Decentralization and the status quo in Ontario and Bavaria: Variations in active labour market policy reform in subnational jurisdictions of Canada and Germany

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Abstract

Against the backdrop of high unemployment rates and considerable regional disparities, active labour market policies – measures designed to improve the access of unemployed workers to jobs – have received increasing attention during the past two decades in both Canada and Germany. Many policy makers have proposed that these policies should be decentralized from national to sub-national governments, further suggesting that such a devolution process is most likely to occur in federations. However, contrary to this expectation, Ontario and Bavaria, both powerful members of their respective federations, have shown relatively little interest in acquiring additional responsibility for active labour market policies since 1990. In our analysis, we demonstrate that the institutional arrangements of Canadian and German federalism, as well as the opportunity structures faced by the governments of Ontario and Bavaria help to account for this counter-intuitive outcome. We conclude that both the capacity and the desire of sub-national jurisdictions to formulate and implement active labour market policies is subject to considerable variations.

Résumé

Les taux de chômage élevés et les disparités régionales considérables du Canada et de l'Allemagne ont attiré beaucoup d'attention sur les politiques de l'emploi actives – les mesures désignées pour faciliter l'accès des sans-travail au marché de l'emploi – durant les deux dernières décennies. Beaucoup d'acteurs politiques et de chercheurs ont proposé la décentralisation de ces politiques-là, suggérant aussi qu'un tel processus de décentralisation est le plus facile à déclencher dans des fédérations. Or, contrairement à cette hypothèse-là, l'Ontario et la Bavière, deux membres puissants de leurs fédérations respectives, ont manifesté relativement peu d'intérêt pour l'acquisition de nouvelles responsabilités dans le domaine des politiques de l'emploi actives depuis 1990. Dans notre analyse, nous montrons que les arrangements institutionnels des fédéralismes canadien et allemand, ainsi que les structures d'opportunité des gouvernements de l'Ontario et de la Bavière aident à expliquer cette observation surprenante. Nous en concluons que la capacité et le désir de jurisdictions régionales de formuler et d'implanter des politiques de l'emploi actives peuvent varier considérablement.

Contents

1. Introduction

The past two decades have seen the emergence of an influential reform discourse advocating the devolution of active labour market policies (ALMP) to subnational governments as a panacea against high national unemployment rates, regional disparities in unemployment levels and other labour market dysfunctions experienced by advanced industrial economies such as Canada and Germany (Klassen and Schneider 2002).[*] Subnational governments are thought to have a comparative advantage over national ones in formulating and implementing programs that suit unique regional needs in the face of globalization and structural change, and hence are expected to benefit from the decentralization of active measures. Further in line with this reasoning, advocates of devolution often argue that federal regimes have a comparative advantage over unitary ones in dealing with labour market dysfunctions because their institutional arrangements seem particularly suitable for – and their jurisdictions particularly interested in – decentralization. It is therefore hypothesized that devolution in the field of ALMP will be most far-reaching and successful in federal regimes.

In our paper, we examine the ALMP of Ontario and Bavaria since the early 1990s in order to probe and qualify this hypothesis, which not only ignores differences in the institutional arrangements and the varying societal context of federal regimes such as Canada and Germany, but also crucial differences among subnational jurisdictions themselves. It is, for instance, plausible to suggest that politically and economically peripheral jurisdictions with high unemployment rates will both find it much harder to convince national governments to engage in decentralization and to reap the alleged benefits of devolution than the governments of wealthier and more powerful constituent units (Haddow, Schneider and Klassen 2003). But even the governments of politically and economically dominant jurisdictions such as Ontario and Bavaria may differ in their willingness and ability to take on new responsibilities in the field of ALMP. We therefore argue that the extent to which the decentralization of active measures is envisaged and demanded by national and subnational governments, respectively, is strongly influenced by the precise nature of federal regimes and by the strategic positions that constituent units and their governments hold within them. Hence there is no reason to expect a uniform decentralization trend in federal regimes or a uniform interest of subnational governments in the devolution of ALMP. Rather, the desire and capacity to formulate and implement active measures at the subnational level is subject to considerable variations.

We first outline the background, elements and variations of the reform discourse to which the decentralization hypothesis belongs (section 2). Our empirical analysis proceeds in three steps. We first describe regional economic and labour market trends (section 3), as well as the intergovernmental and societal context of active labour market policy-making in the Canadian and German federal regimes (section 4). This analysis enables us to demonstrate that Ontario and Bavaria, two jurisdictions with low unemployment rates, have – unlike the more peripheral *Länder* and provinces – indeed had the economic and fiscal resources, as well as the political clout, to demand and take on new responsibilities, and to develop their own strategies in the field of ALMP. In the main part of the paper, we describe active labour market policy-making in Ontario and Bavaria and examine to what extent their governments have actually used their

[*] This research was partially funded by grants from the Social Sciences and Humanities Research Council of Canada and the Canadian Centre for German and European Studies. Sections two and four of this paper benefit from ideas developed in a previous paper (Haddow, Schneider and Klassen 2003).

responsibilities in this field and propagated the further devolution of active measures. In the conclusion, we show that the largely contrasting experiences of Ontario and Bavaria corroborate our claim that both differences in federal regimes and in the political opportunity structures of constituent units matter, together with the societal context, in determining the scope and nature of devolution.

2. Background

The case for the devolution of ALMP is part of a larger reform discourse which is, in turn, embedded in the literatures on the changing nature of work (Beck 1999, 2000; Reich 1992; Rifkin 1995; Wood 1994), the crisis of the Fordist accumulation regime and the transformation of the Keynesian welfare state (Bell 1988; Clarkson and Lewis 1999; Jessop 1993; Schneider 1997). According to these strands of research, the emerging post-Fordist regime and Schumpeterian workfare state not only demand and foster a shift from passive labour market policies – unemployment insurance (UI) and related income-maintenance programs – to active measures, but also new strategies and instruments in the field of ALMP itself, notably a shift from reactive to preventive, human capital and market-oriented measures that foster the adaptation of the labour force to structural change and hence contribute to securing the competitivity of firms and national economies. The rationale for the devolution of ALMP, then, stems directly from the dialectic of market integration and fragmentation that the twin processes of globalization and regionalization are said to create (Krugman 1995; Porter 1990; Swyngedouw 1992). As national economies have ceased to be meaningful units and nation-states are being hollowed out, these perspectives argue, the authority for active labour market and economic policy-making has to and will move up (to supranational organizations and international regimes), down (to subnational governments), and out (to the market or society).

Once it is accepted that subnational governments are more likely than national ones to formulate and implement the ALMP that are demanded by the new economic context that has developed over the last couple of decades (OECD 1994, 1998, 2000), it seems plausible to suggest that federal regimes have a comparative advantage over unitary ones in this field. There is now a growing literature that underlines the flexible nature of federal arrangements and suggests that they are not only conducive to policy innovation, but also have a positive effect on macro-economic and labour market performance. However, upon closer inspection, two different rationales why this should be so can be distinguished. The first, inspired by public-choice theory, stresses the efficiency-promoting effect of competition among subnational units; in this perspective, federalism outperforms other institutional arrangements because it provides for a market analogy (Kincaid 1991; Peterson 1995; Weingast 1995). The second rationale, by contrast, draws on the experience of industrial districts and highlights the importance of trust, bargaining and cooperation among regional actors – governments, business and labour, the organizations of the voluntary sector, and others – for the success of policy networks and economic strategies that aim at fostering endogenous potentials and synergies (Cooke and Morgan 1998; Piore and Sabel 1984).

Yet while the line of reasoning sketched here is now widely familiar, it is not without its ambiguities, not the least with regard to the decentralization hypothesis. Bob Jessop, who has himself greatly contributed to the discourse on globalization and state transformation over the years, now calls it a meta-narrative (1997). The causal link between economic and political

change established in this narrative implies, among other things, that reform trajectories in ALMP can be expected to converge towards a stronger decentralization of responsibilities, especially in federal regimes, and that devolution strengthens policy-making capacity in this field. However, evidence on the effect of federal arrangements on the reform capacity and policy output of states, and on macro-economic performance indicators such as unemployment levels, remains inconclusive to date (Braun, Bullinger and Wälti 2002; Castles 2000; Keman 2000; Wibbels 2000; see also Pierson 1995).

