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The Training Wheels Are Off: A Closer Look at the Canada Job Grant

by

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June 2013

MOWAT

School of Public Policy & Governance
UNIVERSITY OF TORONTO

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ISBN 1-55382-582-9

Published by:

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Executive Summary

In its March 2013 Budget, the federal government proposed a new employment skills training program called the Canada Job Grant. The new program would provide cash grants of up to $15,000 for training sponsored by employers. Its purpose would be to train unemployed and underemployed Canadians for available jobs. The federal government would fund one-third of the cost, with equal shares coming from the provincial or territorial governments and employers.

The new program would be financed by cutting $300 million annually (60 percent of today's $500 million total) out of federal funding to provinces and territories under the federal-provincial Labour Market Agreements. These agreements were first negotiated between the federal and each provincial and territorial government in 2007 to provide funding for employment training services for unemployed Canadians not eligible for Employment Insurance. The existing Labour Market Agreements largely serve the most vulnerable workers. This cut will force provinces to either cut services or increase spending to replace federal funds.

The proposed federal program would put further pressure on provincial budgets by requiring them to come up with new funding – a further $300 million – to match federal contributions. Significant administrative costs would likewise be expected to be borne by provinces to facilitate the implementation of the new program.

Provinces have practical and jurisdictional responsibility for labour market training. The Labour Market Agreements confirmed the 20-year drive in Canada to devolve training programs from Ottawa. Provincial governments are widely acknowledged – including by the federal government mere months ago – as better placed to design and deliver labour market programs. Without any published evidence, the federal government is suggesting a full U-turn, undertaken through a unilateral announcement with no warning or consultation with provinces.

Beyond the intergovernmental issues and the impact on provincial budgets, the proposed Canada Job Grant is deeply flawed public policy. The program is likely to deliver inferior results at higher costs compared to the programs under the current Labour Market Agreements that it would displace. It would remain out of reach to many of the unemployed and underemployed Canadians it is intended to serve. It would also be unlikely to address the needs of those employers and sectors unable to hire the skilled workers they need. The provinces are understandably reluctant to sign on under terms like these.

It is not clear what would happen if a province refuses to participate in the proposed federal program. Would the federal government offer the training funds only to workers in provinces that choose to participate and match federal spending? If so, it would represent an unprecedented and aggressive act by the federal government to hold unemployed and underemployed Canadians hostage to a federal-provincial dispute.

If this were allowed to proceed, it would mean that the federal government was offering a national program in some provinces only, which would be all the more remarkable given that this federal program would be funded by cutting transfers to all of the provinces.

This conflict, initiated by the federal government, was entirely avoidable. Addressing the labour market mismatch between skills and opportunities had high potential for national consensus. The Prime Minister and Canada's premiers have each spoken publicly about the need to address the issue. It is not too late for that conversation. The federal government should abandon its proposal for a Canada Job Grant funded out of Labour Market Agreements and instead work with the provincial and territorial governments to develop a pan-Canadian approach to meet Canada's need for skilled workers.

The Training Wheels Are Off: A Closer Look at the Canada Job Grant

The 2013 Budget announced the creation of a new program called the Canada Job Grant, slated to begin in April 2014. According to the federal government, the new program is meant to address a 'skills mismatch' in Canada where some workers go without jobs and some jobs go without workers because the available workers do not have the necessary skills to fill the available jobs.

The Canada Job Grant would provide cash grants for short-duration training sponsored by employers at eligible institutions, to train unemployed and underemployed Canadians for available jobs. At first glance, the proposal seems straightforward enough: At a total cost of $900 million, the Canada Job Grant proposes to pay up to $15,000 per trainee. Of this $900 million, the federal government will pay one-third – provided that each of the sponsoring employer and province or territory contribute matching funds. Since employers will presumably invest their funds in training only when they really need a skilled worker for a hard-to-fill job, the new program might appear, at first glance, to be a reasonable approach to the current mismatch.

But appearances are misleading: As we dig deeper it becomes clear that the Canada Job Grant is a flawed proposal that should be abandoned before it begins. Instead, the federal government should work with the provincial and territorial governments to develop a true pan-Canadian approach to meet the country's human capital needs, which would include the "skills mismatch" identified by the federal government, along with other pressing human capital issues.

