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Communiqué

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Kill federal-provincial training proposals; cut EI premiums, says C.D. Howe Institute study

New joint federal-provincial training programs funded by the employment insurance (EI) program will do little for low-skilled workers or for federal-provincial relations, says a *C.D. Howe Institute Commentary* released today. Much better, the study argues, would be provincial and local delivery of training, less federal spending in this area, and a matching cut in EI premiums.

The study, entitled *Ending the Training Tangle: The Case against Federal-Provincial Programs under EI*, takes a critical look at proposals in the July 1996 EI reforms for five categories of new joint training programs that must meet seven federal conditions. The authors, Institute Policy Analyst Kenneth J. Boessenkool and Senior Policy Analyst William B.P. Robson, observe that the proposals ignore the lessons of past failures, and will increase federal-provincial entanglement and tensions.

Boessenkool and Robson argue that the case for government involvement in training generally, and federal involvement in particular, is weaker than is often made out. At the same time, they point out, the results of government training programs, particularly federal programs, have been disappointing. Noting that training closely tailored to local conditions and opportunities appears most successful, Boessenkool and Robson argue that flexibility, accountability, and integration with related services such as welfare and education will be best served by provincial control.

Cutting spending on federal-provincial training out of the EI budget would, the authors calculate, allow EI premiums to fall by around one percentage point from their current 6.96 percent level. A smaller payroll tax wedge between what employers pay and what workers take home, say Boessenkool and Robson, would improve the prospects for less-skilled workers to get the best kind of training there is: training on the job.

Even if provinces take up some of the resulting tax room to beef up their own training programs, the resulting programs will be better targeted to local conditions and more likely to succeed. “Either alternative,” the authors conclude, “would reduce Canada’s federal-provincial tensions. And either would leave the average Canadian a winner.”

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C.D. Howe Institute
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Communiqué

Embargo: à diffuser le *mardi,* le 4 février 1997

Mettez fin aux propositions de formation fédérale-provinciale et réduisez les cotisations d'assurance-emploi, recommande une étude de l'Institut C.D. Howe

Les nouveaux programmes fédéraux-provinciaux de formation financés par le nouveau Régime d'assurance-emploi n'accompliront pas grand-chose pour les travailleurs peu spécialisés ou pour les relations fédérales-provinciales, indique un *Commentaire de l'Institut C.D. Howe* publié aujourd'hui. Il vaudrait mieux, indique l'étude, que la formation soit exécutée au niveau provincial et local, que l'on engage moins de dépenses fédérales dans ce domaine, et que l'on diminue ainsi les cotisations d'assurance-emploi.

L'étude, intitulée *Ending the Training Tangle: The Case against Federal-Provincial Programs under EI (Mettons fin à l'enchevêtrement de la formation : les arguments contre les programmes fédéraux-provinciaux dans le cadre de l'assurance-emploi),* jette un regard critique sur les propositions de réformes d'assurance-emploi de juillet 1996 visant cinq catégories de nouveaux programmes conjoints de formation qui doivent répondre à sept conditions fédérales. Les auteurs, Kenneth J. Boessenkool, analyste de politique de l'Institut, et William B.P. Robson, analyste de politique principal, remarquent que ces propositions ne tiennent pas compte des leçons tirées des échecs du passé, et qu'elles ne feront qu'accroître les tensions et les enchevêtrements fédéraux-provinciaux.

MM. Boessenkool et Robson soutiennent que les arguments en faveur de la participation gouvernementale en matière de formation de manière générale, et de la participation fédérale en particulier, sont plus faibles qu'on ne le laisse souvent entendre. Dans un même temps, ils soulignent que les résultats produits par les programmes de formation gouvernementale, et tout particulièrement les programmes fédéraux, ont été décevants. Tout en indiquant que c'est la formation la plus étroitement adaptée aux conditions et aux possibilités locales qui semble réussir le mieux, MM. Boessenkool et Robson soutiennent que la souplesse, l'obligation de rendre compte et l'intégration aux services connexes comme le bien-être et l'éducation, seront mieux desservies sous contrôle provincial.

En coupant les dépenses de formation fédérale-provinciale du Compte d'assurance-emploi, les auteurs calculent que les cotisations d'assurance-emploi pourraient baisser de presque un point, par rapport à leur niveau actuel qui est de 6,96 %. En fait, MM. Boessenkool et Robson indiquent qu'une réduction de l'écart entre ce que les employeurs paient et ce que les travailleurs reçoivent, améliorerait les perspectives qu'auront les travailleurs peu spécialisés d'obtenir le meilleur type de formation possible : celui de la formation en cours d'emploi.

Et même si les provinces s'accaparent une portion de la marge fiscale ainsi produite pour étoffer leurs propres programmes de formation, ces derniers seront mieux adaptés aux conditions locales et détiendront donc de meilleures chances de succès. « Quel que soit l'option choisie, concluent les auteurs, celle-ci soulagerait les tensions fédérales-provinciales au Canada. Et le citoyen ordinaire, pour sa part, en sortirait gagnant ».

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Ending the Training Tangle:

The Case against Federal-Provincial Programs under EI

by

Kenneth J. Boessenkool
and
William B.P. Robson

Despite the economic and political case for federal-provincial disentanglement, the federal government has boosted its presence in the primarily provincial field of active labor programs in recent years. The new employment insurance (EI) program envisions a further boost, with a sizable new set of joint federal-provincial training programs funded from EI premium revenue.

The economic rationale for federal involvement in this area is weak, however, while the record of federal training programs is poor. The proposed cure may thus be worse than the disease, with the joint management structure threatening blurred accountability, reduced flexibility, and inferior integration with provincial education and welfare services.

The best course would be federal withdrawal from labor training. If Ottawa must remain involved in the field, it should do so by directing subsidies to individuals seeking training. Either way, the funding of training from EI revenue — an inappropriate use of a social insurance premium — should cease.

Lower EI premiums and no increase in federal-provincial transfers would present the provinces with a choice. If they opted to boost their own training programs, they would have additional tax room to fund them. If they chose not to increase training, lower payroll taxes would drive less of a wedge into the market for lower-skilled labor. Either option would improve the job prospects of lower-skilled Canadians — and also reduce federal-provincial tensions.

Main Findings of the Commentary

- Fiscal pressure, federal-provincial friction, and a desire for cleaner lines of accountability for public services have produced a growing consensus favoring disentanglement of federal and provincial programs.

- While responding to this desire in some areas, Ottawa has gone against it in labor market policy by increasing its presence in “active” labor programs — training in particular. It has funded these programs by diverting unemployment insurance (UI) premium revenue away from its original intended purpose of paying income-replacement benefits to workers who lose their jobs.

- The July 1996 legislation that converted UI to “employment insurance” (EI) promises a further federal push into training and other active labor programs. After a transition period, the legislation envisions a $2-billion-a-year set of joint programs with the provinces covering wage subsidies, earnings supplements, self-employment assistance, job creation partnerships, and loans and grants for skills training.

- The economic rationale for federal involvement in training rests on two assumptions: that there is serious underprovision of basic skills training in the Canadian economy; and that potential emigration of trainees inhibits provinces from adequately filling this gap. Close examination reveals both assumptions to be shaky.

