staatskanzlei 2002; Statistisches Landesamt Sachsen-Anhalt, <http://www.stala.sachsen-anhalt.de/arbeit/arbeit6.htm>, www.stala.sachsen-anhalt.de/bevoelk/bevoelk3.htm and www.stala.sachsen-anhalt.de/volkswi/volk_1.htm (accessed July 28, 2002); own calculations.

After an initial post-reunification spurt in the early 1990s, Saxony-Anhalt's growth rate fell below the national rate in 1997. Its per capita GDP was 37.3 per cent of the national value in 1991 and reached 65.9 per cent in 1997 before declining to 61.8 per cent in 2001 (table 2). The implementation of economic, monetary and social union with West Germany had ushered in a rapid transition from socialism to a capitalist economy. The serious productivity gap between the two parts of the country resulted in a restructuring process that was even more painful in Saxony-Anhalt than in the other new *Länder* (Rosenfeld et al. 2001). Saxony-Anhalt had been the industrial heartland of the former East Germany (GDR) and home to some of its largest *Kombinate* (state enterprises), which were closed or privatized after reunification. Massive West German and foreign investment ensured the survival of an extremely capital-intensive industrial core, primarily in the chemical industry. Otherwise, the regional economy is dominated by small and medium-sized firms, but the business density is considerably lower than in the western part of the country. Saxony-Anhalt's economy, too, is now dominated by the tertiary sector, which in 2001 accounted for 64 and 70 per cent of employment and gross value added, respectively, while manufacturing represented 14.6 per cent of gross value added in 2001; agriculture, on the other hand, remains more important than in Germany

as a whole. Labour productivity was only 73.5 per cent of the western average in 2001. With the exception of its industrial core, the export orientation of the regional economy is still weak, if growing.⁴

Labour market conditions were also similar in the two jurisdictions, both of which have experienced considerably higher unemployment rates than the two federations as a whole since 1991. Nova Scotia's unemployment levels remained at a steady 1.3 times the national average after 1993, while Saxony-Anhalt's soared from 1.4 times to twice the national average between 1991 and 2001 (tables 1, 2). The labour force participation rates of Nova Scotia remained at 90 per cent of the Canadian level, notwithstanding the fact that the province has a highly educated labour force with a slightly greater share of adults having completed post-secondary education than the nation as a whole (Canada 1996).

In Saxony-Anhalt, the number of jobs decreased by 25.3 per cent between 1991 and 2001, illustrating the drastic effects of restructuring, while jobs grew by 0.8 per cent in Germany as a whole. Labour force participation rates, which were much higher in the GDR than in West Germany before 1990, especially among women, have somewhat converged towards the national average. Like Nova Scotia's labour force, that of Saxony-Anhalt is relatively well educated. More workers have completed vocational training than in western Germany (80.3 as opposed to 71.0 per cent), and the percentage of persons with post-secondary education is comparable (8.9 vs. 9.5 per cent).⁵

Both jurisdictions, then, clearly belong to the "have not" regions of their federations. Their disadvantaged position, both with regard to macroeconomic performance and labour market conditions, has not improved since 1991 and has even grown more severe in some respects. Nova Scotia's economic decline has been a gradual one, and concomitant population shifts have been less dramatic than in Saxony-Anhalt, whose peripheral status is more recent and must be seen in the context of massive demographic, macroeconomic and labour market upheavals since 1990. But the current pattern is broadly similar: shrinking economic bases, low productivity and high unemployment.

4. Data taken from, and our own calculations based on, Sachsen-Anhalt, Staatskanzlei 2002; Statistisches Landesamt Sachsen-Anhalt, <http://www.stala.sachsen-anhalt.de/arbeit/arbeit4.htm> (accessed July 28, 2002) and www.stala.sachsen-anhalt.de/volkswi/volk_1.htm.

III. Institutional Endowments: Diverse Paths to Limited Capacity

By contrast, active labour market policy-making in the two jurisdictions has been characterized by striking differences on two dimensions: The nature of Canadian and German federalism; and the prevailing arrangements for linking societal interests, notably, business and labour, to government decision-making on the other. Despite these polar divergences, this section contends that the governments of both Nova Scotia and Saxony-Anhalt have significantly more modest policy-making and administrative capacity than do other provinces and *Länder*, such that neither one of them is well positioned to either take over responsibility for ALMP from the national level or to formulate and implement ambitious new programs in this field. The very demographic, economic and labour market conditions that cause the challenges identified in section two also limit the tax base of the two jurisdictions and create needs that have proven difficult to meet, given the scarce revenues and modest resources of their governments.

i.) Federalism

While Canada is a clear example of *interstate* federalism, Germany exemplifies the alternative *intrastate* model (Schultze 1992; Watts 1999; Braun, Bullinger, and Wälti 2002). At the time of Confederation in 1867, Canada's written constitution established a relatively clear division of legislative responsibilities between the federal and provincial governments. However, when the federal government began to establish a modern welfare state after the Second World War, the watertight division of responsibilities was broken as Ottawa used its spending power (its right to disperse sums of money on any purpose) to influence policy-making in provincial jurisdiction. The provinces lack a comparable spending authority and therefore have less influence over national legislation. Moreover, they do not have direct representation in the federal parliament. Elected representatives to the House of Commons are subject to strong party discipline, giving

5. Data is taken from, and our own calculations are based on, Bundesanstalt für Arbeit, *Arbeitsmarkt 2001*; Landesarbeitsamt Sachsen-Anhalt-Thüringen 2000; Sachsen-Anhalt, Staatskanzlei 2002.

them little power to articulate regional interests at the centre. This problem is particularly acute for smaller provinces, whose population sizes entitle them to few representatives in the Commons. Nova Scotia has only eleven seats in the current 301-member Parliament of Canada (Stevenson 1989: 229-230; Brooks 2000: 136-137).

However, a countervailing process of province-building transpired within the ten provinces after the Second World War. They rapidly expanded their fiscal and administrative capacity between the 1950s and 1970s as they assumed responsibility for implementing the emerging welfare state. The provinces developed greater strategic policy-making capacity and challenged federal authority. In a manner typical of interstate federalism, territorially based interests came to be represented to Ottawa mostly by provincial governments (Renzsch 2001). Canadian federalism now grants considerable authority to provincial governments and relies on complex intergovernmental executive bargaining to reconcile federal and provincial policies (Young, Faucher, and Blais 1984; Brooks 2000: 138-139).