This paper first explains why the Canada Job Grant is poor public policy and is unlikely to achieve the federal government's policy objectives. It then explores the financial issues related to the proposal and concludes by discussing the intergovernmental and jurisdictional challenges posed by the initiative.

Our analysis is in some places speculative because little is known about the federal proposal. Despite federal television ads urging Canadians to find out more about the Canada Job Grant, there is no more information to be found beyond the announcement in the Budget and a single-page press release repeating the information from the Budget.

Looking Closer at the Proposal

Were the Canada Job Grant to get off the ground (which, as we shall discuss later, is not likely), would it be an efficient and effective program to help Canadians get the skills they need for available jobs? It appears that the fundamentals of the program are not well designed to achieve this worthwhile policy objective.

The federal government has released almost no details on its plans for the Canada Job Grant and no study or analysis to support the scheme. But based on what we do know, there are solid reasons to expect poor outcomes and unnecessary spending if the program goes forward.

Employers can be loosely described as falling into two camps – those who already invest in skills training to meet their needs and those who do not. For the first group – that have a commitment to training and are now financing at least part of the cost – the Canada Job Grant would be a windfall opportunity for employers to subsidize training they already provide. The first dollars of government money would therefore be used to offset existing employer spending on training.

This displacement effect is a well-understood phenomenon for subsidy programs. It means that a portion of the government money will have no effect on the amount of training because it would just be paying for training that would have been provided anyway without the Canada Job Grant. We do not know how much of the cost will be merely savings for employers that already provide training. But whatever the amount, this is money will add nothing to the availability of training today or connect more unemployed Canadians with available jobs – the stated objective of the federal government.

For employers that are not currently active in training, will the financial incentive of the Canada Job Grant be enough to persuade them to develop training programs and hire new under-trained workers? While matching funds might help offset costs for employers, there are other obstacles at least as big as money.

Many businesses, especially small and medium-sized ones, do not have the human resource, planning and administrative capacity to organize or participate in a training program. Small, medium or large, Canadian employers have among the lowest expenditures on in-work training of any developed country [Canada Council on Learning 2007: 2]. The federal government has provided no evidence that Canadian businesses, which so far have shown little interest in training, will come up with $300 million annually as their share of the Canada Job Grant.

Employees working for small- and medium-sized enterprises would especially be at risk of being left behind by this new program. Training programs are much more common in large than small enterprises [Desjardins 2011]. Lower participation from smaller employers means that the Canada Job Grant – even under the best of circumstances – will have limited reach. One-quarter of Canadian private sector workers are in businesses with fewer than 20 employees. In a business with 20 or fewer employees, managers usually do their own hiring, and the bookkeeper who processes the payroll is often the 'human resources department.' It will be the rare small business where someone has the time, knowledge and experience to initiate and design a training program to access a Canada Job Grant.

Whether businesses spend much on training is closely related to organizational culture and capacity. In fact, the sectors which invest most heavily in training do not always line up well with those which the federal government sees as lacking in skilled workers. For example, in areas such as skilled trades, transport and mining, employers have shown little interest in investing in training, while in other sectors with high vacancies – like science-related occupations – employers do provide a good deal of training [Desjardins 2011]. These cultural and capacity differences are unlikely to be overcome by a passive grant program paying out matching funds.

It should also be noted that the federal government is telling only half the truth when it claims that the Canada Job Grant will "put training decision in the hands of employers and workers" [Office of the Prime Minister 2013]. Since employers' money must be on the table to trigger government funding, the individual worker has no opportunity to access training without the support of an employer. Workers seeking training to improve their job prospects may be entirely shut out if their current or prospective employer has no interest – or ability – to participate in the program. A worker could undoubtedly refuse to accept training (and suffer the consequences), but the program puts the ultimate decision on what type of training is available solely into the hands of employers.

In spite of these apparent obstacles, the federal government has high expectations for the Canada Job Grant – forecasting that "nearly 130,000 Canadians each year will have access to the training they need to find work or improve their skills" [Office of the Prime Minister 2013]. There is no evidence or analysis available to the public to support this claim. Not only would achieving that goal require supportive decisions by employers, it also would require provincial cooperation. This is unlikely to materialize in many provinces or territories (hereafter "provinces" in this paper). Quebec has already said that it will not participate and other provinces, including Manitoba, Ontario and Nova Scotia, have voiced strong objections.