- The dismal record of federal and federal-provincial training programs raises the concern that the proposed cure will be worse than the disease. Jointly managed programs will blur accountability, reduce flexibility, and work against the integration of training programs with provincial welfare and education services.

- If the economic rationale — or political imperatives flowing from high unemployment — make action irresistible to Ottawa policymakers, a better course would be vouchers, tax credits, income contingent loans, and other direct subsidies to individuals seeking training. Best of all would be federal withdrawal from the field.

- Either way, the collection of training-related EI premiums should cease. Even allowing for the many other noninsurance benefits funded by EI and a continued excessive surplus in the EI Account, such a change would lower EI premiums from their current level of 6.96 percent of covered earnings to around 6 percent.

- Should the provinces occupy this tax room to increase their own training efforts, the resulting programs would likely be more effective than the joint alternative. (The new taxes would boost equalization, blunting the impact of the change on less well off provinces.) Should the provinces choose not to provide more training, lower payroll taxes would drive less of a wedge into the market for lower-skilled

Recent Canadian experience with social policy has been marked on the one hand by fiscal pressures and on the other by irritation with the frictions and blurred accountability produced by federal-provincial overlap. These pressures, along with a desire to accommodate Quebec's aspirations for more social policy autonomy, have shaped a growing consensus in favor of disentanglement.

In some respects, this consensus is being reflected in policy. A major step was the replacement of the old Established Programs Financing grants and the Canada Assistance Plan (CAP) transfers by the new Canada Health and Social Transfer at the beginning of 1996. Postsecondary education and welfare are now essentially in the provincial sphere, and the jurisdictional conflict previously inherent in these programs will, for the foreseeable future, be largely limited to the conditions specified in the Canada Health Act.

Among the candidates for further such moves is the field of active labor market measures. A less intrusive federal stance in this area is a long-standing demand from many provinces: witness, for example, the Allaire Report[1] and the Charlottetown package. More recent proposals for reform — the Western Premiers' Conference's "Rebalancing the Federation" and the Group of 22's *Making Canada* Work Better[2] among them — have urged exclusive provincial jurisdiction in labor market policy.

Contrary to the thrust of this advice, however, Ottawa has boosted its presence in this area, using the unemployment insurance (UI) program — now renamed the employment insurance (EI) program — as a platform. Federal spending on labor force adjustment measures such as training, wage subsidies, self-employment assistance, and apprenticeship training, increasingly funded from UI/EI premiums, has consistently grown both in real dollars and as a share of total UI/EI expenditures.

At first glance, the EI reforms of July 1996 appear a reversal. In keeping with the commitments the federal government made just before the October 1995 referendum on secession in Quebec, the legislation says that Ottawa will transfer responsibility for active labor policies to the provinces in a series of new federal-provincial agreements.

These changes will not, however, aid the cause of disentanglement. The promised funds will come with numerous complex conditions whose potential for federal-provincial friction and blurred accountability matches (or exceeds) the conditions attached to the old CAP.

Canada would do better to avoid further jurisdictional conflicts in this field. In our view, the federal government's best course would be to wind up its active labor programs and leave room for the provinces to institute their own measures. To the extent Ottawa judges that high returns to training on a national scale require federal action, it should use direct subsidies to individuals and employers, not split-jurisdiction service delivery.

This Commentary explains our reasoning. In the first section, we review the evolution of the UI program, including the July 1996 EI reforms. The second and third sections examine, respectively, the basic issues of government involvement in job training and the historical record of that involvement by Canadian governments, federal and provincial. Finally, we recommend complementary routes to disentanglement that would improve Canadians' job prospects and reduce federal-provincial tensions.

Background

Both federal and provincial governments can make constitutional claims for jurisdiction over active labor market policy in Canada.[3] The provinces' case is based on their authority over education, labor relations, and "matters of a merely local or private nature in the Province." A federal case can rely on the "peace, order and good government" clause (on the argument that training is a matter of sufficient national concern). Moreover, Ottawa has had specific jurisdiction over UI since 1940, when the provinces' crippled fiscal condition of the previous decade resulted in a constitutional amendment conferring federal authority.

Whatever the legalities, the reality of Canadian experience since World War II is that Ottawa's presence in the field has been expanding. Although UI was originally designed to provide income replacement to full-time industrial workers out of work as a result of circumstances beyond their control, the program has since become much larger and more multifaceted.

The UI Program, 1940–96

UI's first 30 years saw expanding coverage and expense, and the next 20 intermittent retrenchment. Throughout, however, one can discern a recurrent pattern: a gradual swelling of benefits beyond basic insurance, with many of the extras involving active labor market measures, and a steady shift of the cost of those extra benefits away from the consolidated revenue fund (the regular federal budget) onto UI premiums, making the UI program the financial base for the federal government's spending power in the labor field.

Dividing benefits into insurance — that is, payments, triggered by job loss neither foreseen nor controlled by the worker, that discriminate only on the basis of work history — and noninsurance involves fine judgment. Nevertheless, distinguishing regular initial benefits (which we henceforth call *ordinary* benefits) from other spending seems a reasonable guide to the program's evolution toward a multi-purpose transfer.

Noninsurance spending can be subdivided into two further categories: passive benefits, such as regionally extended, maternity, and sickness benefits, and active employment measures, such as job training, job creation, self-employment assistance, and so on. (As the notes to Figure 1 indicate, breaking the benefits down precisely is impossible — no data for recent years are publicly available, and administrative records of benefits by recipient are not always reliable.) Since the late 1980s, most of the increase in noninsurance expenditures has come from new and expanding active labor market measures.

As Figure 1 shows, noninsurance benefits composed only a minute portion of program expenditure until the early 1970s, expanded to one-quarter in the late 1970s and early 1980s, and make up about one-half today.

Initially, noninsurance benefits were largely funded, not by UI premiums but by contributions from the consolidated revenue fund. The logic was clear: premiums were a payment for insurance, not a tax to fund sundry other programs. Over time, however, the revenue-raising power of the UI premiums, combined with growing pressure on other federal revenue sources, led successive finance ministers to shift the cost of noninsurance benefits onto premiums (see Figure 2).

By the late 1970s, premiums were covering such noninsurance UI payouts as maternity and work-sharing benefits. A decade later, premium revenues were funding the bulk of job creation and training benefits.

The end of this transition came in 1991, when Ottawa, responding to severe fiscal pressure, began to fund all UI expenditures, including administration, exclusively from premiums. Accompanying this change were modest reforms to the insurance portions of UI and a sizable increase in premiums.