ALMP has historically involved both the federal and provincial governments; the latter have constitutional responsibility for social policies and public training institutions, such as technical and vocational colleges. Ottawa's involvement, on the other hand, has been justified by its broader responsibility for the economy. In the 1960s, Ottawa settled upon an approach whereby it purchased "seats" in provincial training institutions as a way to finance human capital formation (Hunter 1993). By deciding which skills to emphasize in its purchase plan, Ottawa could force provincial authorities to respond by altering course offerings in their colleges. The federal government delivered other ALMP measures – such as labour market information and counselling – directly, through its own administrative network. During the 1990s, however, reflecting the decentralization process outlined above, there was a substantial devolution of responsibility for ALMP. In the wake of the very narrow victory of the "no" side in the 1995 Quebec sovereignty referendum, Ottawa offered to transfer to the provinces a substantial degree of control over its active measures under the employment insurance program, as well as transfer control over certain other of its interventions (Bakvis 2002; Haddow 2000b; Klassen 2000).

But not all provinces have benefited equally from province-building and Ottawa's partial withdrawal from ALMP. Even before 1990, the larger and more affluent ones, above all Ontario, Quebec, British Columbia and Alberta, had developed sophisticated administrations and used intergovernmental negotiations to restrain the federal role in ALMP. They began to provide active measures to specific target groups and industrial sectors that were excluded from, or inadequately served by, federal programs, or that the province viewed as strategic. By contrast, the four Atlantic provinces, including Nova Scotia, much poorer and smaller, developed more limited means. In finance and, to a degree, policy-making, they remained more dependent on Ottawa (Haddow 1995). These provinces were also less able to respond aggressively to Ottawa's devolution offer.

Table 3: Nova Scotia Revenues, Expenditures and Government Employment, with Inter-Provincial Comparisons, 2001

	Nova Scotia	Average for 10 provinces	Nova Scotia as % of 10 province average
Revenues per capita (\$)	6,317.0	6,973.0	90.6
Own source revenues as % of gross revenues	64.1	85.7	74.8
Equalization payments as % of gross revenues	22.3	4.7	474.5
Expenditures per capita (\$)	6,164.3	6,590.8	93.5
Civil service salaries as % of total expenditures	7.25	7.27	99.7
Net borrowing per capita (\$)	1,197.6	939.2	127.5
Deficit/surplus per capita (\$)	+151.7	+381.5	39.8
Government employment per 1,000 residents	11.8	10.4	112.7

Sources: Own calculations based on Statistics Canada, CANSIM II Series. Data for the three territories was subtracted from national provincial totals to calculate figures reported in the second column.

Table 3 illustrates the ongoing effect of this asymmetry in relation to Nova Scotia. The province's gross revenues were only 27.6 per cent of the provincial average in 2001; its gross expenditures came to 28.5 per cent of this average. Per capita revenue and expenditure levels in Nova Scotia were, respectively, 90.6 and 93.5 per cent of the mean for all provinces. It is also worth noting that the province's own source revenues represented only 67.8 per cent of the provincial average in 2001, while equalization payments from Ottawa made up 22.3 per cent of the province's budget. Although Nova Scotia has recently balanced its budget, its net borrowing costs remain above the national average, due to the many substantial deficits incurred during the 1980s and 1990s. As a small province that must nevertheless administer programs across the entire array of

provincial responsibilities, Nova Scotia is also less able than its larger counterparts to achieve economies of scale in designing and administering programs. Nova Scotia's total government employment is only 34.3 per cent of the average; yet, despite its poverty, it employs 112.7 per cent of the average level of civil servants per capita. Typically, however, the number of senior professional staff in most government departments in Nova Scotia, as in Atlantic Canada more generally, is quite small, and well below levels in larger provinces.

Germany's constitution enumerates a relatively small number of exclusive federal or *Länder* responsibilities. A broad range of policy areas are concurrent responsibilities, but most important areas such as social policy are now entirely or predominantly subject to federal legislation (Münch 1997). Several factors have contributed to the centralization of legislative authority – among them, constitutional provisions that enable the federal government to pass legislation to protect the economic union of the country, a political culture that does not tolerate major regional disparities, as well as the strong integration of the German party system (Renzsch 2001). Reunification brought more substantial disparities, but nevertheless exacerbated this longstanding process of centralization as the federal government took on the leading role in the East German transition (Jeffery 1999; Schultze 1999).

Yet while the *Länder* only have a subordinate role as legislators in their own right, they participate in the formulation of national legislation and act as a collective veto player through the *Bundesrat*, the second chamber of the federal parliament. Composed of *Länder* premiers and ministers, it must approve most federal legislation. This is the foundation for the German brand of intrastate or collaborative federalism. Even small eastern *Länder* can, in principle, assume a pivotal role in the *Bundesrat*. Saxony-Anhalt, which is currently represented by 18 out of 603 *Bundestag* members, has four out of 69 seats in the second chamber. The *Länder* also influence national legislation by virtue of the fact that the federal government delegates the delivery of most national programs to them (Helms 2002; Laufer and Münch 1998).

Active labour market policy-making, too, is dominated by federal legislation in Germany. A national public agency that operates at arm's length from the federal government, the Federal Employment Service (FES), administers both income-

maintenance programs and the implementation of most active measures. The program delivery structure of the FES consists of ten regional offices, which do not always coincide with *Länder* boundaries, as well as 181 local offices. Thus Saxony-Anhalt is served by a regional office that also covers neighbouring Thuringia, as well as by eight local offices. The *Länder* governments send delegates to the corporatist management committees of the FES and its regional offices, but are not directly represented at the operational level of the local offices, whose management committees are similarly made up of municipal, business and labour representatives (Keller 1999). The legislative role of the *Länder* in ALMP is restricted to the very few areas that are not covered by federal legislation; however, their authority over education gives them a role in vocational (apprenticeship) training (Culpepper/Finegold 1999). While *Länder* efforts in ALMP have grown in recent years – often in an attempt to combine them with structural policy – they still predominantly consist of co-financing national programs administered by the FES and its subsidiaries (Schmid and Blancke 2001).

Like the social-security system in general (Mangen 1994), this framework was transferred largely unchanged to the new *Länder* after 1990. The use of ALMP was massively expanded in the wake of reunification; special programs and regulations for the east made large numbers of persons eligible for active measures, thus lowering the social costs of the transition. Most of these special instruments were, however, phased out in the second half of the decade, which also brought tighter eligibility criteria for certain active measures and a stronger focus on hard-to-place persons. Since 1998, the autonomy of the local offices in the allocation of funds has grown considerably in line with changes in national legislation (Blancke and Schmid 2003; Heinelt and Weck 1998).