It should not be lost on readers that these provinces are amongst those with the most challenging budget situations. It would indeed be perverse – and it is therefore hard to imagine – if the federal government proceeded to fund training programs in only those provinces with the greater fiscal capacity necessary to match federal contributions to job training, leaving the unemployed in provinces with higher unemployment rates out in the cold.

Is there a problem that needs fixing?

Is there evidence of a skills shortage that could be addressed by the type of training programs envisioned by the Canada Job Grant – initiated by employers, of short duration and mostly costing under $15,000?

Although there is anecdotal evidence of labour shortages, there is surprisingly little data. The Bank of Canada *Business Outlook Survey* [2013] shows that unfilled vacancies, while higher than in the years immediately after the recession, are actually lower than they have been for much of the past decade. A Human Resources and Skills Development Canada [2013] report based on the Canadian Occupational Projection System does not show significant occupational shortages, except in specific geographic areas.

Studies by CIBC [Tal 2012] and the Canadian Chamber of Commerce [2012] do project labour market skills shortages in healthcare, science and technology professions and skilled trades. However, as these skills require years, not weeks of training, these labour shortages will not be addressed by the Canada Job Grant, which would cover 'short duration' training programs only.

While short-duration training courses are not going to train the unemployed to be new IT professionals, electrical engineers and auditors, provinces have used federal investments under the existing Labour Market Agreements in part to provide training in essential skills (e.g., literacy and numeracy). These programs respond to a broad-based essential skills need identified by the Canadian Chamber of Commerce [2012: 39]. However, the federal government is now proposing to withdraw most of its funding for this basic skill training, which has been shown to be an important foundation for many vulnerable Canadians to be able to participate in the labour market.

There is little evidence to suggest that the Canada Job Grant would help train workers to fill positions where there are job shortages. Nor would logic suggest the kind of program being proposed will serve employers seeking skilled workers.

Running the Canada Job Grant

The federal government's proposal for the Canada Job Grant does not reflect the complexity, cost and risk involved in administering the program. The federal government does not operate direct services of this nature, leaving it to the provinces to establish a program infrastructure to bring in participants, vet applications and providers, and audit projects for cost and performance. For a program with many participants and providers, this will be a significant administrative undertaking.

The jobsOntario program (1994-95) was a comparable initiative that may provide insight into what it takes to deliver a scheme like the Canada Job Grant. jobsOntario provided grants to companies to subsidize the training and initial period of employment of social assistance recipients. The program was driven by a system in which non-profit organizations acted as brokers, vetting all potential applicants and placements, and matching only preselected and appropriate candidates with firms applying under the program. The brokers also audited the firms' programs once in operation and helped them set up new programs.

While the Canada Job Grant may not have the same kind of structure as jobsOntario, it will need the same intensity of on-the-ground oversight to ensure delivery and accountability. One would not imagine the federal government simply writing $5,000 cheques to employers without a rigorous system in place to review documentation, conduct audits and perform all the various functions necessary to ensure funds are being used as intended.

Only the provinces have the ability to set up the administrative apparatus needed to run the Canada Job Grant. The federal government is not only expecting the provinces to run the programs and take all the risks of doing so, it also seems to expect them to pay for all the costs of administration. As we have seen, many provinces have already made it clear that they have no interest in this program.

Who's paying the piper?

For the last several years, the federal government has transferred $500 million annually to the provinces under federal-provincial agreements called the Labour Market Agreements (an extra $250 million annually was added for two years immediately after the 2008 recession, but this has now expired). Each province receives a share of the $500 million proportional to its share of the Canadian population. Ontario, for example, with almost 40 percent of the Canadian population, has been receiving approximately $200 million annually under its Labour Market Agreement with the federal government.

In return for federal support, the provinces must fulfill requirements set out under the agreements, including filing plans and detailed annual reports, undertaking regular evaluations and respecting national conditions, such as not imposing province of residency requirements. The Labour Market Agreements were developed to help unemployed Canadians not eligible for Employment Insurance. They are a complement to the much larger Labour Market Development Agreements, which transfer funds to provinces and territories to serve Canadians eligible for Employment Insurance. The Labour Market Agreements have been hailed as a good example of flexible federalism in practice [Noël 2011].