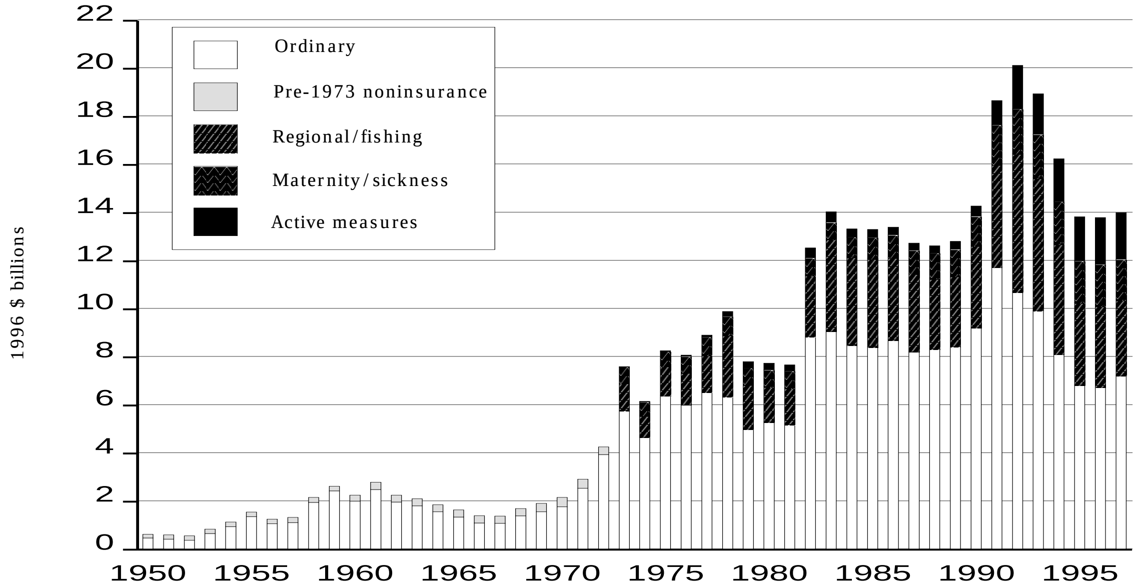
After this move, contributions from the consolidated revenue fund ceased. The high UI premiums became, in large part, a tax:[4] a dedicated revenue source for new and expanded federal activity in the labor field.

The EI Reforms

The July 1996 reforms converting UI to EI have several facets. In important respects, such as trimming benefits for repeat users and scaling back the tilt in benefit duration toward high-unemployment areas, they move the program toward insurance principles.[5] At the same time, however, they build on the history just outlined, envisioning a substantial increase in active labor market programs through an extensive new system of federal-provincial transfers funded from premium revenue.

Under EI, spending on active employment measures is to rise by some $800 million annu-

Figure 1: *UI/EI Benefits, 1950–97*



Notes: "Ordinary" benefits are regular benefits minus regionally extended benefits. "Maternity" benefits include maternity, parental, and adoption benefits. "Active measures" include work-sharing programs, training benefits, self-employment benefits, and job creation programs funded under UI. We omitted UI retirement benefits, which ended in 1990 and were very small (about $20 million in 1996 dollars).

Sources: Data for the years 1950–77 are from Canadian Tax Foundation, *The National Finances* (Toronto: CTF, various years). Data for the 1977–95 period are from Statistics Canada, *Annual Unemployment Statistics, 1995*, on CD-ROM, cat. 73F0003XDE. Data for 1996 and 1997 were estimated from the 1996 federal budget (Ottawa, March 3, 1996).

To break apart ordinary and regional benefits, which have not been reported separately since 1984, we used two methods. For 1985 through 1990, the federal government financed regional benefits from the consolidated revenue fund, so we used that contribution to estimate the regional component. For 1991 through 1997, we estimated regional benefits on the basis of the experience of the 1981–82 recession and subsequent years; we calculated an index of their share in the total from 1980 forward and assumed that the proportions changed in comparable fashion.

For projection purposes, we assumed sickness, fishing, training, and parental benefits stayed at their 1994 levels through 1995 and 1996. Ordinary plus regional benefits were calculated as a residual, based on budgetary figures for total UI/EI expenditures. The regional component was then separated out as already outlined.

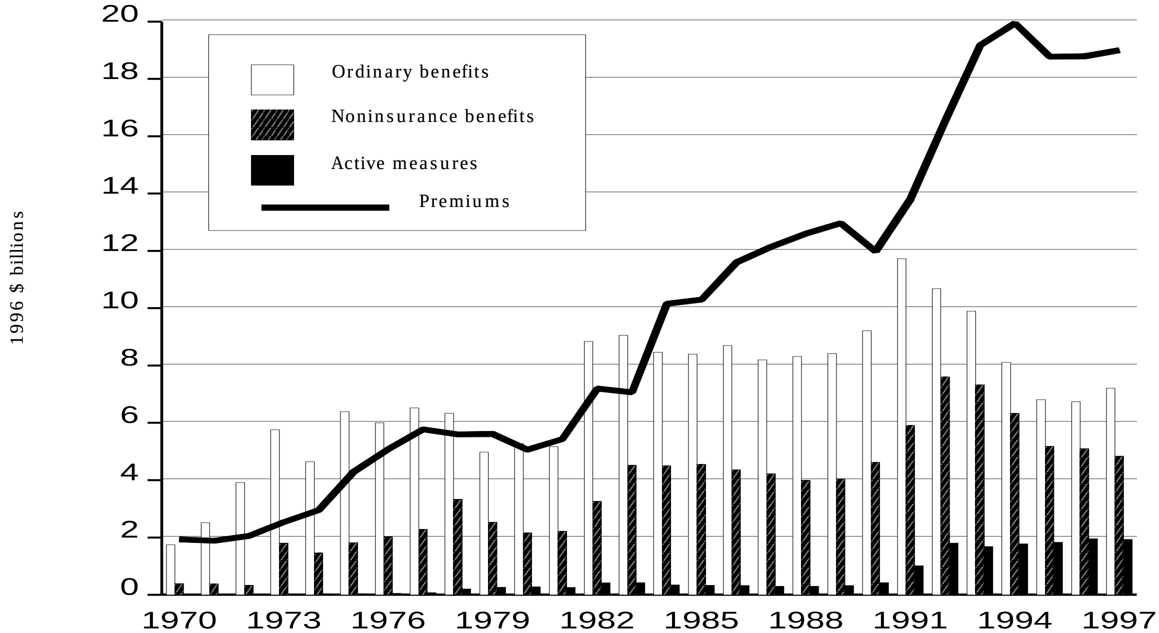
All values are deflated using the GDP deflator from CANSIM on CD-ROM (series D20556).

ally. In addition, $300 million in transitional funding (over three years) will go to regions that will see declines in benefits under the new, more insurance-like system. By fiscal year 2001/02, the budget for premium-funded active labor market policies will stand at $2.7 billion (it is just under $2.0 billion today).

Of this amount, the federal government will continue to spend directly $500 million per year for "individuals who have an active EI claim and participate in active employment measures" and $250 million to "deliver ongoing commitments and pan-Canadian activities funded through the EI account."[6] The rest — just under $2.0 billion annually — will flow to the provinces.

To accomplish this shift, Ottawa has announced it will phase out its present purchases of training, assistance to employers for workplace training, and other federally funded project-based training.[7] In their place, it proposes to negotiate a new set of federal-provincial agreements covering programs in five areas: wage subsidies, earnings supplements, self-

Figure 2: *UI/EI Benefits and Premiums, 1970–97*



Notes: "Noninsurance benefits" include regional, sickness, fishing, and parental benefits. "Ordinary benefits" and "active measures" are as defined in Figure 1.