3. Economic and labour market conditions: Shared prosperity

Both Ontario and Bavaria occupy central positions within their respective federations, as shown in Tables 1 and 2. Their dominant status is not the least a function of demographic and economic weight. Ontario, Canada's second largest province in terms of geographical size, had 12.1 million inhabitants, 38.4 % of the country's population and hence its largest population share, in 2002. The 1991-2002 demographic growth rate of the province (15.2 %) exceeded Canada's (12.0 %) by several percentage points, illustrating its attractiveness for migrants from other provinces and abroad. Bavaria, the largest of Germany's 16 federal states (*Länder*), had 12.3 million inhabitants, the second largest share or 15.0 % of the nation's population, in 2002. Its demographic growth rate (7.2 %), too, was far greater than Germany's (3.1 %).

Economic performance indicators further underline the status of the two jurisdictions. Ontario dominates the Canadian economy even more than its population. In 2001, slightly more than two-fifths (42 percent) of the nation's GDP originated from Ontario. Its per capita GDP has always been higher than the Canadian average, and by about eight percentage points during the past decade, a distinction shared only by one other province, Alberta. Similarly, Bavaria's share of national GDP has exceeded its population share during the 1990s and reached 17.5 % in 2002. Since the early 1990s, its per capita GDP has been above the German average, and by more than 17 percentage points in 2000.

The dominant status of Ontario is a relatively longstanding feature of the Canadian federation, for as the nation began to industrialize a century ago, and the western provinces began to be settled and developed, manufacturing clustered in Ontario (and also to a lesser extent in the province of Quebec). Over the decades, Ontario became the manufacturing heartland of the nation, specializing in the production of steel, automobiles and parts, electrical and other durable products. Ranking seventh in world vehicle production, Ontario produces close to three million automobiles per year, in plants owned by firms in Japan, Germany and the United States. The Golden Horsehoe region, extending from Niagara Falls to the Toronto area, contains the majority of the manufacturing activities in the province, as well as an active entrepreneurial culture resulting in a broad economic base of small and medium-sized firms. With a population of five million, the Toronto area is the sixth largest urban agglomeration in North America and boasts a strong concentration of financial services, as well as head offices of many Canadian and international subsidiary companies.

While Ontario has been the most important regional economy and the industrial heartland of Canada for a long time, Bavaria's rise to a top position within Germany is the recent outcome of dramatic structural change in the postwar era from a marginal agrarian to a vibrant (post-) industrial economy. Until 1987, Bavaria's GDP had been below the West German average.

Today, the economy of the *Land* is remarkably diverse, with a strong presence of knowledge-intensive growth industries and advanced services. Although the manufacturing of cars and automobile parts, machinery, precision instruments and other finished products remains the motor of the regional economy, the secondary sector has somewhat declined in importance over the last decade. During the 1990s, the largest number of jobs – more than in any other *Land* – was created in the tertiary sector, which now accounts for 60 percent of employment. Bavaria is home to major German industrial corporations such as BMW, Audi and Siemens, and to financial and insurance service providers such as HypoVereinsbank, Allianz and Munich Re. The *Land* boasts a high concentration of firms in the information and telecommunications sector, aerospace, biotechnology and genetics. With a population of 1.3 million, Munich – the Bavarian capital – is emerging as a German and European banking and financial centre, as well as an important media location. Besides large corporations, the regional economy is also home to a dense network of small and medium-sized enterprises (Bayerisches Staatsministerium für Wirtschaft, Verkehr und Technologie 2002a, 2002c, [no year]; Bayerische Staatsregierung [no year]).

Both subnational jurisdictions are strongly reliant on international trade for their prosperity. Ontario's location near the heavily industrialized northeastern and mid-western regions of the United States provide it with a large and easily accessible market. The province accounts for about half of Canadian exports, Ontario's exports represent half of the province's GDP, and the vast majority (over 90 percent) is destined for the United States (DFAIT 2002). International trade is a central pillar of Bavaria's economic activity, too; its exports (15 percent of German exports) accounted for one quarter of the regional GDP in 2001. The *Land* is also Germany's leading destination of foreign direct investments, while its own companies are very active in the rest of Europe and the world (Bayerisches Staatsministerium für Wirtschaft, Verkehr und Technologie 2002a, 2002c, [no year]).

Against this backdrop of similar economic structures and shared prosperity, Ontario and Bavaria have enjoyed a relatively bright labour market situation since the early 1990s. Not surprisingly, then, as shown in Tables 1 and 2, both jurisdictions have had lower unemployment rates than Canada and Germany as a whole. Ontario's unemployment rates have been about 90 percent of the Canadian, while Bavaria's have been around sixty percent of the German average in the past decade. Labour market participation and employment rates, on the other hand, have been slightly higher in the two subnational jurisdictions than the respective national figures (Statistics Canada 2002a; Bayerische Staatsregierung 1999: 53).

Although, taken as a whole, the economies and labour markets of Ontario and Bavaria are robust, there are considerable regional variations and disparities within each. Table 3 shows the unemployment rates for major urban centres in the two jurisdictions, illustrating the differences in economic structures and prosperity associated with varying unemployment levels. In Ontario, areas outside the Golden Horseshoe are further from markets, usually rely on one major industry (typically resource extraction) and have a limited number of mid-sized employers. The northern and western regions of the province, as well as part of the eastern region, are generally less prosperous, with higher unemployment rates and a less diversified industrial base (Ontario 1998; Southcott 1993). Bavaria is faced with similar disparities. Southern Bavaria, which includes Munich, is the most prosperous region, with a diversified economic base and a particularly high concentration of service industries. By contrast, the northern and eastern regions of the *Land* are poorer – the former often due to aging and obsolete industrial monostructures, the latter due to its peripheral location bordering the former GDR and the Czech Republic (Bayerisches

Staatsministerium für Wirtschaft, Verkehr und Technologie 1999, 2002a, 2002b, 2003, [no year]; GfK Marktforschung 2000).

Table 1: Demographic, Economic and Labour Market Data, Ontario, 1991-2002

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Population, % total Canadian	37.2	37.2	37.2	37.3	37.4	37.4	37.5	37.6	37.8	38.0	38.2	38.4
GDP growth rate (1997 prices)	n.a.	1.2	2.4	6.0	5.9	2.7	6.3	5.2	8.3	6.0	2.4	n.a.
GDP, % total Canadian	n.a.	40.6	40.1	40.5	40.8	40.6	40.7	41.0	41.9	41.9	41.9	n.a.
GDP per capita, % Canadian	110.8	109.8	108.3	108.2	108.8	108.0	108.5	109.7	110.4	107.2	106.4	n.a.
Unemployment rate	9.5	10.7	10.9	9.6	8.7	9.0	8.4	7.2	6.3	5.7	6.3	7.1
Ratio Ontario / Canada	0.92	0.96	0.96	0.93	0.93	0.94	0.92	0.87	0.83	0.84	0.93	0.92

Sources: Statistics Canada 2002b and other volumes; own calculations.

Table 2: Demographic, Economic and Labour Market Data, Bavaria, 1991-2002

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Population, % total German	14.4	14.5	14.6	14.6	14.6	14.7	14.7	14.7	14.8	14.8	14.9	15.0
GDP growth rate (1995 prices)	n.a.	2.9	-2.2	2.0	1.1	1.2	1.7	3.6	2.6	5.1	0.9	0.6
GDP, % total German	16.8	16.9	16.7	16.6	16.5	16.6	16.7	16.9	17.0	17.4	17.5	17.5
GDP per capita, % German	116.6	116.6	114.8	114.0	113.0	113.2	113.4	115.1	115.4	117.4	117.0	117.0
Unemployment rate	4.4	4.9	6.4	7.1	7.0	7.9	8.7	8.1	7.4	6.3	6.0	n.a.
Ratio Bavaria / Germany	n.a.	57.6	65.3	67.0	67.3	68.7	68.5	65.9	63.2	58.9	58.3	n.a.