The Labour Market Agreements all expire on March 31, 2014. The expectation was that the provinces and the federal government would sit down together this year and negotiate a new framework for renewing them for another five years.

Instead, the 2013 Budget announced a unilateral federal decision to cut $300 million annually from the Labour Market Agreements to pay for the new Canada Job Grant. In addition, the Canada Job Grant would require provinces to match the federal money, along with businesses. So provinces would not only lose $300 million which they have used to develop and maintain an extensive network of training and employment support programs, but would also have to find an *additional* $300 million to pay for a new federal job training program on which they were not consulted.

These are not small amounts of money even in relation to sizeable government budgets. For a province such as Ontario, the Canada Job Grant would cost about $240 million annually ($120 million to replace their roughly 40 percent share of federal funding of current training programs and another $120 million to fund their share of the federal Canada Job Grant), plus administrative costs to manage and monitor the program.

Alternatively, a province could cancel the programs it currently supports with the diverted Labour Market Agreement funds. This would require closing a wide range of employment support programs and shutting down the network of experienced non-profits and others involved in training. Even if a province were to cut all its current training programs, it would *still* have to find the money to fund its portion of the new federal program. This could make it very difficult for provinces with less financial flexibility to take advantage of the program.

It is a lot to ask of provinces to cancel their own ground-tested programs and then to expect them to find substantial new funding from their own budgets to pay for an untested new federal program in an area of provincial jurisdiction, announced with no warning or consultation with provinces. But even that understates the federal chutzpah, which can only be fully assessed in light of how the Labour Market Agreements came into being and what they say and do.

A slap in the face for the provinces and territories

To appreciate the broader significance of the federal government's proposed Canada Job Grant, we need to understand how it contrasts with the Constitutional and practical precedents for the way Canadian governments deliver public services.

As skills development and labour market training began to be recognized as a priority in the 1970s and 1980s in response to Canada's rapidly modernizing economy, the provinces (led by Quebec) argued that these new types of training programs rest squarely within their jurisdiction, as they fit within provinces' uncontested Constitutional responsibility for education. Moreover, on a practical level, the provinces run most programs having to do with services to people, while federal programs mainly involve writing cheques. The federal government has little experience with retail level service programs.

In the wake of the failed Meech Lake Accord, the Beaudoin-Dobbie special joint Committee of the Senate and the House of Commons recommended devolving labour market training programs and funding to willing provinces. The recommendations affirmed labour market training as an area of provincial jurisdiction, and emphasized the practical importance of integrating labour market programs with provincial education and social programs [Beaudoin-Dobbie 1992: 70-71].

While the Beaudoin-Dobbie recommendations did not become part of a constitutional amendment and were rejected in Quebec, they were influential in shaping the next two decades of changes. By the mid-1990s, the federal government had begun to transfer responsibility for training to the provinces, along with federal financing, for labour market training under the Employment Insurance program (through the Labour Market Development Agreements).

The devolution of labour market training continued slowly but steadily under the Chrétien and Martin governments, particularly in the wake of the narrow margin of victory for the 'No' side in the 1995 Quebec referendum [Bramwell 2011: 4]. This devolution took place without formal constitutional change. With the election of the Conservatives in 2005, the principle of provincial primacy in labour market training was clearly articulated and aggressively implemented by a federal government committed to staying out of areas of provincial responsibility. A final drive for comprehensive devolution was initiated in Finance Minister Flaherty's 2007 Budget:

> …Budget 2007 delivers on a commitment to a new, more comprehensive approach to labour market training…clarifying roles and responsibilities by recognizing that provinces and territories are best placed to design and deliver this programming. Through increased funding and greater emphasis on provincial and territorial delivery of labour market programs, the Government is

> meeting its commitment to provide a new approach to labour market training. This approach respects the primary role and responsibility that provinces and territories have in the design and delivery of training programs. It ensures an ongoing federal role in helping to enable provinces and territories to deliver integrated and one-stop, seamless labour market programming… [Finance Canada 2007: 130-131].