Finally, active labour market policy-making in Germany, especially in the east, gained a European dimension during the course of the 1990s. The European Social Funds now provide considerable amounts of money to support the active measures of national and *Länder* governments, and the partnership and subsidiarity principle enshrined in the European employment strategy that emerged between the Maastricht and Amsterdam treaties gives an important role to regional and local public agencies, as well as to the voluntary sector, business and labour, in advisory bodies of the ESF and territorial employment pacts (Huguet 2002; Keller 2001).

Table 4: Saxony-Anhalt Revenues, Expenditures and Government Employment, with Inter-Länder Comparisons, 2000

	Saxony-Anhalt	Average for 16 Länder	Saxony-Anhalt as % of 16 Länder average
Gross revenues (billion €)	9.73	15.50	62.8
Revenues per capita (€)	3,693.9	3,556.5	103.9
Tax revenues per capita (€)	1,807.4	2,198.9	82.8
Equalization payments as % of gross revenues	22.7	14.2	159.9
Expenditures per capita (€)	3,970.4	3,730.2	106.4
Personnel expenditures as % of total expenditures	26.6	34.3	77.6
Net borrowing per capita (€)	299.3	202.9	147.5
Deficit/surplus per capita (€)	-276.5	-173.0	159.8
Government employment per 1,000 residents	30.8	31.2	98.7

Sources: Bundesministerium der Finanzen, *Finanzbericht 2000*; Statistisches Bundesamt, <http://www.destatis.de/jahrbuch/jahrstab60.html> (accessed July 28, 2002); own calculations.

In Saxony-Anhalt, the challenges that these parameters represent are daunting. Saxony-Anhalt's gross revenues in 2000 represented 62.8 per cent of the *Länder* average, but per capita revenues were almost four percentage points above that average (table 4). This, however, was largely due to the extremely high redistributive effect of equalization in Germany, as illustrated by data regarding tax revenues and equalization transfers as a share of gross revenues. While the former were far below average on both an aggregate and a per capita basis, the latter came to almost 23 per cent of gross revenues, exceeding the average by almost 60 per cent. While gross expenditures are less than two thirds of the mean, they are above the mean on a per capita basis, and Saxony-Anhalt uses a 1.5 times greater share of its total expenditures for investment purposes than the average *Land*. The below-average share of personnel expenditures thus is a side-effect of massive investments. *Land* public employment represents about 60 per cent of the mean on an aggregate basis and slightly less than the average in per capita terms. However, if the three German city-states with their disproportionately large public services are excluded from the calculation, it becomes evident that Saxony-Anhalt, like the other sparsely populated new *Länder*, has to cope with a high level of government employment and related diseconomies of scale in public administration. A thorough look at the revenue, spending and employment data, then, reveals how tight the fiscal situation in Saxony-Anhalt is. Per capita net borrowing and the deficit both greatly exceed the *Länder* average. Despite the relief provided by the equalization system and other federal transfers

to the east, the *Land* is barely able to shoulder its mandatory administrative tasks, and has hardly any room for discretionary spending in ALMP.

ii.) State-Societal Intermediation

Canada and Germany also epitomize two different models of capitalism, respectively, liberal market and coordinated market economies (Soskice 1999). Among the variables that distinguish these two models are the organization of employers' associations and trade unions, and the structure of industrial relations. These differences greatly influence the context of active labour market policy-making in Nova Scotia and Saxony-Anhalt, not the least in the field of vocational training. Ashton and Green (1996, esp. chapter 8) have argued that a strong commitment to high level skills formation in any capitalist economy can only arise when the private sector, especially business, is committed to it. Other students of training regimes have also stressed the importance of societal representation for the broad style of skills formation that occurs in any country (Esping-Andersen 1999, chapter 6). Despite their contrasts, our two jurisdictions are disadvantaged in these terms.

Germany has a strongly centralized system of hierarchically organized, ideologically moderate and consensus-oriented trade unions and employers' associations, and a tradition of social partnership in industrial relations. Union coverage remains high by international standards, and most unions belong to the DGB (German Trade Union Federation). Similarly, most firms are members of sectoral and regional employers' associations, which are in turn represented in national peak associations. Corporatist structures are found at the macro (national and *Länder*), meso (sectoral) and micro (firm) levels. Business and labour negotiate at the industrial sector and regional level, under the principle of *Tarifautonomie*, which prohibits federal or *Länder* intervention. The collective agreements reached by the powerful *IG Metall* in one region often set a wage norm for the entire economy. At the micro level, corporatism exists in the form of worker representation on boards of directors and rules of co-determination, and in the form of works councils at the plant level (Keller 1999; Thelen 1991).

Social partnership also implies self-administration, that is, corporatist labour and business representation through tripartite bodies in the institutions of Germany's "semi-sovereign" (Katzenstein 1987) welfare state, including the management committees of the FES and its regional and local employment offices. Finally, the peak organizations of labour and business often participate in roundtable talks, such as the ones initiated by federal and *Länder* governments throughout the 1990s in order to tackle labour market and other economic problems. Governments of both the left and the right have experimented with this form of concerted action under such titles as Employment Alliance or Employment Pact. Together with the expansion of West German trade unions and employers' associations to the new *Länder*, or the creation of newly established organizations along the West German model, these collective bargaining mechanisms and corporatist structures were swiftly transferred to the east after reunification. They now play an important role in ALMP there.

Yet while corporatism has long been regarded as a key element of the economic success of *Modell Deutschland*, it is now often associated with the perceived reform deadlocks in the ALMP field and elsewhere (Harding 1999; Paqué 1996). Moreover, to the extent that corporatist structures can still be resources for successful reform in the labour market field, they are less available in Saxony-Anhalt than in the western part of the country. Unions and employers' associations have been unable to organize the same percentage of workers and firms there as in the old *Länder*. Given the enduring productivity gap between eastern and western Germany, closing the remaining wage gap between the two parts of the country quickly, as advocated by the unions, is highly unattractive for many firms. Many eastern German corporations therefore use the hardship and opening clauses on which the social partners agreed during the 1990s, or they have entirely opted out of sectoral and regional employers' associations and the traditional bargaining mechanisms. As exemplified by the difficulties met in establishing the dual system of apprenticeship training in the east, there is also less of the facilitative private-sector setting, identified as crucial by Ashton and Green (1996), than in the western part of the country (French 2000; Koch 1998).