Sources: http://www.statistik.baden-wuerttemberg.de/VolkswPreise/ArbeitskreisVGR/tab17.asp and .../tab02.asp; http://www.hsl.de/erwerbstaetigenrechnung/erwerbstätige.htm (downloaded April 9, 2003); own calculations.

Table 3: Unemployment Rates – Major Regions and Urban Areas, Ontario and Bavaria

Ontario	**2002**	**Bavaria**	**2001**
Oshawa*	6.7	Munich	4.6
Hamilton*	6.8	Freising (Munich area)	3.1
St. Catharines-Niagara*	7.2		
Toronto*	7.4		
Kitchener – southern Ontario	5.7	Ingolstadt – central Bavaria	6.0
Ottawa-Hull – eastern Ontario	7.2	Passau – eastern Bavaria	10.6
London – western Ontario	7.0	Hof – eastern Bavaria	10.7
Windsor – western Ontario	8.3	Augsburg – western Bavaria	6.4
Sudbury – northern Ontario	9.0	Nuremberg – northern Bavaria	7.8
Thunder Bay – northern Ontario	6.6	Schweinfurt – northern Bavaria	8.4

* = Golden Horsehoe

Sources: Statistics Canada; Bayerisches Staatsministerium für Wirtschaft, Verkehr und Technologie 2002a.

Overall, then, Ontario and Bavaria clearly belong to the "have" regions of their federations and have even consolidated their dominant status since the early 1990s. As a consequence, the economic and labour market challenges encountered by the governments of Ontario and Bavaria are benign if compared with problem regions like Atlantic Canada and

eastern Germany, but each jurisdiction nevertheless has to cope with its own internal problem regions and specific labour market dysfunctions, and might thus be expected to have an interest in assuming new responsibilities in ALMP.

4. Federalism and societal context: Divergent opportunity structures

In contrast to the described similarities in economic and labour market conditions, active labour market policy-making in Ontario and Bavaria since the early 1990s has been characterized by striking differences on two other dimensions: the nature of Canadian and German federalism and the prevailing arrangements for linking societal interests – notably business and labour – to government decision-making. Despite these polar divergences, this section contends that the governments of both jurisdictions have significantly more clout within their respective federations, as well as considerably greater policy-making and administrative capacity, than most other provinces and *Länder*. Given their demographic weight and economic prosperity, their fiscal resources and their political influence in the two national capitals, the governments of Ontario and Bavaria were well positioned to call for the devolution of ALMP and to use any new responsibilities granted to them in order to develop ambitious programs in this field.

Federalism: While Canada is a clear example of *interstate* federalism, Germany exemplifies the alternative *intrastate* model (Braun, Bullinger and Wälti 2002; Schultze 1992; Watts 1999). 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, and they do not have direct representation in the federal parliament (Bakvis and Skogstad 2002). Elected representatives to the House of Commons are subject to strong party discipline, giving them little power to articulate regional interests at the centre. The Senate is not an effective arena for the articulation of regional interests either. While these institutional factors in combination with the first-past-the-post electoral system and strongly regionalized voting behaviour often lead to a severe under-representation of MPs from western Canadian and at times other provinces in Canadian governments (Cairns 1968), MPs from Ontario have usually – notably since the 1993 Liberal electoral victory – been over-represented and tend to hold key positions. Ontario currently has 103 seats in the 301-member House of Commons, all but four of which are represented by members of the governing party; half of all cabinet ministers are from the province.

Moreover, the process of province-building after the Second World War has countervailed the growth of the federal welfare state. As a result of this process, the provinces – notably the larger and more prosperous ones including Ontario – rapidly expanded their fiscal and administrative capacity between the 1950s and 1970s, as they assumed responsibility for implementing the emerging welfare state. They 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 (Brooks 2000: 138-139; Brownsey and Howlett 2001; Cardinal and Headon 2002; Telford and Lazar 2002; Young, Faucher and Blais 1984).

In the larger provinces, and particularly Ontario, ALMP has historically involved both the federal and provincial governments; the latter have constitutional responsibility for social and education policies, as well as public training institutions such as technical and vocational colleges (Dupré 1973; Haddow 2000; McBride 1994). Ottawa's involvement, on the other hand, has been justified by its broader responsibility for macro-economic policies and its constitutional jurisdiction over the unemployment insurance program. 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 the offerings in their colleges. At the same time, the federal government used non-profit and community agencies in providing a variety of training and other services such as language training for new immigrants, as well as labour market programs for Aboriginals, youth and other groups. Active measures such as labour market information and counselling were delivered by the federal government directly, through its own extensive national administrative network, which had 500 offices in the mid-1980s. Beginning in the mid-1980s, the federal government started decentralizing the provision of its ALMP by granting local offices greater freedom to allocate resources based on regional labour market conditions.

Over the decades, the larger and more affluent provinces had developed their own active measures for client groups and industrial sectors that were excluded from, or inadequately served by, federal programs or that were viewed as strategic. In particular, they implemented apprenticeship and related programs, as well as services for youth, older workers and other groups that are not eligible for unemployment insurance benefits. During the early 1990s, the provinces expanded ALMP for social assistance recipients in an effort to more effectively (re)attach them to the labour market (Evans 1993; Walters 1997). Thus, by the mid-1990s, several provinces – but not Ontario, which continued to rely on community agencies – had established their own local delivery networks that operated, to some extent, in parallel with the federal system.

In the wake of the very narrow victory of the "no" side in the 1995 sovereignty referendum, Ottawa offered to transfer to the provinces a substantial degree of control over its active measures under the employment insurance program (Bakvis 2002; Human Resources Development Canada 1996). Such a transfer had been a longstanding demand of Quebec and Alberta, both of which had developed sophisticated administrative structures and used intergovernmental negotiations to restrain the federal role in ALMP even before the 1990s. As we discuss more fully in the next section, all provinces with the exception of Ontario negotiated agreements with Ottawa that regulated the devolution of control over active measures. For the larger provinces, this included the transfer of both federal staff and resources, while some of the smaller provinces opted for co-management agreements (Klassen 2000b). Surprisingly, and notwithstanding the fact that Ontario has generally sought to enhance its state capacity vis-à-vis Ottawa (Ibbitson 2001) and more generally in North America (Courchene and Telmer 1998) the province has so far not signed a labour market devolution agreement.

Ontario's fiscal position is unequaled in the Canadian federation both because of its strong and diversified economy, which allows for a variety of tax revenues, and because of its large and

highly urbanized population, which reduces the cost of government services. Along with Alberta, the province does not generally receive equalization payments. As shown in Table 4, it raises more revenues from its own sources (90.6 %) than the average province, while spending less per capita (86.3 %), due to economies of scale. Expenditures on civil service salaries and government employment per capita are lower than the mean, suggesting that the province possesses considerable capacity to develop policy and deliver services. Indeed, unlike the majority of Canadian provinces, Ontario has slack resources in terms of strategic policy capability and human resources flexibility that could be allocated to take on new responsibilities. Lastly, although the provincial surplus in 2001 was low at $39.7 per capita, compared to the average of $381.5, this figure is accounted for by the fact that the two provinces that most strongly depended on revenues from natural resource production (Alberta and British Columbia) posted particularly large surpluses in that year. Historically, Ontario, unlike most other provinces of Canada, has had stable sources of revenue and hence only minor revenue fluctuations from year to year, again reflecting its privileged position in the federation.

Table 4: Ontario Revenues, Expenditures and Government Employment, with Inter-Provincial Comparisons, 2001

	Ontario	**Average for 10 provinces**	**Ontario as % of 10 province average**
Gross revenues (billion $)	67.6	21.6	313.0
Revenues per capita ($)	5,695	6,973	81.7
Own source revenues, % gross revenues	90.6	85.7	105.1
Own source revenues per capita ($)	5,160	5,978	86.3
Gross expenditures (billion $)	67.2	20.4	329.0
Expenditures per capita ($)	5,656	6,591	85.8
Civil service salaries, % total expenditures	4.7	7.3	64.5
Deficit/surplus (million $)	472	1,182	40.0
Deficit/surplus per capita ($)	39.7	381.5	10.4
Total provincial government employment (‘000)	84.9	32.3	263.0
Government employment per 1,000 residents	7.2	10.4	69.2

Sources: Haddow, Schneider and Klassen 2003; CANSIM II series, tables 510001, 1830002 and 3850002. Data for the three territories is not included in the table.

