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Luigjes, C.; Vandenbroucke, F.

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Institutional moral hazard in the multi-tiered regulation of unemployment in Switzerland – Background paper.

Chris Luigjes & Frank Vandenbroucke

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Abstract

This paper has been written in preparation of a research project funded by the European Commission (on the Feasibility and Added Value of a European Unemployment Benefit Scheme, contract VC/2015/0006). This paper adds information and detailed analysis to the following deliverable of that research project: *Institutional Moral Hazard in the Multi-tiered Regulation of Unemployment and Social Assistance Benefits and Activation - A summary of eight country case studies*; but it was not a deliverable. We use the concept ‘institutional moral hazard’ to analyse intergovernmental relations within multi-tiered welfare states, specifically in the domain of unemployment-related benefits and related activation policies (the ‘regulation of unemployment’). This paper is one of eight separate case studies, it focuses on Switzerland. Swiss unemployment insurance is regulated by the federal government but activation thereof is implemented by the cantonal offices. Minimum requirements and a monitoring system were introduced to ensure that these offices focused on activation of unemployment insurance caseloads. Furthermore, the federal government attempted to harmonise cantonal social assistance top-down, but these efforts were dropped in favour of non-binding inter-cantonal guidelines. In short, reforms borne out of federal concerns were often rejected or altered as cantons defended their autonomy.

Keywords: Institutional moral hazard; multi-tiered welfare states; intergovernmental relations; unemployment insurance; social assistance; Active Labour Market Policies; activation; social policy; Switzerland.

Switzerland¹

List of Abbreviations

AC - *Fonds de compensation de l'assurance-chômage* (unemployment insurance fund)
ALMP – Active Labour Market Policy
AVIG/LACI – *Arbeitsversicherungsgesetz/Loi sur l'assurance de Chômage* (Federal Act on Obligatory Unemployment Insurance and Insolvency Compensation)
MAMAC - *Medizinisch-Arbeitsmarktliche Assessments mit Case Management* (inter-agency collaboration pilot project)
PES – Public Employment Services
RAV/ORP – *Regionalen Arbeitsvermittlungszentren/offices régionaux de placement* (Regional employment offices)
SA – Social assistance
SI - *Supplément d'intégration* (integration supplement to SA)
SODK/CDAS - *Konferenz der kantonalen Sozialdirektorinnen und Sozialdirektoren/ Conférence des directrices et directeurs cantonaux des affaires sociales* (inter-cantonal association of social ministries)
SKOS/CSIAS – *Schweizerische Konferenz für Sozialhilfe/Conférence suisse des institutions d'action sociale* (Swiss Conference for Social Assistance)
SMI - *Supplément minimal d'intégration* (integration supplement to SA)
UA – Unemployment assistance
UI – Unemployment Insurance

Introduction

Switzerland is a very interesting case for the subject at hand due to a combination of factors. First of all, Swiss regulation of unemployment is characterised by significant political decentralisation and involves three levels of government: the federal level, the cantons and the municipalities. Secondly, Swiss benefits are amongst the highest in the OECD in terms of net replacement rates. In other words, if combined with a long duration and high accessibility, it is probable that the Swiss labour market governance system will be confronted with a substantial measure of both individual and institutional moral hazard issues. Finally, the Swiss case somewhat resembles the German one, but has opted to sustain decentralisation in the face of the same dilemmas that made Germany opt for more federal control.

Social protection in Switzerland is governed by a unique combination of institutions (Bertozzi, Bonoli, & Ross, 2008, p. 122). First of all, its brand of federalism encompasses a major executive role for the 26 regions or 'cantons'. Secondly, it is a relatively generous social protection system but one that also heavily involves private (for-profit and non-profit) agencies and private insurance. Some argue that the combination of these two features inhibits the formulation of a coherent activation strategy as "some categories of non-working individuals [...] are catered for by regimes obeying different masters". (Bertozzi, Bonoli, & Ross, 2008, p. 122). Thirdly, its labour market regulation is more akin to the Anglo-Saxon archetype than the continental one that characterises most of its neighbouring countries.