The Canadian model of decision-making related to workplace matters, collective agreements and ALMP is quite different. Organized labour represented only 18.7 per cent

of private and 69.9 per cent of public sector workers in 2000, and hence union density is much lower than is the case in Germany. Both labour and business are relatively unorganized and fragmented at the macro level, and peak associations at the federal and provincial levels are weak. Decision-making power among unions rests primarily at the local level, while it rests with individual firms on the business side. There are few meso level mechanisms or activities as sectoral organizations are relatively powerless. With the exception of automobile manufacturing, unions and firms bargain independently, rather than via sectoral agreements, while in a few industries, such as construction, skills training (apprenticeship) is delivered on a sectoral basis. At the micro level there are few corporatist arrangements other than a handful that deal with workplace health and safety.

During the 1990s, the federal government and most provinces established corporatist labour market development boards that included business, labour and equity groups. These were intended to ensure that ALMP better reflected the needs of workers and employers, and to strengthen cooperation among these stakeholders. Most boards were advisory in nature, but in two provinces (Ontario and Quebec) they were meant to deliver active measures, thus resembling the German Employment Service (Haddow 1998). After several years, nearly all of these corporatist boards were abandoned because labour and business failed to find consensus, and governments largely ignored their advice (Sharpe and Haddow 1997). The minimal interaction that does occur between labour and business nevertheless tends to take place at the provincial level, since the provinces are responsible for the bulk of legislation regarding industrial relations, employment standards, workplace health and safety, workers compensation and related areas.

Nova Scotia's societal setting is especially challenging. As there are virtually no cooperative arrangements, and hence no strongly organized counterweight to government action, the Canadian state, unlike its German counterpart, has considerable leeway in the field of ALMP. Yet the fragmentation and non-engagement of societal interests also means that initiatives in this field have not benefited from the kind of supportive influence from the private sector that corporatist institutions permit in western – and now, to some extent, eastern – Germany, and that Ashton and Green emphasize. The few success stories in building active labour market corporatism in Canada – a few sector

councils and decision-making training boards – have almost entirely transpired in Ontario and Quebec, where the industrial economy is more developed and where business and labour are somewhat more organized. Here again, the Canadian reality is asymmetrical.

IV. Active Labour Market Policy-Making, 1991-2002

We now examine policy developments in each jurisdiction during the past ten years. In both cases, provincial and *Land* administrators have sought to redesign ALMP measures within their boundaries to better address the pressing problems outlined in section two. However, the equally unpropitious, if distinctive, federal and societal settings in which policy strategies have been formulated have not permitted these strategic visions to be implemented effectively.

i.) Nova Scotia

In June 2002 the Nova Scotia government released *Skills Nova Scotia*, a working paper designed to provide a strategic framework for reforming the province’s educational system, including active labour market programs. Eighteen months earlier, the province’s Minister of Economic Development had released a strategy for renewing the Nova Scotia economy (Nova Scotia Department of Economic Development 2000). *Skills Nova Scotia* promised that the labour market reform would be coordinated with this economic development strategy (Nova Scotia Department of Education 2002: 12). It promised to create a “full partnership among government, business and labour”, and other actors (p 15); to enhance Nova Scotia’s labour market information capacity, as the province is “limited in [its] capacity to analyse existing data”; to expand and improve the apprenticeship system; to increase the province’s attractiveness to skilled immigrants; to improve the community college system’s responsiveness to private sector needs; and to expand the college system’s capacity.

But the historical record of strategic policy-making in this field in Nova Scotia, as well as the institutional parameters discussed above, suggest grounds for skepticism about the province's ability to implement such an ambitious agenda. Nova Scotia has undertaken strategic reviews of labour market policy before. During the 1980s and 1990s no fewer than seven government reports proposed substantial ALMP reforms. Many of their recommendations, moreover, anticipated commitments made once again in *Skills Nova Scotia*. Yet the province was unable to find the resources to implement most of them. During these years, administration of the province's ALMP measures was also in constant flux, with departmental mandates under constant revision. Moreover, responsibility for active measures was divided among a number of government departments, each serving quite distinctive objectives. External reviews of the policy domain frequently referred to the resulting lack of focus, and to the failure of provincial policies to ameliorate noticeably the province's poor labour market outcomes (Haddow 2000a: 174-197).

Table 5: Nova Scotia ALMP Expenditures, with Inter-Provincial Comparisons, 2001

	Nova Scotia	Average for ten provinces	Nova Scotia as % of ten province average
Provincial spending on vocational training per capita	\$28.97	\$111.26	26.0%
Federal spending on vocational training per capita	\$101.70	\$70.62	144.0%
Provincial spending on community colleges per capita	\$68.08	\$114.70	59.4%
Federal spending on community colleges per capita	\$15.09	\$17.25	87.5%
Total spending on private training schools per capita	\$72.18	\$86.40	83.5%

Sources: Calculations based on Statistics Canada, CANSIM II Series. Data for the three territories was subtracted from national provincial totals to calculate figures reported in the second column.

Limited administrative and financial resources contributed significantly to this failure, as did both the chronic predominance of federal policies and money in the field and Ottawa's willingness to use this position to reshape the ALMP field radically, beginning in the 1980s. As was noted above, the federal-provincial relationship in the ALMP field is asymmetrical in Canada. While the larger and more affluent provinces are able to challenge federal authority, others have much more modest resources. Much of what

Nova Scotia did change in its own policy in recent years, moreover, reflected a sometimes reluctant adjustment to these federal initiatives. During the 1980s and early 1990s Ottawa used its control over seat purchases in provincial community colleges to shift resources towards skills that were deemed more market-relevant (Haddow 1995). Because the federal government believed that private-sector trainers often provided more training of this type than did public colleges, and at a lower price, it also curtailed its spending in these colleges and financed a rapid expansion in private training in Nova Scotia. Table 5 illustrates the extent to which Ottawa was able to use its resources in Nova Scotia to redesign institutional labour market training in these directions.