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 policies 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 and 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 federalism. Powerful *Länder* such as Bavaria – but occasionally, even smaller and poorer ones – can assume a pivotal role in the *Bundesrat*. Bavaria has six out of 69 seats in the second chamber. In the form of the Bavarian Christian Social Union (CSU), the sister party of the German Christian Democratic Union (CDU), Bavaria also has a clearly recognizable and powerful voice in the *Bundestag*, especially during times of CDU/CSU and Liberal coalition governments like the Kohl administration that was replaced by a Social Democratic (SPD) and Green coalition under chancellor Schröder in 1998. Finally, the *Länder* 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 Bavaria is served by a regional office with subsidiaries in Munich and Nuremberg, and by 27 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 and Finegold 1999). While *Länder* efforts in ALMP have grown in recent years – often in an attempt to combine them with structural policies – 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. Rather than being made available in the western part of the country, 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, changes in national legislation have considerably increased the autonomy of the local offices in the allocation of funds (Blancke and Schmid 2003; Heinelt and Weck 1998; Schneider 2003).

Finally, active labour market policy-making in Germany has gained a European dimension in the course of the 1990s. The European Social Fund now provides 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 (Bailey/De Propris 2002; Huget 2002; Keller 2001).

Like Ontario, Bavaria was a contributor to, rather than a recipient of, financial transfers in Germany's horizontal and vertical equalization system during the period under study here. Yet against the backdrop of its economic prosperity, and compared with trends in most other *Länder* and at the national level, the fiscal position of the *Land* has been bright since the early 1990s, as

demonstrated by figures in Table 5. Bavaria's gross revenues of 33.3 billion € were more than twice as large as the 16 *Länder* mean, and it also had a considerably higher percentage (80.0 %) of tax revenues than the average *Land*. The fact that both revenues and tax revenues are below the mean on a per capita basis, then, illustrates the highly redistributive effect of the German equalization system rather than a weak fiscal position. The system currently favours the eastern *Länder* and even more disproportionately, due to large federal supplementary payments, the three German city-states. Hence Bavaria's gross revenues, in 2000, amounted to 200.1 % of a 13 *Länder* average (without city-states) and to 160.7 % of an eight *Länder* average (western *Länder* without city-states); the per capita figures for overall and tax revenues stood at 109.4 % and 137.4 % of the mean in the first, at 100.2 % and 107.4 % in the second group of jurisdictions – and the proportion of tax revenues in Bavaria exceeded the mean by 50.7 and 6.8 percentage points, respectively. Expenditures per capita were far below the 16 *Länder* average (71.3 %), slightly lower than the western mean (95.4 %), but above the 13 *Länder* average (102.3 %). Government employment in Bavaria per 1,000 residents was somewhat lower than the 16 *Länder* average, in 2001, but slightly higher than the mean if the city-states and the eastern *Länder* are omitted. As for investment expenditures, the 16 *Länder* average reflects the enormous pent-up demand for investment in the eastern part of the country, including the new capital Berlin. Yet the Bavarian share of investment expenditures was above the mean (112.0 %) if the city-states are excluded and at 133.0 % if only the eight western *Länder* are examined. Bavarian efforts at fiscal consolidation were much more successful than elsewhere in Germany. While the *Land* ran a surplus of about 900 million € or 77.0 € per capita, in 2000, the average *Land* was confronted with a deficit of 600 million € or 173.0 € per capita; in 2001, Bavaria's per capita debt was only 1.664 € as opposed to a mean of 3.917 € in the western *Länder* and a 16 *Länder* average of 4.502 €. This solid fiscal position translates into considerably greater state capacity than in most other German *Länder* (Bayerisches Staatsministerium für Wirtschaft, Verkehr und Technologie 2002c).

Table 5: Bavaria Revenues, Expenditures and Government Employment, with Inter-*Länder* Comparisons, 2000/01

	Bavaria	**Average for 16 *Länder***	**Bavaria as % of 16 *Länder* average**
Gross revenues (billion €)	33.3	15.0	222.0
Revenues per capita (€)	2,735,8	3,547.2	77.1
Tax revenues, % gross revenues	80.0	64.1	124.8
Tax revenues per capita (€)	2,188.5	2,198.7	99.5
Gross expenditures (billion €)	32.4	15.6	207.7
Expenditures per capita (€)	2,659.2	3,729.8	71.3
Investment expenditures, % total expenditures	14.9	15.5	96.1
Deficit/surplus (million €)	0.9	-0.6	-150.0
Deficit/surplus per capita (€)	77,0	-173,0	-44.5
Total *Länder* government employment ('000)	305.4	136.3	224.1
Government employment per 1,000 residents	24.9	26.5	94.0

Sources: Bundesministerium der Finanzen 2002; Statistisches Bundesamt, http://www.destatis.de/jahrbuch/jahrtab60.html (accessed July 28, 2002); own calculations.

Federal institutions are embedded in a wider political and societal context in both countries. Canada is far more heterogeneous than Germany, settled primarily by groups with European (and more recently Asian) background, and with a constitution that recognizes the linguistic duality of the nation and its multicultural character. Likewise, Canada's size, geography

and differentiated labour markets impact on the nature of ALMP; its federalism is primarily a tool for managing, and at times reinforcing, the diversity of the nation, rather than a tool to equalize the conditions of all citizens. The historical acceptance in Canada of greater disparity in unemployment rates between regions is one of the reasons that made possible the far-reaching decentralization of active measures in 1995/96.

Societal context: Canada and Germany also epitomize two different models of capitalism, *liberal* and *coordinated* market economies (Crouch and Streeck 1997; 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 Ontario and Bavaria, not the least in the field of vocational training. Ashton and Green (1996) 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). Depending on one's viewpoint, the involvement of business and/or labour organizations by way of formal and informal corporatist arrangements in coordinated market economies can of course be seen as valuable resource (Crepaz 1996; Culpepper 2002) or as an obstacle for the formulation and implementation of efficient and effective ALMP, as suggested by neoconservative authors (Olson 1982).

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 density 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 at the plant level, in the form of works councils (Keller 1999; Thelen 1991).

Social partnership also implies self-administration – i.e., 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. 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).

The Canadian model of decision-making related to workplace matters, collective agreements and ALMP is quite different (McIntosh 2000). 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 generally unorganized and fragmented at the macro level, with weak peak associations at the federal and provincial levels. 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 the automobile assembly sector, unions and firms bargain independently rather than via sectoral agreements, and in only a handful of sectors such as construction is skills training (apprenticeship) 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. 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.

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 and more generally, the European corporatist model (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). Hence in Canada, ALMP has tended to be made, both at the federal and provincial levels, by the governing party, with only minimal attempts to formally involve business and labour, or other groups, in corporatist arrangements.

5. Active labour market policy-making by subnational jurisdictions: Ontario and Bavaria compared

We now turn to the analysis of active labour market policy-making in our two subnational jurisdictions since the early 1990s. In each case, we ask what the scope and nature of active measures formulated and implemented by provincial and *Land* governments has been, given their federal and societal context; we further examine if governments have demanded and used new responsibilities in the field of ALMP.