Sources: See Figure 1.

employment assistance, job creation partnerships, and skills loans and grants.[8]

The transfer of money under these agreements will be subject to a number of conditions. The EI legislation stipulates that, in order for "active measures" to qualify for the money, they must

- *be results based* (ie., help individuals obtain or keep employment);
- *reduce individuals' dependency on government assistance*;
- *promote cooperation and partnership* with other labour market partners, such as other governments, employers and community-based organizations;
- *feature local decision-making*;
- *eliminate unnecessary overlap and duplication*;
- encourage individuals to take *personal responsibility* for getting back to work;
- ensure service to the public in either *official language*, where there is significant demand."[9]

The proposals further provide that "any active measures delivered to EI clients by the Government of Canada or by a province or territory will be reviewed periodically to ensure they are effective and efficient," and there is provision for cancellation of agreements in the event that the results are not being achieved.[10]

Reviewing the Issues

Most Canadians undoubtedly support the objectives summarized in the conditions just quoted. Translating them into effective training programs is likely to be difficult, however, and joint federal-provincial involvement threatens to complicate, rather than simplify, the task.

The principal assumption behind these proposals is that a large, perhaps predominant, part of Canada's unemployment problem results from a skills gap, with many potential workers having skill levels that are too low or badly suited to the labor market.

This assumption is probably valid. Yet, the situation is not new. Skills upgrading has been a feature of both on-the-job and classroom training for decades. If persistent skills gaps are contributing to Canada's recent higher unemployment rates, something must be inhibiting the adapting and upgrading process in a way that is worse now than it was in the past when the unemployment rate was lower. An investigation of what that inhibiting factor might be — starting with on-the-job teaching, and then turning to training for those out of work — suggests that new jointly managed training programs are probably not the best response.

On-the-Job Training

Training is an investment in human capital. Like investments in physical capital, investments in human capital take a variety of forms, one useful distinction being along a spectrum from specific to general.[11] Some skills are applicable only to a specific employer; some are applicable to an entire class of employers; and some are so general as to be applicable to a whole variety of employers.

The type of human capital investment that is clearly best suited to increasing employability is on-the-job training of a kind that yields large increases in an employee's productivity with his or her current employer. Private returns to this type of training are generally considered to be very high — on the order of 20 to 30 percent annually.[12]

As a result, the provision of on-the-job training appears to present no policy problem. To the extent that firms reap the benefits of higher productivity in lower unit labor costs, they are willing to provide the required training at their own expense. More realistically, to the extent that trainees reap a large part of the productivity gain in the form of higher future wages,[13] they can accept lower wages (or more demanding tasks) during the training period, compensating the firm for the investment.

Moving along the spectrum from highly job specific to more general training presents some complications. Employers may be reluctant to invest in generic skills when the training they pay for may disappear with employees who leave to ply their trade elsewhere.[14] If employees are unwilling or unable to compensate firms up front (through lower wages or higher effort during the training period) employers may provide less general training than the society-wide returns from it would warrant.

How serious is this problem? It is hard to say because the distinction between specific and general training is not clear cut: indeed, the two are often bundled together. This bundling is partly a function of the "technology" of training, which rarely permits the ready disentangling of skills by position or the specific–general spectrum.

Bundling is also a matter of incentives. Employers who wish to provide specific training may provide general training along with it if the employees will share in the future returns from the former and will, therefore, hesitate to take their newly acquired general skills elsewhere. Employees, for their part, gain insurance against future opportunistic behavior on the part of the employer if they gain general training that increases their options outside the firm as part of a training bundle.[15] And even general training may give employers useful information about employees that is reflected in immediate compensation, future specific training opportunities, or both, increasing the overall compensation employees get from their current employer and reducing the likelihood of their taking newly acquired skills to another firm.[16]

The considerable amount of outside programs and coursework Canadian employers provide suggests that a sizable quantity of easily transferable skills is being imparted to Canadian employees;[17] for a major part of the workforce, the market for human capital investment in general skills appears to work fairly well.[18]

In some cases, however, employees who need enhancement of general skills may find it impossible to make the necessary bargain with the employer. If their existing skills are very low, the resulting wage may be below the subsistence level; in others, it may be lower than the cutoff point presented by minimum wage laws, collective bargaining agreements, or the prevailing notion of a decent wage. Any of these situations will be exacerbated by payroll and income taxes, which drive a wedge between what employers pay and what employees take home.

In such circumstances, the opportunity for the individual to borrow against future earnings — the normal resort for those seeking to make an investment — is not likely to be available: the collateral involved, always tricky in human capital investments, will not appear attractive to potential investors.

One response to this situation is for government to remove policy-induced barriers to the implicit training bargain. The common practice of legislating a lower minimum wage for young people, for example, responds — albeit less perfectly than no minimum wage at all — to this need. Or, to anticipate the logic of abandoning attempts to establish new federal-provincial programs on an EI premium base, payroll taxes can be reduced.

Alternatively, government can provide a subsidy to the employer, the employee, or both in the form of an earned-income tax credit, a wage subsidy, or a training voucher. Such measures help to fill the gap between what an employer is willing to finance and what an employee is willing to give up in return for training that builds up human capital he or she might be able to use elsewhere.

Either of these courses is desirable for its promotion of the sort of training most likely to be useful for future employability: training on the job, where knowledge of skill requirements and local opportunities is almost certain to be superior to what is available in a government office or a classroom. In situations where even subsidized employment is not available, however (because of a massive collapse in demand for the products of a regional industry, for example, or because of an economy-wide recession), training may need to precede employment, rather than accompany it.

Training the Unemployed

The market for classroom training, like that for on-the-job training, is not homogeneous. It works well in some situations, primarily those in which an individual is acquiring specific, high-level skills that can confidently be predicted to produce future high earners. Lenders find such people attractive credit risks. Many young medical specialists, for example, enter the job market with large student debts. The growth in private financing for executive MBA programs provides another example.

Students in such specific training programs find it fairly easy to borrow in private markets because their likelihood of finding employment in their given field is easy to assess. Training in more general skills, on the other hand, produces results more dependent on individual characteristics that participation in the program does not screen well. General postsecondary and high school graduates, for instance, have more varied employment records than graduates in dentistry. When the individual's future earnings are more uncertain, it may be hard to finance the acquisition of the skills.