The type of federalism in Switzerland shares characteristics of both its US and German counterparts (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, p. 263). In their analysis of the interplay between Swiss federalism and its welfare state, Obinger et al. note that three forces have been decisive in shaping social policy: 1) a unifying and centralizing welfare state which formed due to challenges in the 19th and 20th century; 2) a unifying but not centralizing cooperation between cantonal and

¹ We thank Guiliano Bonoli and Cyrielle Champion for very useful exchanges on the Swiss case and Cyrielle Champion for extensive comments on our drafts.

municipal administrations in the context of a relatively weak central state; and 3) a force of diversity and decentralization “stemming from the combination of cantonal competencies with different resources, polities, politics and policies” (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, p. 263). These forces were influential in shaping the Swiss brand of federalism. It could be said that Swiss federalism has four key features. First, the principle that the federal level is not sanctioned to legislate any policy area in which it has no explicit constitutional competence. Every federal takeover of a new policy area requires direct democratic, parliamentary and institutional approval. Second, Switzerland differentiates substantially by region in terms of both tax regimes and public services, contrary to German and Austrian federalism. Third, the federal prerogative to levy taxes is subject to periodic approval by parliament and voters and is always granted on a temporary basis, which creates a bias towards a ‘lean’ federal state. Finally – reflecting what is called ‘the principle of executive federalism’ – the federal government has always been very reliant on cantonal and municipal administration systems for implementing federal programmes (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, pp. 266-267). Not included in this list, but probably one of the most distinguishing features of Swiss governance, is the influence of the institutionalization of direct democracy through referenda. Direct democracy essentially functions to “strengthen the power of veto available to the constituent units” (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, p. 270). In all, it could be said that Swiss federalism preserves and promotes regional diversity (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, p. 263).

The Swiss welfare state combines some of the most generous unemployment-related benefit schemes in terms of net replacement rates, with strong decentralization and an extensive use of private agencies (both for-profit and non-profit). The federal level regulates old-age pensions, sickness and invalidity insurances, unemployment insurance, maternity leave and child benefits. The sickness insurance is completely implemented and organised by private insurers. Furthermore, the cantons play a large role in implementing most of the other federally regulated schemes, especially when it comes to UI (Duell, Tergeist, Bazant, & Cimper, 2010, p. 81). “However, although the federal government has the main legislative and regulatory authority over labour market policy and public employment services and finances most of the respective programmes, the cantons make use of the considerable autonomy they have been given to set up varying implementation mechanisms. Thus, there is no nationally-unified labour market policy in Switzerland, since the cantons are relatively free in their choice of means to reach the goals set at national level” (Duell, Tergeist, Bazant, & Cimper, 2010, p. 38). Social assistance, on the other hand, is in its design, implementation and financing left to the cantons. So the Swiss welfare state is fragmented since it involves different actors, which have different responsibilities in multiple welfare schemes.

Then there is the Swiss labour market, which is unlike most of its neighbouring countries. Dismissal protection in Switzerland is very limited, exposing the labour market to the business cycle. Immigrant workers have, for a long time, functioned as a type of labour reserve. This combination is perceived as the key to Swiss employment success from WWII up until the 1990s. The employment crisis that broke out at that point has led to many (attempted) revisions to the regulation of unemployment as rising unemployment resulted in a renewed policy focus on activation and changed the nature of relations between levels of government and the relations between various social security schemes – as the federal government tried to prevent the dumping of various caseloads.

According to the principle of executive federalism, Swiss regulation of unemployment – but also other social policy areas – has always relied on implementation of policies by actors other than the federal government. This has contributed to fragmentation between different benefit schemes and within benefit schemes not regulated by the federal government (i.e. SA). The federal government

started to promote multi-level coordination in the early 2000s (Champion, Pisoni, & Bonoli, 2014, p. 15) to reduce this fragmentation. In practice this has led to initiatives and policy experimentation that combined several levels of government and several types of actors.

1. Unemployment Insurance

Switzerland experienced a somewhat different genesis of its social security system, and especially of its unemployment insurance scheme, than other European countries – which has everything to do with its special brand of federalism. Unemployment Insurance is administrated from and financed out of 38 unemployment funds (Caisses de chômage), which has only been an obligatory insurance scheme since 1982. Each canton has its own fund and the other 12 are privately organised and set up by social partners.² These funds are overseen by the federal Ministry of the economy. The organisation of the funds can vary slightly, but “the autonomy of the unemployment funds is rather limited as precise rules for the granting of unemployment benefits are fixed in the law and the corresponding ordinance” (Duell, Tergeist, Bazant, & Cimper, 2010, p. 53). This constellation is a reflection of several historical developments. The first Swiss unemployment funds had already been created in the 19th century and included both private (tripartite and non-profit) and public funds. These were not the result of federal legislation, but of (private) local or cantonal action and therefore were dispersed and heterogeneous. The delayed institutionalization of the current federally regulated, obligatory scheme is due to four factors: “the initial absence of federal jurisdiction, strong policy feedback from local social security arrangements, institutional factors and a lack of political will” (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, p. 276). Only after WWI and a general strike did political pressure for federal intervention increase. By then funds were beginning to be organised along the lines of a Ghent system, and the federal government anchored this Ghent system at the federal level as it started to provide subsidies and set standards with the first federal law on UI in 1924. This can be seen as a gradual step in the direction of federal involvement, but by no means was it the more or less homogenous and obligatory scheme it is today. This fragmented system would prove to be inadequate in the face of the Great Depression, which sparked a new round of political and public debate on the federal role in UI.