Bavaria: Ruled by CSU majority governments throughout the period under study here, the *Land* began, in the early 1990s, to step up its own efforts in, and to increase the resources available for, active labour market policy-making. Existing active measures were moulded into a coherent and anticipatory long-term strategy (Ismayr and Kral 1997; Bayerische Staatsregierung 1999: 41-69; Schmid and Blancke 2001: 170-177). Skeptical with regard to the traditional programs offered by the FES – notably job creation schemes and other forms of subsidized employment whose high costs and questionable benefits are increasingly criticized in Germany –, the Bavarian government aimed to create policy linkages and synergy effects between ALMP and its wider economic and regional development strategy. Active measures were to be integrated with structural, foreign economic and various other policies, and hence were geared towards employment stimulation in the regular labour market. The key goals of this strategy, then, were to foster innovation, ease the adaptation of local firms and their workforces – especially of small

and medium-sized enterprises – to globalization and technological change, secure human capital and raise the competitiveness of the Bavarian economy. In its labour market components, the strategy focused on the problem areas and groups of the Bavarian labour market (women, the ethnic German immigrant population, non-German and other disadvantaged youth, social-assistance recipients, the disabled and the long-term unemployed), but attempted to shift priorities and resources from reactive to preventive and market-oriented instruments.

For the funding of this ambitious economic development and labour market strategy, the Bavarian government has strongly relied on the proceeds of various privatization initiatives, which have yielded more than four billion € since 1993. Thus the *Offensive Zukunft Bayern* ("Future of Bavaria Offensive"), initiated in 1994, channelled 1.4 billion € into the educational system, research and development infrastructures, qualification programs, vocational colleges and universities, 436 million € into economic (transportation, telecommunications) infrastructures, support for small and medium-sized enterprises, start-ups and export promotion, 371 million € into labour market and social programs, 356 million € into environmental protection and the development of new energy sources, and 345 million € into cultural programs, adding up to 2.9 billion € of investments in hard and soft locational factors of the Bavarian economy. The *High Tech-Offensive*, initiated in the late 1990s, provided another 1.4 billion € for qualification measures, research and development, start-ups and programs for the seven Bavarian government districts. Finally, 100 million € were made available, in 2001, for the fringe areas of the *Land* in the *Ertüchtigungsprogramm Ostbayern* ("Improvement Program for Eastern Bavaria"), which has not only experienced a loss of jobs to the neighbouring Czech Republic but also suffered from the redirection of federal support to the new *Länder* in the wake of reunification (Bayerische Staatsregierung [no year]).

The 1993 action program *Standort Bayern 2000* ("Investment Location Bavaria") of the Ministry of Economic Affairs had already contained employment stimulation measures, job creation schemes, qualification programs for workers threatened by unemployment and other ALMP alongside with economic development instruments, but had still largely relied on short-term crisis management with regard to the labour market. In 1994, the more specific action program *Bayern für mehr Beschäftigung* ("Bavaria for Employment Growth") ensued, before the first comprehensive labour market framework program *Für Bayern* ("For Bavaria") was published in 1995; this program was revised and expanded a year later (Bayerisches Staatsministerium für Arbeit und Sozialordnung, Familie, Frauen und Gesundheit 1994, 1995, 1996a).

In June 1996, the *Land* government established, together with business and labour representatives, the Bavarian Employment Pact. In a series of roundtable talks and various initiatives, the participants of this corporatist arrangement were to contribute to the stimulation of investment activities, to economic and employment growth, and to lower unemployment rates; they also agreed on exploring ways to increase the number of part-time jobs and new forms of employment, to flexibilize working times and to better redistribute work. The Bavarian Employment Pact, then, largely followed the model of similar arrangements in other *Länder* and previous German experiences with corporatist bargaining in other policy fields. It was, however, unique in that it included a mutual obligation of the social partners to reach moderate wage agreements conducive to employment growth. The poor results and demise of two rounds of talks at the national level – both Kohl in 1996 and Schröder after his 1998 electoral victory had invited the social partners and academic experts to find solutions for the German labour market crisis –

were largely a consequence of the failure to reach agreement between business and labour organizations on the inclusion of this point.

Together with the Employment Pact, the Bavarian government created a Labour Market and Social Fund with a capital stock of 200 million €. The Labour Market Fund is managed by the Labour Ministry, but involves the social partners in its consensual program decisions. Since 1996, the annual interest of ten million € has been used to finance a broad range of ALMP, including various experiments and model projects such as non-for-profit temporary employment and the so-called workforce development corporations that offer, unlike the employment corporations of the eastern *Länder*, an innovative combination of counselling services, qualification measures aimed at the quick reintegration of unemployed persons in the regular labour market and support for start-ups. Other programs have provided start-up counselling for women, organized child care services for job seekers, invested in social infrastructures, created work for social-assistance recipients and dealt with the apprenticeship situation in Bavaria. Most programs have been concentrated in problem areas. Thus, in 1998, 75 percent flowed into the twelve employment office districts experiencing the most difficult labour market conditions, and a third of the money was spent in and around Nuremberg and Augsburg alone (Bayerisches Staatsministerium für Arbeit und Sozialordnung, Familie, Frauen und Gesundheit 1998, 1999, 2001). In 1997, these ALMP were supplemented with a Vocational Training Program and the *Ausbildungsinitiative Bayern* ("Bavarian Vocational Training Initiative"), which was developed in the context of the Employment Pact, comprises 43 single measures and is also financed through the Labour Market Fund. Through these initiatives, the Bavarian government hopes to secure the dual system of apprenticeship training while expanding qualification and vocational (re)training opportunities in the *Land*.

In its economic development and labour market strategy, the Bavarian government has often struck the neoconservative chord that one might expect, given its partisan complexion, and various aspects of its policies since the 1990s have certainly been in line with that rhetoric. Thus the described privatization initiatives were only one of the instruments through which the government intended to reduce and redefine the size and role of the Bavarian state. In order to strengthen market forces and improve the investment climate, lower the costs of doing business and foster civic engagement, the government also pledged – and to some extent, achieved – fiscal consolidation and a shift from consumptive to investive expenditures, a considerable downsizing of the Bavarian public service, the reduction of corporate taxes, as well as various deregulation and administrative reform measures. In order to stimulate employment growth and reduce unemployment levels, the *Land* has also called for changes to key features of the German coordinated market economy such as the flexibilization of its rigid labour market through legislative changes, a reform of the social insurance and the collective bargaining system, and the regionalization of wage agreements. These suggested measures were to reduce wage and non-wage labour costs, and to contribute to the expansion of the underdeveloped low-wage sector of the German economy.

However, and despite its neoconservative rhetoric, the Bavarian government has stuck to core principles and objectives of the German social market economy and to the model of social partnership as reference points of its own policies, which can hardly be characterized as "laissez-faire". In order to save local corporations from bankruptcy, to prevent the related job losses or to achieve other objectives of its economic development and labour market strategy, the government has never hesitated to intervene in the market. As for vocational (re)training, it repeatedly

underlined that it viewed the field as a business responsibility and would not impose any solutions on employers, but also made it clear that the state had a role to play in human capital formation where voluntary cooperation failed. Objectives related to social equity and redistributive justice were not questioned, and the social costs of both unemployment and underemployment were not ignored. Thus the Bavarian government, despite its efforts to stimulate the growth of a low-wage sector, explicitly distanced itself from a simple transfer of U.S. American solutions. Reform measures conducive to the unleashing of market forces were not envisaged and implemented if and when consensus on them could not be established with the social partners in corporatist arrangements like the Employment Pact.

In part, this cooperative approach may simply have been due to the risk adversity of the *Land* government. The principles of the coordinated market economy are as well entrenched in the staunchly conservative, but predominantly catholic Bavaria as they are in the rest of Germany. Changes to the system of industrial relations and wage bargaining inspired by the neoconservative agenda would have led to a confrontation with the unions whose price neither the CSU nor Bavarian employers seemed ready to pay. Moreover, the cooperative approach enabled the government to draw on the resources and organizational capacity of the unions, employers' associations and other private actors. There is no extensive *Land* infrastructure for the provision of ALMP comparable to the one that exists in North-Rhine Westphalia and a couple of other *Länder*. In the implementation of active measures and in the management of its six regional ALMP coordination centres financed through the Labour Market Fund, the *Land* has thus relied on public-private partnerships and local networks with business and labour, the chambers, the voluntary sector and training institutions, municipal and county governments and their economic development agencies, regional and local employment offices. The Labour Market Fund grants its financial support only during the early stages of projects, and hence initiatives that are not eventually taken over by the social partners and other private actors must be terminated quickly. Against this backdrop, it does not come as a surprise that the Bavarian government considers the Employment Pact and other corporatist arrangements as key elements of its labour market strategy and has praised their contribution to improved unemployment levels after 1998. That the Employment Pact broke apart shortly before the 2002 federal election had less to do with its perceived failure than with tactical considerations on all sides: Edmund Stoiber, the Bavarian prime minister, was the CDU and CSU opponent of chancellor Schröder in that election while the head of the Bavarian DGB, Fritz Schösser, was on the candidate list of the Bavarian SPD.