Public funding of secondary education past school-leaving age and extensive public subsidies to postsecondary education respond to this difficulty. As the vast variety of public subsidies to education around the world reveals, however, governments can provide this support in a large number of ways. They can run schools directly. They can give per student grants to the institutions themselves. Or they can provide direct subsidies to students through tax credits, vouchers, or income contingent loans.[19]

Spillovers and Incentives to Underinvest

When it comes to choosing which level of government should provide training (or money for training), some people argue that higher is better. Their reasoning is similar to that already outlined in regard to on-the-job general training: if the trainee cannot be compensated by the provider for the cost of training — the apparent situation in cases of government provision or subsidization — there is an incentive to underprovide out of fear that, once trained, the recipient will leave for another jurisdiction. Therefore, the argument goes, the smaller the jurisdiction, the worse the undersupply problem will be, so the federal government ought to provide the training.[20]

While the logic of this position is clear, it is only one part of a much more complex story. Public schools, for example, were traditionally (and still are largely) locally financed and governed. If spillovers were of major importance in determining patterns of training, one would expect locally financed and governed institutions to provide education tilted strongly toward special local desires and conditions. Yet the bulk of publicly provided or subsidized education in Canada is general in nature — even at the postsecondary level, where the mobility-related argument against such spending is strongest, where tied grants from Ottawa disappeared two decades ago, and where the level of subsidy is generally considered higher than the social returns to the public investment justify.[21]

One reason spillovers may shape education and training efforts less than the theory suggests is that local and provincial governments are in a position analogous to that of employers' being compensated (through taxes) for providing a bundle of general and specific human capital of the kind that, say, parents and neighbors of school-age children want. If generally applicable skills are what parents and neighbors or employees want most, that is what they will be willing to pay the most — in taxes or forgone wages — to get.

The benefit, moreover, may go beyond the skills themselves. Just as a good primary school attracts motivated, well-educated parents to a neighborhood, a successful training institute not only produces quality graduates, but may also attract industries that hire them, use its research, and possibly subsidize its teachers. Such facilities may generate enough positive spinoffs for the community to reduce or offset entirely disincentives to training that are related to fears of outmigration.

An additional consideration is that provinces are entities large enough to internalize the bulk of any negative spillovers once the benefits are taken into account. Provinces cannot, of course, do much about individuals who take their training to other provinces. But only about 1.2 percent of Canadians move interprovincially each year, and only about half of them change jobs,[22] so the residual disincentives to train may be quite small.[23]

Revealingly, additional provincial disincentives to provide general training — the core of economic argument for federal involvement in this area — does not figure anywhere in the documentation surrounding the EI reform.

Lessons from the Past

This brief survey suggests two propositions. First, training, especially in basic skills, may be undersupplied by employers and, more certainly, may be inaccessible for many of the unemployed. Second, though tentatively, higher levels of government are the appropriate providers or subsidizers of training. All the problems involved are of uncertain size, however, and owe at least something to other policies — taxes or restrictive employment legislation, for example — that could be improved separately. To borrow the words of Gunderson and Riddell, we have only an "uneasy case" for government involvement in training.[24]

The Record

If the case for intervention is not overwhelmingly strong, it stands to reason that the efficacy of the tools proposed for the intervention needs a close look. It is common to suggest government action to offset failures in the market. It is also common to suggest federal government action to offset failures of local and regional governments. If worse failures emerge in the process, however, the solution will be more damaging than the problem. What can be said about governments' records in active labor market policy?

Ottawa's Record

An outward symptom of a rather disappointing record is Ottawa's constant and confusing changing and relabeling of its federal labor-related programs over the past decade (the Canadian Jobs Strategy, the National Employment Service, the Labour Force Development Strategy, Employment Programs and Services, and the Employability Improvement Program are only the highest-level examples of a veritable alphabet soup of institutions). As Fred Lazar observes, the spending of tens of billions of dollars on training programs since the early 1980s has been accompanied by a steady upward trend in the low points recorded in the national unemployment rate during each boom and — more recently and very discouragingly — an increase in the average spell of unemployment, indicating slower market adjustment.[25]

A 1988 parliamentary review of the Canadian Jobs Strategy, for example, criticized it for duplicating income support programs that were already in place in the form of UI and welfare.[26] Subsequent adjustments to the program appear to have been unsuccessful in enhancing the employability of beneficiaries and were often merely temporary job creation measures.[27]

Training appears to have had a negligible effect on the likelihood of an individual's resorting to future use of UI,[28] and — although the direction of cause and effect is not clear — a recent analysis of small and medium-sized enterprises in Canada finds that training is one of two categories of government programs negatively correlated with prospects for success.[29]

Even the apparently straightforward effort to match job seekers and potential employers through the National Employment Service had only patchy success.[30] Federal forecasting of labor shortages has been "notoriously error prone," with the result that many workers have been trained for jobs where labor surpluses exist.[31]

A more current evaluation of Ottawa's training programs suggests how intractable the problems of such programs are. The most recent internal evaluation of three federal programs under the Employability Improvement Program umbrella appears to show some marginal improvements in recipients' work time and reductions in their periods of UI and welfare receipt following the programs. In direct contradiction of any notion that participants' human capital was enhanced, however, it also shows a substantial decline in post-program wages.[32] This decline is evident even though the programs seem to reflect creaming effects — that is, they attracted participants most likely to succeed, many of whom might have prospered without government involvement.[33] (Certainly, the evaluation suffers from the lack of a control group of individuals as interested in accessing the programs as those who actually went through them.)

Further evidence of failure comes from a recent evaluation of the Self-Employment Assistance Program, which reports that more than half of its participants would have started a business without the subsidy, that just under half of those rejected went on to establish their own business anyway, and finally that those who established a business without the subsidy had a higher success rate than those who received the subsidy.[34]

Given the natural bias of governments to publish only successful results, one can reasonably infer from the relative dearth of information on program outcomes that most training does not yield measurable improvements by comparison with what could have been expected had the same group of people not received it. As an unnamed official recently remarked, "training is the most expensive and least efficient thing we do."[35]

The Record for Joint Programs

This assessment applies equally to joint federal-provincial programs. The NB Works program, whose expensive price tag is cost-shared between the federal Department of Human Resources Development and two New Brunswick departments (Advanced Education and Labour, and Human Resources and Development) has had an initial retention rate of just over 30 percent — even though participants are chosen not at random but on their potential for success in the program.[36]

While firm conclusions about the effectiveness of the Self-Sufficiency Project being piloted in both New Brunswick and British Columbia are not yet possible, the early signs are poor. It had a low initial take-up rate (26 percent after six months) and will cost $5,000 to $6,000 per participant, net of reduced social assistance transfers and assumed reductions in administrative costs, by the end of its three-year period.[37]

The Provincial Record

The provincial record also testifies to the difficulty of designing good training programs. An oblique testimony to that difficulty is the fact that published evaluations of province-only programs are few and far between. Nevertheless, the information available provides some useful hints. A recent evaluation of public employment programs in British Columbia finds that, in their aftermath, participants earned wages no higher than a control group but were more likely to depend on public transfers during and after. Classroom training programs in British Columbia during the 1980s yielded no improvement in subsequent wages and an increase in transfer dependency. A study from the late 1980s and early 1990s finds that reductions in transfer dependency were predominantly among participants in technical/vocation courses, rather than more general education.[38]

In Quebec, internal evaluations of both the Programme d'aide à l'intégration en emploi (PAIE) and Expérience du travail (EXTRA) imply that the programs were successful.[39] Their voluntary nature suggests, however, that reported success rates were largely due to creaming.[40] Both programs were recently canceled.