In 1947, and only after decades of intense political debate, the Swiss confederation adopted a constitutional amendment that empowered the federal government to enact a UI scheme.³ Federal legislation followed in 1951, which institutionalised the existing funds and obligated them to adhere to the Ghent system. However, the law did not make unemployment insurance obligatory and as a result this voluntary UI never gained any great importance (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, p. 283). The oil shocks in the 1970s kick-started a new wave of (provisional) federal action, but did not yet create any homogenous or obligatory federal scheme. The 1982 Federal Act on Obligatory Unemployment Insurance and Insolvency Compensation (AVIG/LACI), which, as the name suggests, made UI obligatory but also “enacted a detailed statute in terms of both procedural and substantive law” (Bertozzi, Bonoli, & Ross, 2008, p. 135). It was this law, and several additional regulations and revisions that made the federal level dominant in both the design and regulation of UI. Since the 1990s this legislation has undergone several revisions in the face of economic recession – most notably in 1995, 2003 and 2011. The forces of direct democracy and federalism, which characterise Switzerland, have an inherent status quo bias. They had blocked the development of a federally regulated homogenous UI scheme, but after its institutionalization, the status quo bias shielded it somewhat from the forces of austerity. And so most retrenchment revisions during the 1990s were either watered down or coupled with additional funds for other labour market policies (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, pp. 288-289). The 1995 UI reform was only possible due to a compromise; generosity could be toned down a little but only in return for additional funds for new

² See [Articles 77-78 of AVIG](#)

³ See Article [114 of the Constitution](#)

types of measures (ALMPs) and an extension of the maximum duration of benefits. It was direct democracy that had more of an impact than the federalist state structure. Popular protest and opposition against slashing generosity were seen to hold a more decisive status quo bias than cantonal influence, as the latter had the incentive to agree to UI reforms due to rising social assistance caseloads and UI spill over (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, p. 291). Further major reforms included the 3rd and 4th revision of the AVIG in 2003 and 2011, which will be discussed more in detail later below.

All Swiss employees are, nowadays, covered by federally designed UI.⁴ Despite the existence of UI funds, the Swiss system can be seen as completely federal. The UI funds do not have any policy influence or a role in activation – as is the case in Denmark. In other words, due to the very limited role of the Swiss UI funds, we classify the Swiss UI benefit system as completely federalised and not as administratively decentralised or devolved. The system is primarily financed through contributions, with the fiscal burden equally divided over employers and employees.⁵ These contributions amount to more than 90% of total financing, while the rest is financed by both the federal level and the cantons (Duell, Tergeist, Bazant, & Cimper, 2010, pp. 52-53) (see also Table 1). These revenues are collected in the unemployment insurance fund (Fonds de compensation de l'assurance-chômage or AC), out of which UI benefits, ALMPs and the administration of the system (both the UI funds and the regional job centres) are financed. This fund is overseen and managed by the federal ministry of the economy and therefore fully under federal control.

Table 1 Financial contributions to unemployment insurance fund (AC). Source <http://www.espace-emploi.ch/ueberuns/arbeitslosenversicherung/>

	2014		2013	
	Millions CHF	% of total	Millions CHF	% of total
Contributions of insured and employers	6633,4	91.6%	6457,7	91.5%
Financial participation by the Confederation	454,4	6.3%	449	6.4%
Financial participation of the cantons	151,4	2.1%	149,7	2.1%

If they are eligible, jobless workers receive daily allowances based on previous earnings. Without going too deep into the specifics, benefits are generally between 70% and 80% of the last earned wage.⁶ This is already a fairly high replacement rate, but if one takes a look at the net replacement rate, Switzerland ranked the highest of all OECD countries (OECD, 2014, p. 97). This will be relevant for the section on activation. The duration of benefit ranges between 200 and 520 daily allowances depending upon the length of the contribution period, but can be extended for several reasons up to a maximum of 2 years.⁷

Between 2003 and 2011, the federal government could provide extended UI benefits to beneficiaries in cantons with an unemployment rate of 5% - if these cantons requested so. These benefits were co-financed (for 20%) by the respective cantons if they put in an application for the federal government to provide this extension. This was introduced in the 3rd AVIG/LACI reform in 2003 but abolished in the 4th revision in 2011. The prime motivation to abolish the extended benefits was one of cost containment; the benefits were perceived to have negative effects on benefit dependency (Champion, Pisoni, & Bonoli, 2014, pp. 23-24). Moreover, they delayed exits from UI into SA, which

⁴ See [Article 1a of AVIG](#) for the goals and social risks covered by UI.