A similar argument can be made for Bavarian federalism reform initiatives since the early 1990s. The highly redistributive fiscal equalization mechanisms and the system of shared taxes, from which both the federal government and the *Länder* draw the bulk of their revenues, continue to be the target of heavy criticism from Munich. This criticism, according to which German cooperative federalism obscures market incentives and punishes successful *Länder*, fits squarely into the neoconservative mould; in the mid-1990s, it was fully elaborated by the *Kommission für Zukunftsfragen der Freistaaten Bayern und Sachsen* ("Commission on Future Challenges of the Free States of Bavaria and Saxony"; 1996, 1997) and inspired the Bavarian challenge of the equalization system before the German Supreme Court (Ziblatt 2002). In this context, the *Land* called for an explicit shift from cooperative to competitive federalism, for a decentralization of responsibilities in various policy fields, including ALMP, as well as for a regionalization of the social insurance system and its implementation structures, including UI and the FES. As both the income maintenance programs and the active measures offered by the FES are contribution financed, and transfers to the regional and local employment offices are made based on a

distribution formula that takes labour market conditions into account, there has been a gap between transfers received by Bavaria and its contribution to the FES budget throughout the period under study here. The *Land* government argues that a regionalization of the system would enable it to lower UI contribution rates and hence reward it for a successful labour market strategy.

Against this backdrop, the administrative decentralization of the FES implemented in 1998 was greeted positively by the *Land* government. The reform made it for the first time possible to delegate representatives of the seven Bavarian government districts to the administrative committees of the local employment offices, which became responsible for the precise allocation of funds among the various active instruments defined by national legislation, and were also granted the right to start local experiments and model projects. The *Land* government thus gained some, albeit indirect, influence on decisions regarding funding priorities. As most of the government district representatives in the management committees work in the economic development field, the reform also entailed the promise of improved coordination between the programs of the FES and the Bavarian economic development strategy. Nevertheless, this merely administrative decentralization of a federal agency operating within a national legislative framework was only seen as the first step of a more far-reaching devolution of legislative responsibilities and implementation structures by the Bavarian government.

Yet such a more radical form of devolution has not transpired so far in Germany, and the Bavarian government has continued to coordinate its own efforts with the programs administered by the regional and local employment offices. The largely cooperative approach pursued since the early 1990s can be described as the result of political and fiscal realism, but also of ideological and policy stances that have ultimately given more weight to goals and considerations like solidarity with the new *Länder* than to the planks of the neoconservative agenda. The more radical proposals ventilated by the Bavarian government were thus quietly laid to rest. There was little support for them among the other *Länder* – notably among the eastern jurisdictions with their stubbornly high unemployment levels and among the poorer western ones, which also continue to heavily depend on federal transfers. At the same time, the German federal regime provides multiple veto points, as exemplified by efforts to reform the equalization mechanism and other institutional features or the intertwined tax system, but no room for opting out and the asymmetrical decentralization of responsibilities. Many of the macro-economic, tax and active labour market policy changes suggested by the Bavarian government would have necessitated a rewriting of federal legislation, but did not gain majorities in the *Bundesrat*, which was dominated by the SPD throughout much of the 1990s, or in the *Bundestag*, where the CDU and CSU had lost power in 1998. After the federal election of that year, and even more so when the current economic downturn reached the *Land*, the Bavarian government itself increasingly stressed federal responsibility for securing – through lower taxes, deregulation and other measures – the macro-economic context for successful regional ALMP and employment growth. Stoiber's wish to sway voters in northern and eastern Germany in the 2002 election campaign – his earlier call for an end to the Solidarity Pact had not gone done well with voters in the new *Länder* – further reduced the ambition of his government to demand a radical departure from cooperative federalism. Once again, the CSU and the Bavarian government proved more interested in being a major player on the federal scene, and to influence national policies through a sizeable regional caucus in the *Bundestag* and a strong position in the *Bundesrat*, than to negotiate a transfer of responsibilities to the *Land*.

Largely unsuccessful in triggering a neoconservative reform and decentralization trajectory, the Bavarian government did, in fact, impose itself as powerful veto player in federal legislation. The reduction of the labour supply is a traditional element of the German strategy in the fight against growing unemployment levels. The rising number of foreign contract workers in Germany and immigration have therefore, and despite the first signs of impending labour shortages in certain sectors of the German and Bavarian economy (Beschäftigungspakt Bayern, Arbeitsgruppe Fachkräftemangel 2001), been perceived as problem in many quarters. The Bavarian government has been instrumental, in the upper house of parliament and before the Supreme Court, in blocking the more liberal – and ironically, more market-oriented – immigration legislation proposed and initiated by the current federal government during its first term; it continues to demand a curbing of immigration as a means to cope with the German labour market dysfunctions.

Secondly, fiscal realism played an important role in the reluctance of the Bavarian government to seek outright confrontation with the FES and the federal government over questions of ALMP. As a consequence of growing *Land* activities in this field, budgetary spending on active measures had indeed grown from 6.1 to 25.5 million € between 1992 and 1997 alone. While a mere 25.2 € was spent per unemployed in 1992, the amount had tripled to 76.1 € in 1997. However, the budgetary resources devoted to ALMP continue to be the lowest among the *Länder*, and they pale in comparison to the amounts of money spent by the FES and the federal government in Bavaria. Thus budgetary expenditures for active measures corresponded to 7.2 % of the value for the average *Land* in 1992 and to 16.1 % in 1997; on a per unemployed basis, the figures were 4.1 % and 14.4 %, respectively. By contrast, in 1992 and 1997, the FES alone poured 1.6 and 1.4 billion € – 0.6 % and 0.4 % of the Bavarian GDP, more than 50 times as much as the *Land* in 1997 – into active measures for the Bavarian labour market. Like other *Länder*, then, Bavaria has greatly relied on the co-financing of national programs under federal legislation in its ALMP. Despite the strings attached to FES and other federal transfers, even as wealthy a *Land* as Bavaria has found it hard to forego them in order to implement its own labour market strategy within the few areas of legislative responsibility that the *Länder* have defended in this field (Bundesanstalt für Arbeit 1993, 1998; Schmid and Blancke 2001; own calculations).

Moreover, and like the other *Länder*, the Bavarian government has also increasingly co-financed ESF programs. In the 1994-99 program phase alone, Bavaria received 231.7 million € from the ESF, mostly for qualification and start-up measures, for the creation of local networks among firms, educational and research institutions, as well as for specific initiatives benefiting the problem groups and areas of the labour market. Both target 2 (Schweinfurt, Hof) and target 5b (rural) areas were supported. In the Sulzbach-Rosenberg/Amberg region, where Bavaria's last steel mill recently shut its doors, one of only nine territorial employment pacts in Germany, which includes firms and unions (IG Metall), municipal and county agencies, local employment offices, vocational colleges and chambers as participants, was set up. Programs fostering the creation of non-agricultural employment in the target 5b areas were particularly important, but this category was terminated in the current program phase; together with the new definition of target 2 areas, this change reduced the population of Bavarian subregions eligible for support by a third and hence meant a considerable deterioration. Overall, the *Land* government managed to increase federal (non-FES) and ESF transfers to Bavaria by 274.5 % from 9.1 to 33.6 million € – from 24.3 % to 45.1 % of the amount received by the average *Land* – between 1992 and 1997

alone (Bayerisches Staatsministerium für Arbeit und Sozialordnung, Familie, Frauen und Gesundheit 1996b; Schmid and Blancke 2001; own calculations).