As for the much-vaunted JobsOntario program, among other criticisms, the provincial auditor noted

> inadequate assessments of needs, a lack of consideration of alternatives for grant applicants and funding for ineligible project components; inadequate procedures for verifying actual costs to ensure project costs and consequent grants are reasonable; and significant amounts paid to grant recipients long before project expenses were incurred.[41]

Alberta's early 1993 integration of welfare with other labor market programs, by contrast, seems to have helped its caseload drop by more than half over three years.[42] Referring first-time welfare applicants to alternative programs (primarily job placement programs and postsecondary education through student loans) played a role in the reduction of welfare caseloads.

Summary

This record of actual attempts to deal with skills gaps through government intervention is uninspiring. One can start by observing that actual program design and implementation do not seem to respond well to the theoretical justification for government involvement in training.

Program designers and recipients have tended to prefer technically specific training,[43] despite the stronger case for intervention to supply general skills. The EI reforms, like previous initiatives, do not appear to be motivated by underprovision of general skills training.

Moreover, small-scale programs closely tied to local employers appear most effective,[44] despite the theoretical case for generic skills supplied at a higher level. A recent review of federal program evaluations reinforces the notion that subsidizing employer-based training is most likely to succeed, with programs for the unemployed typically leading to a greater number of hours worked but declines or no changes in wages.[45] In one series of interviews, participants in programs oriented to the labor market indicated that industry-specific information is of greater value to them than general upgrading programs, such as job search techniques, personal development, and basic skills improvement.[46]

One can go on to observe that governments do not appear effective in delivering training in any form. This poor record is not particularly Canadian. A recent wide-ranging examination of US training programs comes to the same conclusion.[47]

Those rare exceptions appear to be the result of low levels of governments' integrating existing program areas (such as welfare, education, and active labor market measures) or high levels of governments' providing financing for the private delivery of programs.

Efficacy, Accountability, and Integration

In general, then, the size of the problem to be addressed by active labor policies is a matter of some doubt, while the record of actual programs tried is poor.

This combination of conclusions is cautionary. It suggests that the margin for error in designing active labor market policies is small. At least as important as initial design, moreover, is the ability to adapt as information about program performance becomes available — in other words, there must be effective accountability. And, as countless commentators on such programs have remarked, active labor market policies must be designed so as to be complementary with (or at least not work at odds to) other programs with related objectives, most notably in welfare and education.

If this judgment is right, then joint federal-provincial programs look like a poor vehicle for training assistance. The barriers that joint governance puts in the way of effective program design have been a subject of pointed commentary for years.[48] The risk that joint jurisdiction will steer money toward favored individuals or institutions in a way that a more transparent system would not is also highlighted by experience.[49] Ottawa itself emphasizes the importance of local ties in both the EI proposals and its own program evaluations, raising the question of why it is involved at all.

The joint-management model is also open to criticism for lack of adaptability. For a good example of the ways in which shared-jurisdiction programs inhibit reform, consider the old CAP. Because it barred provinces from linking welfare to other programs, experiments such as Alberta's early 1993 integration of welfare with other labor market programs became possible only when the "cap on CAP" removed federal penalties.

As for integration, the obvious links between welfare and education policies and training (especially in general skills), point to provincial control. A different category of spillover effects from those discussed earlier points in the same direction. If inadequate primary and secondary education is contributing to the emergence of today's skills gaps[50] — as their greater prevalence among young people with no postsecondary education suggests — it makes no sense for the federal government to step in and shield the provinces from the impact of their systems' failures. The integration of training with education, welfare, and regulatory programs affecting labor will be more effective if provinces take fuller account of both the costs and the benefits of their policies in all these fields together.

Disentanglement

The principal thrust of the discussion so far is that, to the extent that deficiencies in private and provincial or local provision of training in generic skills are hurting the employment prospects of many Canadians, new joint federal-provincial programs are an ill-advised approach to the problem. As Gunderson and Riddell say,

> [j]urisdictional splits between the federal and provincial governments over responsibility for training have led to endless wrangling and blame-shifting in this area, highlighting that divided or ill-defined responsibility often leads to no responsibility.[51]

A more effective, less intrusive, and less expensive approach would be to remove the policy-induced rigidities in labor markets — administrative and tax-related barriers to hiring — that are highly damaging to short-term adjustment and long-term growth.[52] Such action would address spillover problems, since

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these rigidities have negative effects beyond the immediate sphere of the government that imposes them (as when excessive provincial minimum wages raise federal UI payments). Appealingly, in view of the above criticisms of initiatives involving more than one level of government at once, removing barriers involves no intergovernmental cooperation.

Thus, for active labor market measures now supported by EI premiums, three conclusions emerge:

1. Ottawa should abandon its effort to establish a major new set of federal-provincial transfers in active labor market programs. Joint jurisdiction is unlikely to improve the difficult task of designing training programs. To the extent that Canada needs federal subsidies to offset disincentives for employers and subnational governments to train — a need whose size, if not existence, we are cautious about — education- and training-related tax credits, loans, or vouchers are the appropriate vehicles. Indeed, the original federal proposals for skills loans and grants appeared to envision transfers to individuals.[53] The subsequent modification to a shared-jurisdiction model is a backward step. Other interventions are appropriately carried out and funded by provincial and local governments; Ottawa should cut its spending in these areas.

2. Ottawa should stop collecting EI premiums to fund federal training programs. If the federal government ends its presence in active labor market policies, this proposal would leave its overall budgetary position unaffected. If it does not — that is, if it establishes the tax credits just mentioned or maintains other measures to which we are less sympathetic — then it should find room to finance them elsewhere in the federal budget. (Eliminating all active labor market measures would leave some room in the consolidated revenue fund for these initiatives.[54]) It is offensive to accountability for EI premiums to be a dedicated payroll tax for the Department of Human Resources Development.

3. The resulting payroll tax room should be left open to the provinces. Some may wish to occupy it, adopting payroll, income, or other taxes sufficient to fund their education and training programs up to the level that EI might have provided. Such additional taxes would enter the equalization formula, which could blunt the switch's impact on less fiscally robust provinces.[55]

As we indicated in Figures 1 and 2, the amounts of money involved in such changes would be significant. Even if Ottawa continued to run a large annual surplus in the EI Account, its cessation of active measures would free $2.8 billion.[56] In other words, the payroll tax could drop from the current combined employee-employer rate of 6.96 percent of covered earnings to, say, 6.00 percent of covered earnings.[57]

If the provinces left some of this additional tax room unoccupied (as seems likely in the current fiscal climate), the resulting tax break would represent a significant transfer of resources to the private sector, which would improve the labor market prospects for lower-skilled workers. If, however, the provinces occupied the tax room to boost their own education and training programs, Canadians would likely see improvements in service relative to the tangled prospect under the EI reforms.

Either alternative would ease Canada's federal-provincial tensions. And either would leave the average Canadian a winner.

Notes

1 Quebec Liberal Party, Constitutional Committee, *A Quebec Free to Choose*, chaired by Jean Allaire (Quebec, January 28, 1994).

2 Western Premiers' Conference, *Communiqué*, June 1996; Group of 22, *Making Canada Work Better* ([Toronto], 1995).

3 See A. Bernstein and M.J. Trebilcock, *Labor Market Training and Retraining* (Toronto: Centre for the Study of State and Market, 1996), p. 104, and sources cited there.