All of the Labour Market Agreements, negotiated on a bilateral basis with each province, reinforced the principle of provincial primacy, with language identical or very similar to the wording below from the Canada-Alberta agreement:

> WHEREAS Canada and Alberta agree that primary responsibility for the design and delivery of labour market programs for individuals to support the creation of a skilled, productive, mobile, inclusive and adaptable labour force in Alberta rests with Alberta;
>
> Section 6: Canada and Alberta agree that Alberta has the primary responsibility for the design and delivery of labour market programs for individuals in Alberta [Canada-Alberta Labour Market Agreement 2008].

By proposing to re-introduce federally-designed programs in labour market training, the Canada Job Grant represents an abrupt U-turn in federal policies and a complete repudiation of the principles that Ottawa enthusiastically promulgated right up to the day the new scheme was announced.

With federal encouragement, provincial governments accepted the challenge of building new programs and, in many cases, worked hard to create new and more integrated services, such as the WorkBC Employment Services Centres and Employment Ontario. In good faith, provinces have created an extensive infrastructure of organizations and information, supported by the Labour Market Agreements. Now – suddenly and without warning or any apparent evidence – nearly two decades of devolution has been called into question.

Writing in the mid-1990s, François Rocher summarized Quebec's prescient warning that the compromise approach to labour market training proposed by the Beaudoin-Dobbie report would make provincial authority "subject to intergovernmental agreements which would be protected against unilateral change for a period of at most five years" [1998: 173].

As it turns out, this objection was not an expression of paranoia – it was spot on. And ironically it is a Conservative government, with a well-articulated view of federalism and a commitment to respecting provincial jurisdiction, which has initiated this federal over-reach and proposed 'unilateral change.' And this could be just the beginning, as the federal proposal for the Canada Job Grant also stated that "the Government will also renegotiate the Labour Market Development Agreements to reorient training toward labour market demand" [Finance Canada 2013: 65].

The recognition of provincial responsibility for labour market training has been completely undermined – notwithstanding the solemn endorsement of devolution just a few months ago by the same Prime Minister, Minister of Finance and Minister of Human Resources and Skills Development who are now revoking it.

But it is not too late to reverse course.

Conclusion

The Canada Job Grant has all the signs of a proposal picked out of thin air. There is no pilot program, no study and no documentation shared with the public to support the expenditure of $600 million annually of public money into the program. In paying for the program by withdrawing 60 percent of the federal funding for federal-provincial Labour Market Agreements, the further cost is the erosion of nearly two decades of momentum to allow provinces to build labour market training programs that are integrated with other education and social services and with local non-profit delivery partners.

The Canada Job Grant represents an aggressive federal foray into an area which had been recognized over the last quarter century as within provincial jurisdiction. And this is not just a legalist concern over jurisdiction. Rather, it reflects the real-world need to integrate labour market training with other areas of education as well as income security. It is out of keeping for a government that has been content in many areas (including the $30 billion annual Canada Health Transfer) to respect provincial jurisdiction.

This conflict between Ottawa and the provinces was entirely avoidable. As much as almost any other issue, addressing the labour market mismatch between skills and opportunities had all the makings of a national consensus. Over the past year, Prime Minister Harper has spoken repeatedly about the importance of a skilled workforce for Canada's competitiveness and economic growth. On that front, he has firm agreement from Canada's premiers, who found the issue to be so central at their November 2012 meeting on the economy that they announced that their next summit would focus on skills training.

Agreement among federal, provincial and territorial governments has been hard to come by lately. It is unfortunate that the federal government used its 2013 Budget to scuttle this momentum before it had a chance to get rolling.

But it is not too late. As Canadians look beyond the near-term economic recovery to longer-term competitiveness, there is a shared core interest among governments, businesses and the non-profit sector in helping workers get the skills to succeed. There is a rare opening for a national discussion on Canada's long-term human capital needs. The natural contours of such a discussion would allow for federal, provincial and territorial governments to play important roles consistent with their capacity and jurisdiction.

Canada's premiers invited the Prime Minister to discuss the economy last fall. Given that the Prime Minister apparently has strong views on how federal-provincial/territorial programs on the labour market should work, now would be a good time to accept that offer – and for the federal government to reconsider the Canada Job Grant.

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