The co-financing of national and ESF programs had a considerable leverage effect that enabled the Bavarian government to expand the quantitative scope of ALMP in the *Land* and also to influence, to some extent, their qualitative nature in line with its own labour market strategy. The government used ESF transfers, as well as its own budgetary and non-budgetary resources – notably the Labour Market Fund –, to supplement national programs in aspects of ALMP that are neglected by the FES, due to fiscal or legislative restrictions. Thus in channeling money to the problem areas and groups of the Bavarian labour market, the government has indeed more strongly relied on market-oriented and preventive, often innovative measures than the regional and local employment offices have done on the basis of the national legislation that regulates their programs. Yet both the fiscal and the legislative context of active labour market policy-making in Bavaria and the rest of Germany remains highly centralized.

Ontario: As noted in the preceding section, historically, ALMP in Ontario have been a joint responsibility of the federal and provincial governments and have been pursued separately by each. In the early 1990s, both levels established corporatist labour adjustment and training boards, modeled after European arrangements (Sharpe and Haddow 1997). The Progressive Conservative federal government created the Canadian Labour Force Development Board. The social democratic New Democratic Party that governed Ontario from 1990 to 1995 was particularly keen on this model and invested significant resources and political capital during its term to establish the Ontario Training and Adjustment Board. Finally created in 1993, this board marked a significant departure from the manner in which ALMP had previously been made in Ontario (Bradford 1998). At the same time, the federal and provincial governments established 25 local or regional training and adjustment boards across the province. These were designed to allow business and labour to better co-ordinate community-based training and adjustment issues, while the provincial and national board would do so at their respective levels.

Thus, while the period from 1990-1995 entailed considerable effort within Ontario (as well as nationally) to alter the governance of ALMP to include business and labour, there was little policy change. An outcome of the new corporatist entities was to be the formulation of strategic ALMP that built on, and reflected, the interests and expertise of the labour market partners. Yet, for the most part, there were few changes to active measures from 1990 to 1995 as the government and others awaited decisions of the Ontario Training and Adjustment Board. As early as 1994, the effort to entrench such a corporatist arrangement in Ontario was increasingly seen as a failure, in large measure because business, labour and government could not agree on needed reforms, especially in the midst of significant reductions in government revenues (Klassen 2000a). Furthermore, the board seemed unable to address the recession and resulting high unemployment rates of the early 1990s. As a result, it was disbanded in 1996 by the Progressive Conservative government that had taken power in 1995. The new government not only viewed the board as ineffective – which indeed it had been – but also as not in keeping with its neoconservative ideology that placed more onus for training and adjustment issues on employers and workers, and less on the state.

Besides the establishment of the corporatist Ontario Training and Adjustment Board, the New Democratic government used other ALMP to address the high unemployment rates during the recession of the early 1990s. In 1992, it introduced the Jobs Ontario program, which provided

up to $10,000 of subsidies for each worker hired who had exhausted his/her unemployment insurance benefits or was on welfare. Moreover, faced with staggering increases in social assistance caseloads – from 350,000 cases in 1990 to 650,000 in 1993 –, the government also allocated some additional funds for active measures in favour of social assistance recipients (Sabatini 1996). This measure was not only to ensure that this group would have the support necessary to re-enter the labour market, but also an effort to decrease the social assistance rolls.

When the Conservatives took power, among their first actions was to eliminate several active labour market programs, particularly those that provided wage subsidies to individuals or employers. Among the programs cancelled was the Jobs Ontario training program, which had been designed as a time-limited program in any case, as well as measures that aided firms in human resources planning and a program subsidizing employment for welfare recipients. At the same time, the government altered the social assistance program by introducing a degree of workfare such that many recipients of benefits were required to engage in some type of activity (volunteer work, job search, etc.) in order to remain eligible. Indeed, the government's efforts with respect to ALMP, at least in terms of political capital, were focused on those on welfare (OECD 1999; Quaid 2002).

Other than the decisions outlined above, the Conservative government has remained aloof from ALMP, in part because the business community that strongly supported the government saw little role for the state in this field. Some minor adjustments were made to the apprenticeship program in order to increase the flexibility (mostly for employers) of apprenticeship training and requirements. Moreover, the government has given some attention – primarily rhetorical – to better integrating recent immigrants, specifically those with non-Canadian credentials, into the labour force. In this regard, it has sponsored small pilot projects (for nurses and others) to aid those with non-Canadian experience and qualifications to find suitable employment. However, the government's position has been that ALMP is not a priority, as the operation of the "free" market will adequately address many issues. Of course, the strong economy and comparatively low unemployment rates in the second half of the 1990s and the first years of the 21st century have meant that the demands on ALMP have been substantially less than in the first half of the 1990s.

At the federal level, the corporatist Canadian Labour Market Development Board was finally abandoned in 1999. In any case, it had played no role in the major reform of federal active measures that occurred in 1995 when the unemployment insurance program was reformed. As part of the reform, the active measures that apply to individuals receiving income support from the program were significantly altered; an increase in the number of EI clients re-employed and the maximization of savings generated for the EI account (calculated as the difference between the maximum entitlement of a worker and the actual payout of such benefits) became sole objectives of the program (HRDC 2001). This meant that active measures were solely mandated to move clients into employment as quickly as possible, rather than to make clients as employable as possible in the long term, as this reduced government ALMP expenditures, at least in the short term.

As the active measures under the newly re-named EI program were being finalized by the federal government, the Quebec referendum on sovereignty yielded a very close result; 49.4 % had voted in favour of sovereignty. In large measure in response to this development, the federal government offered to transfer responsibility for ALMP to the provinces, including both funding

and federal staff (HRDC 1996; Bakvis 1996). Since then, all provinces with the exception of Ontario have signed labour market development agreements that have decentralized ALMP (Bakvis and Aucoin 2000; Klassen 1999). In total, more than 1,500 federal staff have been permanently transferred to the provinces, and about $900 million flows to the provinces each year for training. Consequently, the federal role in the design and delivery of training and related programs has been largely abolished, albeit in some of the smaller provinces, it remains larger since federal program delivery staff (and funds) have not been transferred to the provinces, but instead work more closely with provincial officials (Klassen 2000b; Lazar 2002).

The labour market development agreements are not constitutional arrangements, only administrative ones that have been entered into by a province and the federal government. The objectives of active measures under these agreements – that is, employment rather than long term employability – bind the provinces, but they have considerable latitude to design programs and allocate funds in favour of individuals who are EI eligible. Had Ontario signed an agreement, it would have acquired 1,000 federal staff and more than $450 million; its ALMP budget would have doubled. This raises the question why Ontario, despite its considerable degree of state capacity, has not taken advantage of the federal offer of devolution.

Since 1995, the political climate in Ontario has emphasized neoliberalism (MacDermid and Albo 2001; Noel 1997). The governing party actively sought a smaller role of government and, assisted by decreasing unemployment rates and strong economic growth, oriented its ALMP towards a "laissez-faire" model. The transfer of 1,000 civil servants under a labour market development agreement would have expanded the size and role of government at a time when the opposite goal was pursued. Unlike provinces that had, over the past decades, established their own ALMP field delivery offices, Ontario relies (with the exception of apprenticeship) exclusively on transfer payment agencies to deliver all of its active measures. A transfer of federal resources would mean that the province would attain, for the first time, an extensive local field office structure. Thus a substantial change to what has historically existed and, at the very least, a considerable effort to ensure that a provincial field system operated smoothly, would have been required, not to mention strategic decisions about *how* such a system should operate.

For Ontario, then, there was little additional independence to be gained from formally accepting federal staff and resources, all the more as the decisions of local federal offices in Ontario were already largely autonomous and based on local needs. In terms of coordination at the community level, the local training and adjustment boards, which had survived the death of their provincial and national counterparts, provide the opportunity for some harmonization of program delivery with service providers. The provincial government has indicated that additional resources (a greater "fair share" of federal funds) transferred to it than is currently the case would entice it to consider changing its view. However, from the federal perspective, the scores of government MPs from Ontario see no advantage in devolving active measures to the province, as doing so would reduce federal visibility and, more pragmatically, the opportunity for local taxpayers to see their federal tax dollars at work.