Provincial funds predominate in directly funding community colleges, though they are much more modest than in the average province. By contrast, with respect to other vocational training spending, which includes the seat purchases mentioned above, Ottawa expends almost four times as much as the province in Nova Scotia. This is in sharp contrast to most other provinces, where provincial expenditures exceed federal ones. Yet by reconfiguring this latter category of spending, Ottawa was able to have a profound effect on the provincial colleges. As the table shows, a sizeable share of all ALMP spending in Nova Scotia in 2001 (\$72.18 per capita) financed private training institutions. By contrast, in 1991, early in the history of Ottawa's ambition to expand this sector, only \$2.32 per capita was expended on such private trainers.

This federal influence contributed importantly to the largest change in Nova Scotia's ALMP in recent years: A mid-1990s reform of the community college system designed to streamline it and to make it more market-relevant so that it would continue to attract training dollars from Ottawa. Until then, this kind of change was resisted by college administrators concerned about protecting their employment, and by provincial politicians and senior officials who sought to defend the existing college system (Haddow 2000: 187-191).

Federal predominance in the active labour market field is reinforced by another legacy of past federal-provincial relations. During the 1950s and 1960s Ottawa helped to finance a substantial expansion of Canada's network of universities. Having possessed many such institutions since the nineteenth century, Nova Scotia was able to benefit particularly from this change. However, federal cost-sharing at that time required

matching sums of money from the provinces. For Nova Scotia, below average in income but with more than the national average of universities, these matching expenses were substantial. They created a legacy of relatively high university funding in the province which meant that much less money was available for more vocationally-oriented instruction (Clancy 2000: 158-166).

Nova Scotia's history of living in the shadow of the federal government's funding and strategy in the labour market field contributed to its unique response to the federal devolution offer of 1995. The province accepted neither the "devolution" model, which would have allowed it to assume considerable control over a large part of Ottawa's spending in the province, nor the "co-management" alternative, which gives provinces significant influence over federal expenditures. Uniquely, Nova Scotia instead opted for a much more modest "strategic partnership". Effectively, it allowed Ottawa to continue administering its ALMP expenditures largely as before, with only limited oversight by the province (Klassen 2000: 177). In part, the choice also reflected a perception among Nova Scotia policy-makers that in view of its inadequate resources the province would be unwise to take on a significant increase in policy-making responsibilities immediately.

Nova Scotia's modest capacity to develop an ambitious labour market policy design to address its pressing needs also reflects the second institutional parameter identified in the previous section – the texture of state-societal relations in the province. As noted above, *Skills Nova Scotia* focussed considerable attention on the importance of private sector involvement in the province's labour market initiatives. Indeed, it proposed the creation of an advisory forum "composed of leaders from business, labour, education, training and community organizations" to "provide advice, guidance and leadership" in labour market policy-making (p 17). The document also promised that greater use would be made by the province of sector training councils and industry associations in guiding training, tools that have been used elsewhere in Canada.

These recommendations clearly address the need to draw upon the private sector's resources and commitment to formulate and implement ALMP. The private sector must provide the demand for the skills that such programs produce, and can provide leadership in identifying labour market needs. However, as we have seen, Canada's highly pluralist system of interest intermediation makes it very difficult to envisage the creation of

effective means of transmitting this private sector influence to public policy-makers. Nova Scotia's own recent history strongly corroborates this national pattern. During the early 1990s a Nova Scotia labour force development board was created, with broadly the same membership as the envisaged advisory forum, and given a mandate to advise the province and Ottawa on labour market policy. But the board failed as it was unable to construct a working relationship with provincial officials, was burdened by conflict among its diverse membership, and largely failed to attract a senior membership from the private sector, especially business. The board was closed in 1997. Other long-term provincial experiments with private sector collaborative policy forums, such as Voluntary Planning, continue to exist, but now have a very modest impact on policy-making (Haddow 1997, 97-102; Clancy 1997).

There is one possible development that might increase significantly the resources available to Nova Scotia to conduct a focused active labour market policy. With its original "strategic partnership" about to expire, the province has expressed a desire to negotiate a more significant transfer of responsibilities from Ottawa in its new labour market development agreement. Less interested than it was in the mid-1990s in devolving ALMP responsibilities to the provinces, Ottawa is reluctant to accede to this request. Regardless of the outcome of these negotiations, Nova Scotia faces substantial obstacles in implementing *Skills Nova Scotia*. The historical legacies and institutional parameters described above will not be changed overnight by such an eventuality. Moreover, even under a "devolution" labour market agreement, Ottawa would continue to dispense important sums on ALMP in Nova Scotia. Yet, as data reported in Table 5 makes clear, even if all such federal funds were made available under such an agreement, the province's per capita ALMP expenditures would still fall far short of comparable spending in other parts of Canada. Combined, all federal and provincial vocational training expenditures in Nova Scotia in 2001 totaled \$130.67 per capita; this represents only 71.8 per cent of the combined total for the average Canadian province (table 5). Total community college funding by both levels of government in that year (\$83.17) amounted to only 63.4 per cent of the total for the average province. Faced with far greater labour market problems, Nova Scotia would still have much less money with which to solve them.

Even if Nova Scotia and Ottawa sign a new labour market agreement, the federal government will remain very active in the ALMP sector, using sources of financing not covered by the agreement. Since the late 1990s Ottawa has been able to eliminate its budgetary deficits, allowing it to sponsor a number of new labour market initiatives for students, youth and various other categories of potential clients. In its 2001 Throne Speech Ottawa explicitly linked skills formation to an innovations strategy designed to foster high technology industries in Canada. A subsequent strategic document, *Knowledge Matters*, identified ALMP improvements that the federal government considers essential for the strategy to succeed (Canada 12 February, 2002). In this climate of renewed interest and restored fiscal capacity, Ottawa is unlikely to retrench further in the policy sector. Nova Scotia, meanwhile, is hamstrung by its persistent difficulty in balancing its budget, and by the highest level of government debt per capita of any Canadian province.

A final constraint on Nova Scotia's ability to expand its role in the ALMP field is that many aspects of this policy field intrinsically require nation-wide coordination, and are therefore likely to require an ongoing role for Ottawa. *Skills Nova Scotia* acknowledged this. Beyond its essential and pervasive financial role, Ottawa would also be required, the document noted, to play a role in expediting labour mobility among the Canadian provinces: Assuring nation-wide recognition of credentials acquired in individual provinces; performing research and providing labour market information; fostering private sector partnerships; and encouraging immigration (pp 13, 18-19, 23). Under the most ideal of circumstances, then, Ottawa would remain a substantial actor in active labour market policy-making.

ii.) Saxony-Anhalt

Against the backdrop of a dramatic labour market situation, ALMP became a focus of government activity in Saxony-Anhalt as early as 1992, when the first strategic document was published. This policy framework has been updated several times over the next decade. The ALMP of the *Land* seeks to combine social and economic policy goals.