⁵ See [Article 2-5 of AVIG](#)

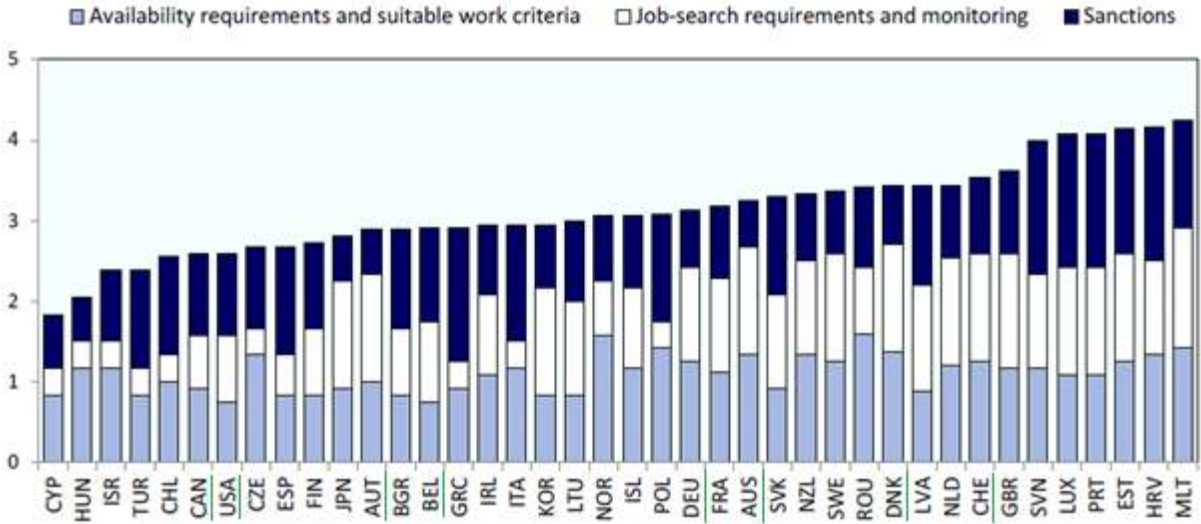
⁶ See [Article 22 of AVIG](#)

⁷ See [Article 27 of AVIG](#) and Duell, Tergeist, Bazant & Cimper 2010, p. 88. The 200 daily allowances reflect a special regime. Furthermore, people who are exempt from contributions can receive 90 daily allowances.

had divergent effects because not all cantons could apply for these benefits and not all cantons that could, did in fact apply for them.