The relative prosperity of Ontario in the past eight years (both compared to the early 1990s and to other parts of the nation) has provided little inducement to either federal or provincial decision-makers to change the status quo. In the current situation, neither the provincial government nor Ottawa perceive sufficient benefit to outweigh the costs of further decentralization. The asymmetrical decentralization that has resulted has not proven problematic

for the federal and provincial levels of government, as asymmetrical relations between Ottawa and individual provinces are not uncommon in Canadian federalism (Bakvis 2002). In fact, with regard to federalism more broadly, a number of non-constitutional agreements have been negotiated since the failure of the Charlottetown Accord in the early 1990s, most importantly the Social Union Framework Agreement signed by the federal and provincial governments with the exception of Quebec in 1999, as well as agreements dealing with fiscal matters, health care and other policy fields (Lazar 1998).

6. Conclusion

Since the early the 1990s, Ontario and Bavaria have remained two of the most powerful and influential, as well as two of the most economically successful, jurisdictions within their respective federations. Enjoying low overall unemployment rates and healthy budgets, the governments of Ontario and Bavaria have, however, faced labour market dysfunctions in some peripheral areas. Against this backdrop, both jurisdictions might have been expected to have a keen interest in, as well as the necessary state capacity and political clout for, an expansion of their interventions in regional labour markets, and to be key advocates of devolution among their fellow provinces and *Länder*, as well as in the national capitals. Yet in contrast to what the reform discourse alluded to in the introduction and in section 2 of this paper suggests, Ontario and Bavaria have been among the least ambitious jurisdictions of Canada and Germany with regard to ALMP.

One reason for this unexpected finding is, without any doubt, to be seen in the fact that comparatively little pressure to act has emanated from the prosperous and diversified regional economies of Ontario and Bavaria (and in the fact that the political status of the few disadvantaged areas in Toronto and Munich, respectively, is rather weak). But the finding that even two of the wealthiest and most dominant jurisdictions of otherwise strikingly different federal regimes have not been very successful at expanding their presence in this increasingly crucial policy field, or have been reluctant to assume new responsibilities in it, also points to the economic determinism and functionalism of the decentralization hypothesis and of the meta-narrative of globalization and state transformation that it is embedded in. Growing economic and labour market disparities within national economies may thus strengthen the *prescriptive* case of devolution advocates, but are no sufficient precondition for actual decentralization processes. And while a lack of fiscal and organizational resources may preclude the devolution of responsibilities to marginal jurisdictions experiencing massive labour market problems, there is no quasi-automatic link between the mere availability of these resources and reform trajectories leading to the decentralization of ALMP either.

However, we also discovered important differences with regard to the nature and scope of active labour market policy-making in Ontario and Bavaria. These differences, as well as the varying willingness and ability of governments in the two subnational units to embrace and achieve the devolution of responsibilities, are largely a function of their societal and federal context. This second finding of our paper, then, illustrates the extent to which the decentralization hypothesis neglects the importance of institutional arrangements and political opportunity structures. It is therefore crucial to take varying models of federalism and their combination with different types of capitalism into account.

The *nature* of ALMP in the two jurisdictions has been greatly influenced by the societal context and by the partisan complexion of governments in Ontario and Bavaria. Initiatives that were at odds with the logic of the Canadian and German liberal and coordinated market economies, respectively, did not fare well and were ultimately abandoned in both cases. The opportunity structures provided by these two models of capitalism in Canada and Germany as a whole also explain why national, provincial and *Länder* governments in the two federations, respectively, do usually not diverge very much in terms of their labour market strategies. Thus the Harris government in Ontario quickly terminated NDP experiments with corporatist arrangements, while the Bavarian government considered them key elements of its labour market strategy and moderated its neoconservative rhetoric in order to achieve consensus with the social partners wherever possible. Of course, this contrast also highlights the different meaning of the term conservative in the German and European as opposed to the Canadian and North American context (Schultze, Sturm and Eberle 2003). The Progressive Conservatives in Ontario did indeed pursue a neoconservative agenda, mixed with elements of right-wing populism. The Bavarian CSU, by contrast, is better characterized as a socially conservative party that belongs to the Christian Democratic variety, balancing the pursuit of technological and economic innovation with the defense of cultural and religious traditions, and with the principles of the German social market economy. Hence the labour market strategy of Ontario was arguably closest to the Bavarian one when the Social Democratic Rae government held the reins of power in Queen's Park. And while the second part of the 1990s has seen an increasing effort of the Bavarian government to develop strategic ALMP and to examine ways to increase its responsibilities in this fields, there was a dramatic retreat from active measures in Ontario during the same time period.

The *scope* of active labour market policy-making in Ontario and Bavaria, moreover, sheds light on the opportunity structures defined by the Canadian and German federal regimes and intergovernmental relations since the early 1990s. The dominant status of Ontario within Canada has been consolidated, rather than weakened, in recent years; this status has always enabled its governments to influence Ottawa's macro-economic, industrial and other policies, including ALMP, in line with the economic interests of the province. In the second half of the 1990s, the confluence of a governing party in Ontario that sought to reduce the size and role of the provincial state with the Liberal government in Ottawa, whose caucus is dominated by MPs from Ontario, has further reduced incentives for the assumption of new responsibilities in the field by the province. In fact, the status quo suits Ontario's interests, as well as those of federal MPs, while devolution through a labour market agreement would have entailed sizeable costs. On the other hand, the increasingly asymmetrical negotiated arrangements that emerged in Canada during the 1990s have enabled other provinces to go ahead with their decentralization efforts both without being blocked by Ontario and without forcing it to follow path.

The federal opportunity structures were different for Bavaria. Hence the calls of its government for competitive federalism did not only subside because of their inconsistency with the more Christian Democratic leanings of the CSU and the political ambition of its leader on the national stage. Rather, due to its demographic and economic weight, Ontario dominates the Canadian federation to a degree unparalleled even by the powerful southern German *Land*. Due to a large number of veto points and their built-in consensus orientation, the German federal arrangements have proven extremely resistent to change over the last couple of years, and despite Bavaria's influence in national political institutions, its reform initatives could only succeed if and when a broad consensus among CDU/CSU and SPD-led, old and new or wealthier and

poorer *Länder*, as well as between *Bundestag* and *Bundesrat* majorities, was achieved. With regard to the more ambitious Bavarian reform initiatives, including plans to regionalize labour market policies and their implementation structures, this consensus failed to materialize, due to partisan cleavages and cleavages related to the divergent economic and fiscal conditions of the *Länder*. Ultimately, the Bavarian government did not even fully explore the marge of maneuvering that the current legislative and organizational framework provides. Most importantly, it has shied away from opting out of programs co-financed with the FES and the ESF.

Finally, the two experiences reviewed here raise another – praxeological – question that the decentralization hypothesis has so far left unanswered: If structural change indeed makes the devolution of ALMP plausible and desirable, which tier of government should benefit from it? Both Ontario and Bavaria are, in fact, large and diverse economies that equal many nation-states in size and like them, are characterized by internal economic disparities and fragmentation. These disparities are most pronounced, in each case, between the major urban centres – Toronto and Munich – and their hinterland. Moreover, in both jurisdictions, at least some local policy networks and implementation structures that could be given more weight through devolution already exist. Thus one might argue that decentralization should not stop at the provincial and *Länder* tier, but rather be geared towards the very compact economic units of which national economies supposedly consist today. In Bavaria, the local employment offices of the FES and city governments like Munich, Nuremberg or Augsburg already play a crucial role in the formulation and implementation of ALMP, and a future reform of the FES and federal legislation might further strengthen them. Given the much larger amounts of money allocated by these offices, they – and not the Bavarian or other *Länder* governments – may therefore be destined to call the shots in a future, more decentralized system of active labour market policy-making in Germany, perhaps together with the social partners and the local providers of active measures. Against the backdrop of Westminster-style government, this may not happen in Ontario and other provinces, but a plausible theoretical case for the devolution of responsibilities to local actors and institutions can probably made for Canada, too.

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