4 As a tax, UI premiums are of dubious legality in at least one sense. Provincial governments make contributions on behalf of their own employees on the grounds that the payments are social insurance premiums against unemployment. If, however, the premiums are a tax levied for a variety of noninsurance purposes, they violate the constitutional principle that the Crown does not tax the Crown.

5 See A. Nakamura, *Employment Insurance: A Framework for Real Reform*, C.D. Howe Commentary 85 (Toronto: C.D. Howe Institute, October 1996) for a favorable review of this aspect of the changes.

6 Canada, Department of Human Resources Development, "Getting Canadians Back to Work: A Proposal to Provinces and Territories for a New Partnership in the Labor Market," Backgrounder, http://www/hrdc-drhc.gc.ca/hrdc/initiatv/eilaunch/prop96_e.html, September 19, 1996, p. 1. Section 59 of *An Act Respecting Employment Insurance in Canada* enables the UI commission to establish programs on its own, in addition to the programs that will be jointly managed with the provinces (see section 57(2)).

7 About $1 billion in expenditures by Human Resources Development Canada (HDRC) on these programs does not now fall under UI. Their elimination will presumably make up a substantial portion of the nearly $900 million reduction in departmental spending that HRDC is scheduled to make as part of the federal program review.

8 Canada, Department of Human Resources Development, "Bill C-12: Canada's New Employment Insurance System," Backgrounder, http://www/hrdc-drhc.gc.ca/hrdc/ei/newsrele/9665b_e.html, September 19, 1996, p. 2.

9 Canada, Department of Human Resources Development, "Getting Canadians Back to Work," p. 2, emphasis in original.

10 Ibid., pp. 2, 4.

11 This distinction, widely credited to Gary Becker, is developed in his book *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education* (New York: National Bureau of Economic Research, 1964).

12 See Canada, Department of Employment and Immigration, Program Education Branch, Strategic Policy and Planning, *Evaluation of the Canada Manpower Industrial Training Program* (Ottawa: Supply and Services Canada, 1981); Abt Associates, *Evaluation of the Critical Trade Skills Training Program: Final Report* (Ottawa: Supply and Services Canada, 1985); and D. Hum and H. Simpson, "A Response to Richard A. Holmes," in D. Hum and H. Simpson, *Maintaining a Competitive Workforce: Employer-Based Training in the Canadian Economy* (Montreal: Institute for Research on Public Policy, 1996), p. 101.

13 See Hum and Simpson, *Maintaining a Competitive Work Forc*e, pp. 28–29, and sources cited there, especially J. Barron, D. Black, and M. Loewenstein, "Job Matching and On-the-Job Training," *Journal of Labor Economics* 1 (January 1989): 1–19.

14 Estimates of the importance of poaching vary widely. In a survey conducted by the Ontario Premier's Council (*People Skills in the New Global Economy* [Toronto: Queen's Printer for Ontario, 1990]) in the late 1980s, 41 percent of firms reported that poaching was a serious problem, but a survey for the Economic Council of Canada (*Employment in the Service Economy* [Ottawa: Supply and Services Canada, 1991]) estimated the figure at about 1 percent. See also G. Betcherman, "Research Gaps Facing Training Policy Makers," *Canadian Public Policy* 19 (March 1993): 18–27.

15 See H. Glick and M. Feuer, "Employer-Sponsored Training and the Governance of Specific Human Capital Investments," *Quarterly Review of Economics and Business* 24 (Summer 1984): 91–103.

16 E. Katz and A. Ziderman, "Investing in General Training: The Role of Information and Labor Mobility," *The Economic Journal* 100 (December 1990): 1147–1158, cited in Hum and Simpson, *Maintaining a Competitive Workforce*.

17 In 1991, about 30 percent of employees took employer-supported training that consisted of "programs or courses." See C. Kapsalis, "Employee Training in Canada: Reassessing the Evidence," *Canadian Business Economics*, Summer 1993, pp. 3–11.

18 In ibid, p. 3, Kapsalis concludes from the 1991 Adult Education and Training Survey that "there is little justification for concluding that Canadian employers do less training than those in other countries" and "the vast majority of employees do not perceive that they face a serious training accessibility problem." S. Easton ("Series Editor's Introduction," in Hum and Simpson, *Maintaining a Competitive Work Forc*e, p. 9) points out that only 7 percent of Canadian employees say they are unable to get needed training because of cost or unavailability of courses and observes "it does not appear that workers feel themselves to any urgent degree to be undertrained." For a contrary view, see G. Betcherman, "Are Canadian Firms Underinvesting in Training?" *Canadian Business Economics*, Fall 1992, pp. 25–33.

19 Private returns to investments in human capital are large enough to make income contingent loan schemes attractive. Employment rates and salaries of those with more education are much better than for those with less. In Canada, employment for university graduates rose by about 25 percent from 1990 to 1994, in contrast to stagnation or decline in jobs for those with a high school education or less. Furthermore, salaries for college- and university-educated individuals are, respectively, 112 and 160 percent higher than those for high school graduates (Statistics Canada, *Labour Force Annual Averages, 1989–1994*, cat. 71-529, table 5; and idem, *Labour Force Information*, cat. 71-001, table 5 [Ottawa, 1995]).

20 R.W. Boadway, *Intergovernmental Transfers in Canada* (Toronto: Canadian Tax Foundation, 1980).

21 C. Constantatos and E. West ("Measuring Returns from Education: Some Neglected Factors," *Canadian Public Policy* 17 [2, 1991]: 127–138) calculate that the social return to spending on postsecondary education is 7.32 percent, lower than the returns to spending on high schools (9.10 percent), and probably lower than the marginal return to investments in physical capital.

22 Economic Council of Canada, *A Joint Venture, The Economics of Constitutional Options*, 28th Annual Review (Ottawa: Supply and Services Canada, 1991), p. 42.

23 Daniel Schwanen has suggested that, for students who relocate following their studies, the federal government redirect provincial income tax to the providing province until it covers the subsidy for postsecondary education. See D. Schwanen, *Drawing on Our Inner Strength: Canada's Economic Citizenship in an Era of Evolving Federalism*, C.D. Howe Institute Commentary 82 (Toronto: C.D. Howe Institute, June 1996).

24 M. Gunderson and C. Riddell, "Training in Canada" (paper presented to a conference on "Labor Market Policy in Canada and Latin America under Economic Integration," Toronto, University of Toronto, December 7–8, 1995), p. 13.

25 F. Lazar, *How Ottawa Rewards Mediocrity* (Toronto: University of Toronto, Centre for Public Management, 1996), p. 89.

26 See Canada, House of Commons, Standing Committee on Labor, Employment and Immigration, *A Review of the Canadian Jobs Strategy* (Ottawa: Supply and Services Canada, 1988). See also Economic Council of Canada, *Adjustment Policies for Trade-Sensitive Industries* (Ottawa, 1988).

27 Canada, Department of Employment and Immigration, Strategic Policy and Planning, "Program Evaluation Report — Canadian Jobs Strategy Evaluation Outcomes: Lessons Learned" (Ottawa, June 1992), mimeographed.