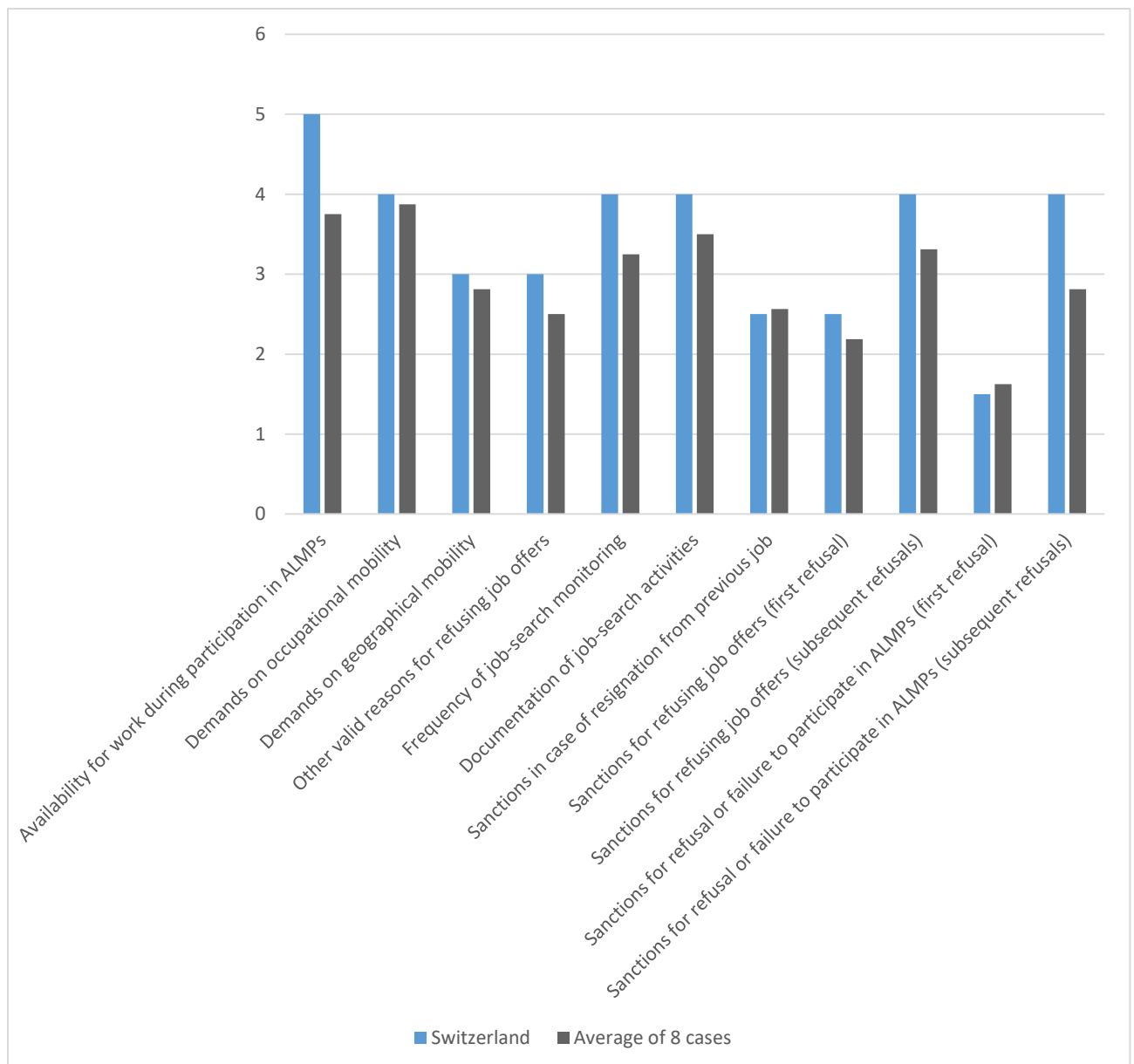
The strictness of eligibility of Swiss UI is relatively high (Figure 1). **Error! Reference source not found.** disaggregates the overall strictness of eligibility into eleven items. Switzerland scores higher on almost all items than the average of all cases, which makes it no surprise as Switzerland ranks as the strictest of the eight cases in the overall (Langenbucher, 2015). The demanding regime of the Swiss case is likely related to the relatively high replacement rates and broad coverage. The sanctions for repeated refusal of job offers and participation in ALMPs are among the strictest of the cases examined in this study – second only to Denmark. As we have seen in the Australian case (cf. the chapter on Australia), due to low UI replacement rates and the fact that UI functions as a benefit of last resort, strict sanctions have been a particularly controversial topic and are often regarded as punitive and counterproductive (OECD, 2012, pp. 29-30, 102, 159). It is possible that the Swiss context might be more conducive for a strict sanctioning regime compared to Australia.

Figure 1 Overall strictness of eligibility criteria. Source: Langenbucher 2015, p. 27.



In short, the Swiss UI can be characterised as being administratively decentralized. Historically, cantons and social partners had an important role in the design, implementation and financing of UI. However, with the changes in 1950 and 1982, it has become the federal government that has taken over the dominant role. The federal level designs and regulates the scheme: eligibility, work requirements for claimants, duration, levels, contribution rates, sanctions and even ALMPs. The cantons have very limited leeway in the organisation of their own fund and cannot influence the design of the scheme.

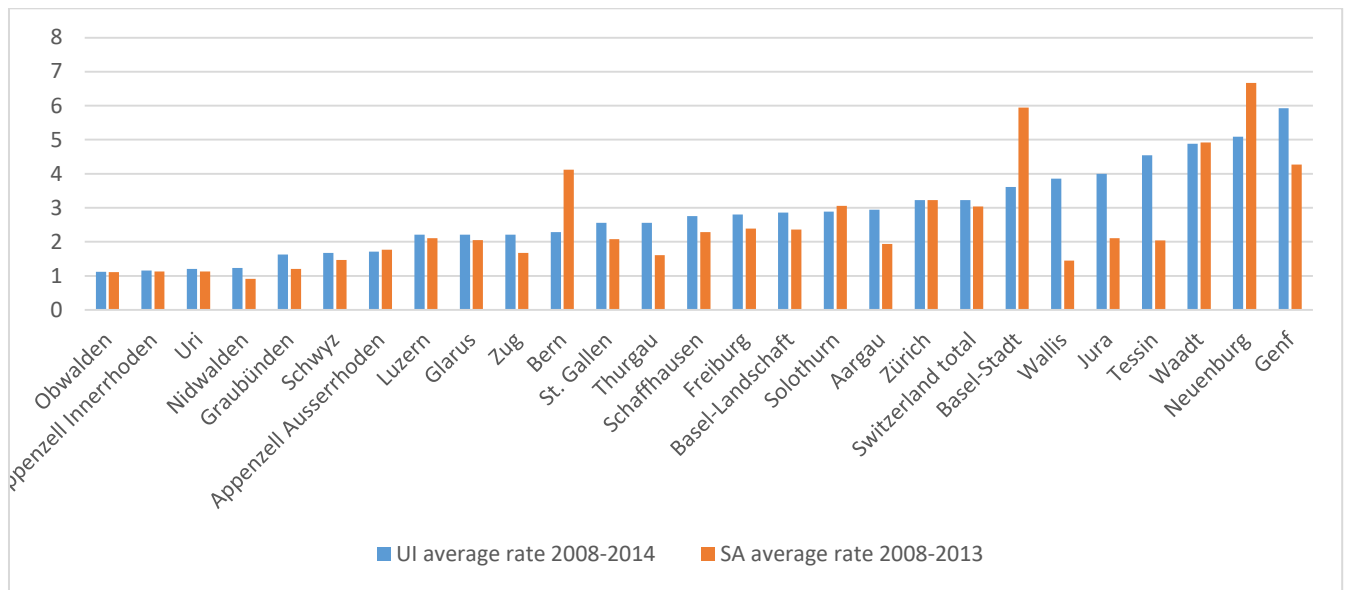
Figure 2 Strictness of eligibility in Swiss UI. Source: Langenbacher 2015.