Governments have tried to curtail the job losses related to Saxony-Anhalt's economic transition; to cushion the negative social impact of unemployment; and to foster employment-intensive restructuring. Particular efforts have been made, in line with European guidelines, to expand preventive measures, a field that is relatively neglected by the FES, as well as qualification and vocational (re)training programs that cater for the human capital needs of investors, and provide small and medium sized firms and their workers with managerial and technical skills. The field of apprenticeship training, in which the *Länder* enjoy genuine legislative authority, has been another strong focus.⁶

Saxony-Anhalt's per capita ALMP spending has ranked third among the *Länder* since 1992. Nevertheless, these expenditures are relatively minor in comparison with national spending (Schmid and Blancke 2001: 196). As shown in table 6, 313.2 million € (3.0 per cent of budgetary spending and 0.8 per cent of Saxony-Anhalt's GDP) were used for active measures in 1995. This amount was, both on an aggregate and on a per unemployed basis, much greater than in the average *Land*, but expenditures declined considerably after 1995. These figures, moreover, paled in comparison with the combined FES and federal government ALMP expenditures in Saxony-Anhalt, which represented as much as 11.6 per cent of overall national spending in the field in 1993 and 1994, and 12.0 per cent of Saxony-Anhalt's GDP in 1992. In 1995 the FES and the federal government together contributed almost nine times as much to ALMP in Saxony-Anhalt as the *Land*. In 2001 the national contribution to active measures in Saxony-Anhalt had declined to 8.8 per cent of overall spending and 4.6 per cent of the regional GDP, but the financial dominance of the two national players was unchanged.⁷ Since 1991 the ESF has become another important funding source of ALMP in Saxony-Anhalt (Hell 2001). *Land* governments have so far largely concentrated their own resources on the co-financing of national and European programs. For instance, Saxony-Anhalt added an amount corresponding to 20.5 per cent of national program expenditures to spending on FES employment creation schemes and 10.7 per cent to spending on qualification and

6. These strategic priorities, and the various instruments created over the years, are documented in Sachsen-Anhalt, Ministerium für Arbeit, Frauen, Gesundheit und Soziales 2000, 2002; Sachsen-Anhalt, *Ministerium für Arbeit, Soziales und Gesundheit* 1996a, 1996b, 1998a; Sachsen-Anhalt, *Ministerium für Arbeit und Soziales* 1993.

vocational (re)training measures in 1995. While the amount of money available from different sources for active measures in the *Land* has, then, been consistently high, the almost exclusive reliance on co-financing has been a mixed blessing if its consequences for Saxony-Anhalt's margin of maneuvering in ALMP and its success in dealing with labour market dysfunctions are considered.

On the one hand, the approach enabled governments, in line with their labour market strategy, to maximize access to funding for active measures rather than income-maintenance programs. Most national, FES-administered measures are not implemented by the public agency itself, but by other public, voluntary or private sector providers that receive matching grants from the FES. Many programs, especially in eastern Germany, could not be started without the additional financial support extended to these providers by *Länder* governments. By co-financing these programs, Saxony-Anhalt ensured the full use of the resources made available by the agency for ALMP in the *Land* and achieved huge leverage effects. These effects were especially difficult to forego in favour of spending on independently designed measures within Saxony-Anhalt's own authority, as its fiscal situation became increasingly tight after the early 1990s. Despite the much more limited amounts of money available through the ESF, the same logic applies to European programs.

7. Own calculations based on Bundesanstalt für Arbeit, *Amtliche Nachrichten der Bundesanstalt für Arbeit: Arbeitsstatistik* (various years) – *Jahreszahlen*; Landesarbeitsamt Sachsen-Anhalt-Thüringen 2000; Statistisches Landesamt Sachsen-Anhalt, http://www.stala.sachsen-anhalt.de/volkswi/volk_1.htm.

Table 6: Saxony-Anhalt ALMP Expenditures, with Inter-Länder Comparisons, 1995

	Saxony-Anhalt	Average for 16 Länder	Saxony-Anhalt as % of 16 Länder average
<i>Land</i> expenditures (million €)	313.2	114.1	274.5
<i>Land</i> expenditures per unemployed (€)	1,505.2	628.4	239.5
Federal and FES expenditures (million €)	2,895.8	1,577.1	183.6
Federal and FES expenditures per unemployed (€)	13,912.0	7,584.7	183.4
<i>Land</i> spending as % of federal and FES expenditures	10.8	7.2	150.0
<i>Land</i> co-financing of FES employment creation schemes (ABM, SAM, million €)	182.0	n.a.	n.a.
<i>Land</i> co-financing of FES and ESF qualification and vocational (re)training measures (million €)	83.3	n.a.	n.a.
FES spending on employment creation schemes (million €)	887.0	346.8	255.8
FES spending on qualification and vocational (re)training measures (million €)	775.8	538.9	144.0
<i>Land</i> spending on employment creation schemes as % of federal and FES expenditures (million €)	20.5	n.a.	n.a.
<i>Land</i> spending on qualification and vocational (re)training measures as % of federal and FES expenditures (million €)	10.7	n.a.	n.a.

Sources: Bundesanstalt für Arbeit, *Amtliche Nachrichten der Bundesanstalt für Arbeit: Arbeitsstatistik 1995 – Jahreszahlen*; Sachsen-Anhalt, Ministerium für Arbeit, Soziales und Gesundheit 1996b; Schmid and Blancke 2001; own calculations.

There is also no doubt that the massive use of national ALMP has greatly stabilized the labour market situation of Saxony-Anhalt since reunification. In the first half of the 1990s short-time work and early retirement schemes were the most important programs. Subsequently, employment creation schemes, wage subsidies and other hiring incentives, together with qualification and vocational training measures, became more important and brought considerable relief to the labour market of Saxony-Anhalt. The number of participants in traditional employment creation schemes (ABM) climaxed at 88,000 in 1992 and fell to less than 21,000 in 2001. The so-called structural adjustment measures (SAM), introduced originally for eastern Germany in 1993, were used by as many as 29,000 persons in 1999 before tighter eligibility criteria reduced the number to 13,000 in

2001 (Bundesanstalt für Arbeit, *Amtliche Nachrichten der Bundesanstalt für Arbeit: Arbeitsstatistik* [various years]– *Jahreszahlen, Arbeitsmarkt 2001*).