28 M. Corak, "Unemployment Insurance Once Again: The Incidence of Repeat Participation in the Canadian UI Program," *Canadian Public Policy* 19 (2, 1993): 170.

29 J. Baldwin, *Strategies for Success: A Profile of Growing Small and Medium-Sized Enterprises in Canada*, cat. 61-523RE (Ottawa: Statistics Canada, 1994), p. 64.

30 Organisation for Economic Co-operation and Development, *Employment Outlook 1993* (Paris: OECD: 1993), p. 55.

31 M. Trebilcock and R. Daniels, "Choice of Policy Instruments in the Provision of Public Infrastructure," in J. Mintz and R. Preston, eds., *Infrastructure and Competitiveness* (Kingston, Ont.: John Deutsch Institute for the Study of Economic Policy, 1993), p. 421.

32 Canada, Department of Human Resources Development, Evaluation and Data Development, Strategic Policy, *Evaluation of the Employability Improvement Program, Final Report* (Ottawa, 1995).

33 K. Anderson et al., "The Effect of Creaming on Placement Rates under JTPA," *Industrial and Labor Relations Review* 46 (July 1993): 613–624.

34 F. Graves and B. Gauthier, *Evaluation of the Self-Employment Assistance Program* (Ottawa: Ekos Research Associates, 1996).

35 Reported in E. Greenspoon, "Axworthy loses faith in jobs training," *Globe and Mail* (Toronto), July 28, 1995, pp. A1, A6.

36 R. Howse, *Workfare: Theory, Evidence and Policy Design* (Toronto: Centre for the Study of State and Market, 1996). The conclusions are based on M.A. Milne, "The New Brunswick Experience: A Movement towards Workfare" (Toronto: University of Toronto, Policy and Economic Analysis Program, 1994); and Baseline/Norpark Evaluation Consortium, *NB Works Process Evaluation Report* (Fredericton, 1995).

37 Social Research and Demonstration Corporation, *When Work Pays Better than Welfare: A Summary of the Self-Sufficiency Project's Implementation, Focus Group, and Initial 18 Month Impact Reports* (Ottawa, March 1996). The long-term costs or savings will depend on

whether individuals move into the workforce without wage subsidies and stay off welfare.

38 The BC experience is discussed in W. Warburton, *Routes to Independence: The Effectiveness of Employment and Training Programs for Income Assistance Recipients in British Columbia* (Victoria: Ministry of Social Services, 1992), pp. 19–21, 31–40.

39 Reported in E.B. Reynolds, "Subsidized Employment Programs and Welfare Reform," in A. Sayeed, ed., *Workfare: Does It Work? Is It Fair?* (Montreal: Institute for Research on Public Policy, 1995).

40 Even with voluntary enrollment, nonparticipants were used as the "control group." Howse, "Workfare," p. 22.

41 Ontario, Provincial Auditor, *1995 Annual Report*, Chapter 3.05, http://www.gov.on.ca/opa/305.html, November 26, 1996, p. 2.

42 See K.J. Boessenkool, *Back to Work: Learning from the Alberta Welfare Experiment*, C.D. Howe Institute Commentary, forthcoming.

43 T. Benjamin, "The Labour Market Information Needs of Youth on Income Assistance," report commissioned by the British Columbia Ministry of Education, Skills and Training, http://www.island.net/~tbenjami/moest.html (October 1996), p. 4.

44 W.C. Riddell, "Human Capital Formation in Canada: Recent Developments and Responses," in K.C. Banting and C.V. Beach, eds., *Labour Market polarization and Social Policy Reform* (Kingston, Ont.: Queen's University, School of Policy Studies, 1995).

45 Ibid.

46 Benjamin, "The Labour Market Information Needs of Youth."

47 R.J. LaLond, "The Promise of Public Sector-Sponsored Training Programs," *Journal of Economic Perspectives* 9 (Spring 1995): 166.

48 The classic reference is D.J. Savoie, *Federal-Provincial Collaboration: The Canada-New Brunswick General Development Agreement* (Montreal: McGill-Queens University Press, 1981). The author concludes (p. 160): "The government of New Brunswick can no longer point to a single policy area for which it is unambiguously and solely responsible." Almost two decades later, the situation has not changed: the fiscal year 1992/93 New Brunswick accounts show that only the provincial legislative assembly, liquor corporation, and the comptroller's office did not rely on some form of conditional grants from Ottawa (New Brunswick, *Main Estimates, 1992-93*, section C [Fredericton]). The Department of Economic Development and Tourism does not list such grants, but a separate, related entity, the Regional Development Corporation, receives all its revenues from Ottawa. Similarly, the 1996 Newfoundland and Labrador estimates revealed only two provincial departments — one of them the legislature — with no federal revenue in their funding (Newfoundland and Labrador, *Estimates 1996* [St. John's, May 16, 1996]).

For a critical account of the effects of this dependency on development in the Atlantic provinces, see F. McMahon, *Looking a Gift Horse in the Mouth: The Impact of Federal Transfers on Atlantic Canada* (Halifax, NS: Atlantic Institute for Market Studies, 1996).

49 For a detailed account of problems along these lines under a previous joint training program established by the federal *Adult Occupational Training Act* in 1967 — one that steered money toward favored (generally public sector) institutions, rather than according to the merits of the programs on offer — see J.S. Dupré et al., *Federalism and Policy Development: The Case of Adult Occupational Training in Ontario* (Toronto: University of Toronto Press, 1973), pp. 189–192, 226–227.

50 Riddell, "Human Capital Formation in Canada," concludes that "Canadians do not receive good value from their substantial investment in primary and secondary education" (p. 165).

51 Gunderson and Riddell, "Training in Canada," p. 16.

52 See, for example, R.G. Lipsey, *Economic Growth, Technological Change, and Canadian Economic Policy, Benefactors Lecture, 1996 (Toronto: C.D. Howe Institute, 1996).*

53 *Canada, Department of Human Resources Development, "Bill C-12: Canada's New Employment Insurance System," p. 2.*

54 *See note 7.*

55 *The excess in the consolidated revenue fund could also be used to finance the increase in equalization that would be required if all provinces were to use the available tax room vacated by the federal government and existing caps on equalization were relaxed sufficiently to allow the resulting increase in the equalization base to push up payouts. Preliminary calculations suggest this amount would be about $170 million.*

56 *Ottawa is currently aiming to build up a reserve fund in the EI Account large enough to avoid the need for a premium increase in the next economic downturn. No formal target has been set, but an amount of some $12 billion appears to be contemplated. A slimmed-down EI program would require a smaller reserve, allowing premiums to be cut either further or faster. Doing so would leave a hole in Ottawa's bottom line, however, and since suggesting other adjustments in the federal budget sufficient to keep the government's deficit targets intact is beyond the scope of this Commentary,* we limit our discussion to the savings related to winding up the active labor market measures in the program.

57 Many commentators suggest returning EI to an insurance-only system. We cannot resist pointing out, therefore, that eliminating all other noninsurance spending could reduce the EI payroll tax to 4.65 percent, cutting EI payroll taxes almost in half (even if the surplus in the account continues).