The cantons do face very different caseloads, ranging from an average of just below 1 percent of the population for Obwalden to almost 6 percent for Genéve for the period of 2008 to 2014 (Figure 3). Historical differences in caseloads are important for several reasons. First of all, a structural difference in caseloads in a context of a (mostly) federally financed UI scheme entails a structural horizontal redistribution. Secondly, structural differences in caseloads might be the cause and effect of diverging activation strategies.⁸ Thirdly, structural differences in caseloads, especially when it is federally financed, can put pressure on solidarity among the constituent units of a country.

⁸ Other important factors presumably include: differences in regional labour markets, cultural differences between the German and the Latin cantons and cantonal differences in UA and SA design.

Figure 3 Caseloads of UI and SA per canton as percentage of cantonal population (averages for the period 2008-2014 (UI) and 2008-2013 (SA)). Source: Statistischen Atlas der Schweiz, <http://www.atlas.bfs.admin.ch/>



2. Unemployment Assistance

A residual unemployment-related scheme for those jobless workers who are willing and able to work but have exhausted their UI exists in several Cantons. Article 114 al. 5, of the federal Constitution grants the federal government the power to enact nation-wide unemployment assistance (UA), but it does not state that it is obligated to do so. In other words, it is a federal prerogative to enact rules and regulations that cover employment assistance nation-wide, but the federal level has not opted to do so (Bertozzi, Bonoli, & Ross, 2008, p. 141). However, under the constitution, the federal level is obligated to secure social security accessibility for everyone.⁹ The juridical interpretation is then: “as long as the cantons grant sufficient social assistance benefits, the Federation is under no duty to legislate [employment assistance]” (Mader 2002, pp. 13-14 cited in Bertozzi, Bonoli & Ross 2008, p. 141).

In fact, UA is seen as a cantonal competence. It is the cantons that finance, design and implement these schemes. However, after the UI reforms in 1995, many cantons refrained from providing employment assistance since the UI reforms included the possibility for the extension of benefit duration.¹⁰ The UA benefits are mostly means-tested and can prolong benefit reciprocity after UI for anywhere between 90 days to 12 months – although it is hard to generalise the conclusions on these benefits as they are so different from one canton to another (Duell, Tergeist, Bazant, & Cimper, 2010, pp. 92-93). What all schemes do have in common, though, is that they include means tests and strict sanctions (Bertozzi, Bonoli, & Ross, 2008, p. 142). About half of the cantons have used the right to implement an UA scheme at some point in one form or another. For those cantons the underlying reason was to prevent an abrupt drop in benefit levels for the long-term unemployed. However, due to the extension of the duration of UI in 1997 most of the cantons discontinued their UA schemes (Bertozzi, Bonoli, & Ross, 2008, p. 141). Maintaining such a system parallel to a cantonal social assistance scheme is therefore a historical political and budgetary choice. More precisely, these schemes were used by cantons to renew UI eligibility. They obliged their beneficiaries to take part in job creation programmes that required paying social contributions (cf. section on concern for institutional moral hazard). Because of the relatively small role of UA in the Swiss regulation of unemployment we will not adopt it as a separate benefit in the analytical grid.

⁹ See [Article 41 of the Constitution](#)

¹⁰ Only eight cantons still ran a UA scheme after UI reforms in 2007 (Duell, Tergeist, Bazant, & Cimper, 2010, p. 92).