Moreover, the governments of Saxony-Anhalt could, by co-financing national programs, to some extent influence the distribution of resources among the various instruments and their quality. For instance, the *Land* governments have shifted more of their resources from traditional employment creation schemes to structural adjustment measures, and have attempted to increase the sums available for qualification and vocational training. Particular efforts were made to increase the labour market (re)integration chances of women, and to address the specific problems of youth, older workers and the long-term unemployed, by topping up the benefits of existing national programs (see, for instance, Sachsen-Anhalt, Ministerium für Arbeit, Soziales und Gesundheit 1998b).

On the other hand, the practice of co-financing national and European programs is subject to growing criticism as its inherent limitations and the generally restricted capacity of *Land* governments in the field of ALMP have recently become more evident. The level of ALMP expenditures in Saxony-Anhalt mirrored the highly problematic cyclical pattern that characterizes national spending: Active measures are expanded in election years, such as 1998, and are crowded out by expenditures on income-maintenance programs during economic downturns. This pattern contradicts the goals of Saxony-Anhalt's labour market strategy, but it was only temporarily disrupted by reunification. While 72.1 per cent of FES and federal government labour market expenditures in Saxony-Anhalt were devoted to active measures in 1991, the percentage fell to 37.7 per cent in 1996 and to 41.2 per cent in 2001 (Bundesanstalt für Arbeit, *Amtliche Nachrichten der Bundesanstalt für Arbeit: Arbeitsstatistik* [various years]– *Jahreszahlen, Arbeitsmarkt 2001*).

Their reliance on co-financing also forced the governments of Saxony-Anhalt to operate within the framework established by federal and European administrations, that is, by the FES's rules and the ESF's somewhat more flexible guidelines. Yet the labour market, economic and fiscal data reported above nurture doubts about the effectiveness of these instruments. ALMP expenditures in Saxony-Anhalt have failed to compensate for massive job losses and to stimulate the creation of a sufficient number of jobs in the

private sector. For certain groups of the population, notably persons aged 55 and older, the chances of labour market (re)integration are scarce. There is overwhelming evidence that employment creation schemes, structural adjustment measures and many of the trades qualification and vocational training measures available in Saxony-Anhalt hardly ever serve as a bridge into regular jobs for these groups and moreover that they are fraught with substitution and deadweight effects (Eichler and Lehner 1999; Schneider et al. 2000).

This conspicuous failure has lent credence to the argument that the government of Saxony-Anhalt, whose labour market strategy seeks to address the specific economic and labour market challenges of the *Land*, should play a greater role and could be more successful than existing national measures and institutions. The interests of the *Land* governments and the policies of the regional and local employment offices have, however, not always been consistent, and given the legal and fiscal realities, both *Land* and municipal governments often find it difficult to impose their strategy on the powerful directors of the FES subsidiaries. There have been some clashes between *Land* governments and regional employment office administrators – for instance, regarding mobility assistance. Moreover, Saxony-Anhalt is not directly represented in the management committees of the local employment offices, where decisions on the precise allocation of financial resources and on innovative regional or local projects are made. In conflicts with the federal government over ALMP priorities, the voice of *Land* governments has been equally weak, reflecting the marginal status of Saxony-Anhalt at the national level even at times of concurrent political majorities at both levels of government (1990-94, 1998-2002).

In particular, the legal, organizational and intergovernmental context in which Saxony-Anhalt has operated since reunification has impeded the achievement of two of its main ALMP goals. As mentioned above, it wished to give more weight to preventive measures, notably qualification and vocational training programs, and to link ALMP measures with the *Land's* structural policies. The *Land* governments did succeed in some areas (Sachsen-Anhalt, Ministerium für Arbeit und Soziales 1994a, 1994b). But, generally, these objectives proved difficult to meet. Restructuring in the east during the first half of the 1990s was very much driven by macro-economic and structural policies

of the federal government. These contributed to destroying jobs and hence increased, from the outset, the challenges faced by ALMP in Saxony-Anhalt to a level that overwhelmed the capacity of both the FES and the *Land* governments. The decisions to implement monetary union on the basis of a 1:1 exchange rate, to privatize swiftly the competitive parts of the *Kombinate* and to save the core of the chemical industry through capital-intensive restructuring were cases in point. Unemployment remains stubbornly high in Germany as a whole. As a result, program costs have grown and the fiscal situation of the FES and the federal government has tightened. In response, eligibility criteria for active measures were changed in order to focus more on such problem groups as the long-term unemployed, youth, older and disabled workers. The controversial reorientation of national ALMP along these lines, initiated with the 1997 Employment Promotion Reform Act and enshrined in the 1998 Social Code III, has made it even more difficult for *Land* governments to combine partially contradictory social and economic objectives – programs for individual beneficiaries under the provisions of the Employment Promotion Act and Social Code III, and measures aiming at the adaptation and restructuring of entire economic sectors and regions of Saxony-Anhalt – in their own efforts (Hilpert 1996).

Similarly, the transfer of corporatist structures and bargaining mechanisms to Saxony-Anhalt has been a double-edged sword with regard to its impact on the capacity of *Land* governments to formulate and implement their own ALMP. Despite the lower membership and weaker organizational basis of labour and, especially, business in the new *Länder*, a range of social partnership arrangements has emerged in Saxony-Anhalt. Labour and business are represented in the management committees of the regional and local employment offices, in the advisory bodies of the ESF and in many other institutions that play a role in the field of ALMP. In 1999 the *Land* government followed the example of the SPD chancellor in Berlin by inviting labour and business representatives, the labour administration, as well as municipal governments and their associations to participate in a regional Employment Alliance that discussed a wide range of ALMP issues.

On the one hand, the swift transfer of corporatist structures, just like the institutions of the labour administration, probably fostered stability after reunification.

After 1990 the unions, the employers' associations and the chambers of industry and commerce were vital in co-financing and co-managing, together with the *Land*, the federal *Treuhand* agency and the FES network, the important municipal employment and redevelopment corporations, as well as many other providers of ALMP and vocational training institutions. Few labour and business representatives in Saxony-Anhalt, interviewed for this research, completely dismiss the value of these forms of social partnership and bargaining mechanisms.