3. Social Assistance

Social assistance is a larger and more relevant part of social security in Switzerland than UA. However, its important role is fairly recent. Before the 1990s social assistance was only of marginal importance due to low unemployment rates and the stigma attached to the scheme (Champion, 2011, p. 130). The federal constitution states that every person has the right, when unable to provide for themselves, to assistance, care and financial means to ensure a decent standard of living.¹¹ Federal law, however, does not define the minimum living standard. Rather it stipulates that the cantons must do so and that it is a cantonal responsibility to provide minimum income support or social assistance to ensure that self defined standard.¹² In this sense, the constitutional responsibility for a minimum income guarantee is devolved to the cantons, which must provide for those residents in need (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, p. 293). There are two elements to federal involvement: the stipulation of that cantons need to define a minimum subsistence level and the fact that the canton of residence is responsible for a needy individual. The cantons themselves are responsible for almost all other rules and regulations in the design, financing and implementation of social assistance. They can chose to devolve administrative and funding responsibility for SA to the municipalities (Duell, Tergeist, Bazant, & Cimper, 2010, p. 44). Municipalities, especially larger ones, can operate their own welfare offices, while the smaller ones tend to cooperate with other municipalities to set up regional welfare offices. There is a lingual split regarding the organisation of social assistance, where most French speaking cantons organise social assistance at the cantonal level while in most German speaking cantons social assistance administration and rate setting is dominated by the municipal level.

As it is a cantonal and municipal competence, the design of social assistance can vary from place to place. However, the Swiss cantons are not very large geographically and the risk of benefit tourism is higher than, for example, in Canada or the US. As mentioned above, social assistance did not play a major role in the social security system of Switzerland before the 1990s. The unemployment crisis in the early 1990s created more pressure on the social assistance scheme: more individuals were unemployed and more individuals exhausted their UI. The added fiscal pressure and the employment crisis combined with a higher incidence of long term unemployment created pressure for the harmonisation of the rules of social assistance schemes and for the introduction of more activation to prevent benefit tourism and benefit dependency. It was a cooperation of Swiss cantons (Swiss Conference for Social Assistance or SKOS/CSIAS) that undertook action to formulate (non-binding) guidelines. The first guidelines were created in the 1960s to prevent benefit tourism. The added budgetary pressure on SA in the 1990s prompted a total revision of these guidelines. This revision not only included guidelines on SA benefits, but for the first time also concerned activation – and in this sense they can certainly be seen as a reaction to the 1990s unemployment crisis. These guidelines, despite their non-binding nature, did have a strong impact and have sometimes even been adopted by cantonal legislation (Champion, 2011, p. 130; Champion, Pisoni, & Bonoli, 2014, p. 6).¹³

The schemes do have common characteristics: they consist of lump-sum benefits covering basic and social needs, completed with payment of housing costs and basic health insurance premiums, and if needed, supplements for special cases. Also, supplements can be paid out for activation purposes

¹¹ See [Article 12 of the Constitution](#)

¹² See [Article 12 of Bundesgesetz über die Zuständigkeit für die Unterstützung Bedürftiger \(ZUG\)](#)

¹³ See [here](#) for the latest edition of the guidelines

(i.e. income disregards or benefits for participating in ALMPs); and finally the benefits are flat rate and means-tested. The benefits are generally around CHF 19,210 for a single person, CHF 28,815 for a couple and CHF 10,035 per child (for the first two children, decreasing to an amount of CHF 3,345 for the fifth child and beyond).¹⁴ These rates are fairly high in an international comparative perspective.¹⁵

The supplements for activation are a reaction of the SKOS/CSIAS to the low work incentives produced by (continuingly) high benefit levels, especially for low-income households. They were introduced in the revised 2005 common guidelines. They include an earnings disregard and two types of integration supplements (Supplément d'intégration or SI and Supplément minimal d'intégration or SMI). SI is for persons who participate in programmes and SMI for those who show their willingness to participate but are not able to do so for health or family reasons. The guidelines mention an income disregard of CHF 400-700, an SI of CHF 100-300 and an SMI of CHF 100. These supplements can stack with Canton-specific social security schemes and tax credits. Financing is the responsibility of cantons and municipalities, while the federal government only administers funds for social assistance of asylum seekers (Duell, Tergeist, Bazant, & Cimper, 2010, p. 44).

Despite these common guidelines, and especially since they do not cover tax-credits but only social assistance and its activation, cantonal benefit schemes do vary from one another. Besides social assistance, needy claimants may be eligible for certain tax credits and extra allowances, but it is the canton which designs and implements these additional schemes, varying from canton to canton. The extra allowances and/or tax credits, which are specific to a single canton, can also serve as a means to provide a basic subsistence level in order to keep people out of SA. These additional schemes, their uses and their design again vary from canton to canton. Obinger et al. even go so far as to characterise the Swiss social assistance and other cantonal benefit schemes as “probably the most fragmented system of social provision within the OECD” (2005, p. 293). They argue that the Swiss cantons inhabit different worlds of welfare, with different cantonal systems producing either social-democratic, conservative, liberal or hybrid set-ups. Cantons differ in the size of their welfare state, universalism versus familialism, taxation versus contributions, and varying degrees of tax progressivity (Obinger, Armingeon, Bonoli, & Bertozzi, 2005, pp. 295-298). In practice, the social assistance caseloads are also different from canton to canton: they range from less than 1 percent of the cantonal population in Nidwalden to almost 7 percent in Neuenburg for the period of 2008 to 2013 (cf. supra, Figure 3).