On the other hand, there is increasing skepticism about the capacity of such arrangements to resolve Saxony-Anhalt's labour market challenges. Not all participants, for instance, have seen their interests met to the same extent by the Employment Alliance, whose future after the 2002 change of government in the *Land* is unclear. This is especially true of business, which is concerned about the cost and effectiveness of ALMP measures, and about their crowding-out effects. With regard to the Employment Alliance this skepticism is not restricted to the business side. Controversial, but important topics seem to have been sacrificed to its politically demanded consensus orientation. While Saxony-Anhalt has so far been remarkably successful, with the help of the Alliance and its initiatives, in balancing the supply of and demand for apprenticeship positions, the price of this success was substantial. Sectoral and issue-oriented initiatives, such as the vocational training agreement reached in the first half of 2002 between employers and unions in the chemical industry, are considered successes, but these examples very much represent exceptions to a more general pattern of limited results. It is thus questionable if the mechanisms of social partnership transferred from western Germany to Saxony-Anhalt and the other new *Länder* have always fostered the "logic of information" described by Culpepper (2002), and contributed to policy innovation in the labour market field.

V. Conclusion – The Morphology of Asymmetry

The scholarly literature on economic geography alerts us to the importance of space in explaining the highly variable patterns of economic growth and stagnation that persist even in affluent economies (Krugman 1995, 31-66). Its insights have recently been complemented by scholarship on industrial “clusters” and on “regional innovation systems”, both of which stress that regions possess economic and sociological attributes that permit them to maintain and extend their advantaged status (Cooke and Morgan 1998, chapter 1; Porter 1990, chapter 3; Piore and Sabel 1984). This paper has examined the implications of such systematic patterns for the capacity of less advantaged regions to develop and manage strategies in the field of ALMP, a domain now widely thought to be vital for determining each nation’s economic prospects.

Many relatively advantaged subnational governments have attempted to increase their policy-making capacity in this domain in recent years, if necessary at the expense of national governments. This has been particularly true in Canada and, in a more muted way, among some German *Länder* (Haddow, 2000b: 53-54; Schmid and Blancke 2001). Even smaller and poorer regional governments have pursued this objective, though generally less aggressively. As was demonstrated above, the two jurisdictions discussed here have both recently shown some promise in this respect, developing strategies designed to address their distinctive labour market needs.

Nevertheless, the potential for Nova Scotia and Saxony-Anhalt to take up ambitious new ALMP responsibilities is limited. Moreover, these limits reflect fairly entrenched structural features of the institutional and societal context within which the governments of the two jurisdictions operate. In addition, the weak macroeconomic performance of these jurisdictions further impedes effective ALPM, partly by increasing the magnitude of the labour market challenges. It is unlikely that the institutional and societal context can be altered substantially in the short term even if new responsibilities are, or have been, transferred from the national to the subnational level.⁸ Both jurisdictions possess substantially fewer of the administrative and financial resources

8. In a similar vein, Bailey and De Propris (2002) have shown that the important role given to the regions in the implementation of European structural funds like the ESF has not necessarily meant that subnational actors have always had the resources to profit from this step.

needed to prepare and implement policies effectively than the more affluent regions of Canada and Germany. Their size alone makes it difficult to administer broad measures such as immigration policy and labour market information. Neither interstate federalism (Canada) nor its intrastate alternative (Germany) has alleviated these handicaps. Moreover, the German legislative and organizational framework in the field of ALMP provides the *Länder*, through the FES, with considerable funds for active measures, but with little room for the formulation and implementation of their own programs and instrument.

Governments in each jurisdiction also must deal with socio-economic environments that impede robust policy interventions. Economic actors, especially firms, in Nova Scotia's pluralist setting for interest intermediation have failed to demand more of the kinds of advanced skills that alone would make a higher standard of living available to more of the province's residents. Saxony-Anhalt's corporatism ties the *Land* to a web of collaborative institutions that have constrained it from developing labour market instruments that meet its special needs as a low-productivity, high unemployment area. The very sharp contrast between the policy-making settings of these two jurisdictions (inter- vs. intrastate federalism, pluralism vs. corporatism) suggests that it is not these factors alone, but the two jurisdictions' shared marginality within their national political economies, that limits policy-making capacity. Some of the advantages that, for Krugman, are conferred on certain regional economies appear to extend to their policy and administrative apparatus: jurisdictions most in need of specialized interventions to meet distinctive needs may have the greatest difficulty implementing them.

The barriers examined here may not, however, be immutable. The Canadian and German experiences both suggest that the capacity of subnational governments to take up complex policy-making responsibilities is highly variable. In Canada, for instance, policy-making capacity in the larger provinces matured substantially during the post-war decades. If this development has been less evident in Atlantic Canada, it has not been absent. New Brunswick, for example, an Atlantic Canadian province that resembles Nova Scotia in many respects, is widely seen as having pursued a more active economic development and labour market strategy since the late 1980s, though it continues to rely on a much more significant federal role in these domains than is the case in more affluent

provinces (Savoie 2001, 85-122). In eastern Germany, differences among the *Länder* with regard to a generally bleak labour market situation and fiscal resources are only gradual, but as Schmid and Blancke (2001) have shown, there are nevertheless differences in terms of the specific active measures pursued and of policy outcomes in the field of ALMP. Clearer examples of successful attempts to fight the negative labour market and social effects of restructuring exist in the western part of the country, although these have been assisted by more robust macroeconomic performance.

The extent to which devolution of policy-making authority in federations is feasible and desirable nevertheless requires further research. Some jurisdictions possess more of the prerequisites of effective policy making than do others; “state-building” also means that such capacity is variable over time. Even jurisdictions with relatively comparable state and societal settings may differ noticeably in the extent to which they have built capacity. Enriched fiscal transfers can be expected to enhance the ability of poorer regions to fund ALMP measures, although such arrangements are now likely to come with considerable conditionality in either Germany or Canada. New efforts to build a stronger commitment to active measures in Nova Scotia’s private sector, and to foster more private sector flexibility in Saxony-Anhalt, may bear some fruit, especially if the macroeconomic circumstances of the jurisdictions also improve. These considerations call to mind Stephen Clarkson’s “morphological” imagery, alluded to at the beginning of this article. States may indeed experience “shape-shifting” that causes authority to migrate between levels of government in response to evolving external pressures and internal requirements. The one caveat to the imagery suggested here is that these adjustments may, and perhaps should be asymmetrical. Some subnational governments are likely to require continuing interventions from the centre that have become redundant elsewhere. An adaptable federation may be one that configures itself differently in different regions to maximize its responsiveness to distinctive needs.

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