SA has been controversial in the sense that it has been seen as being too generous and providing too little incentives for reintegration. This was also one of the motivations for the total revision of the SKOS/CSIAS guidelines, which included a reduction in benefits, more work incentives (such as disregards for income from work) and the aforementioned guidelines on activation. SKOS/CSIAS has been an easy scapegoat for the perceived issues with SA. Currently, the guidelines are once again under revision – again due to the generosity of benefits. While still keeping the same name, the enactment of these guidelines has been transferred from the SKOS/CSIAS to the inter-cantonal association of social ministries (SODK/CDAS). Goal is to reinforce the political support for SA. This latest revision will cut benefits for large families, youth, and will abolish the certain supplements (SMI). No further reinforcement of activation requirement is on the agenda.

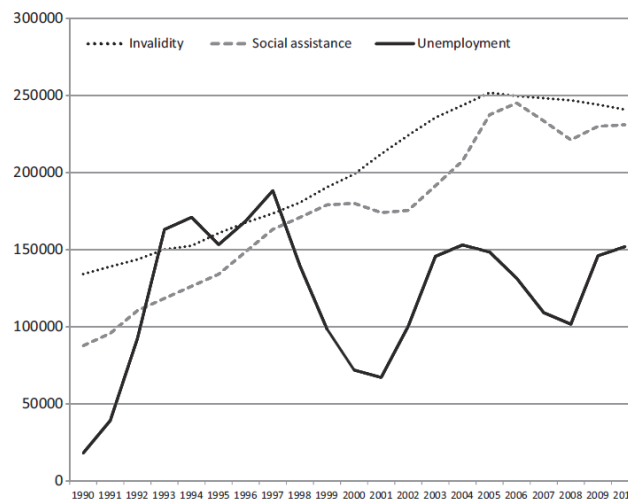
¹⁴ [MISSOC Comparative Tables Database](#) 01-01-2014 edition.

¹⁵ OECD Benefits and Wages: Statistics '[For long-term unemployed, 2001-2012](#)' and '[Over a five-year period following unemployment, 2001-2012](#)'

4. Activation

As can be gleaned from the sections on unemployment insurance and social assistance, both schemes involve multiple layers of government and are relatively generous. Such a combination calls for a system of activation, but one that minimizes institutional moral hazard since activation is a cantonal responsibility as well. The Swiss labour market did not utilise activation policies before the 1990s on a systematic basis due to almost full employment. One of the methods for achieving full employment was the use of labour migration as a labour reserve (Duell, Tergeist, Bazant, & Cimper, 2010, pp. 14, 21). However, as mentioned in the introduction, in the 1990s the Swiss labour market took a turn for the worse – albeit relative to its former success.¹⁶ The first consequence was the deterioration of surpluses of unemployment funds into large deficits, followed by a spill over into other welfare areas, most prominently social assistance and invalidity insurance (see Figure 4).

Figure 4 Caseloads of invalidity insurance, social assistance and the unemployment rate in Switzerland 1990-2010. Source: Champion 2011



Not only were the rising unemployment-related benefit caseloads a point of concern, but the steep rise in invalidity insurance indicated that this scheme was being misused to offload UI and SA beneficiaries into invalidity pension. “The fact that the incidence of psychological problems as the cause of invalidity increased throughout those years may prove these suspicions right” (Bertozzi, Bonoli, & Ross, 2008, p. 127). Giuliano Bonoli and Cyrielle Champion argue that there were three stages in the reaction to the rising unemployment-related benefit caseloads. The first was what they call ‘cost-shifting’ of the early 1990s. The second stage, in the early 2000s, was a greater collaboration of agencies. In the second half of the 2000s the final stage was policy innovation (Bonoli & Champion, 2014, pp. 8-9).

The initial response was very pronounced: the caseload of invalidity insurance almost doubled over the course of 15 years (Figure 4). However, this was not the only form of cost-shifting. Local employment offices covering mostly UI beneficiaries (cf. infra) had strong incentives to get rid of clients that were hard to place because they are judged on the speed of reintegration; this could result in a shift towards invalidity but it could also be towards social assistance (Bertozzi, Bonoli, & Ross, 2008, p. 125). Cantons, on the other hand, had strong financial incentives to offload their

¹⁶ This recession and employment crisis should be interpreted in context: unemployment rose from 0,5% in 1990 to 3,8% in 1993.

caseloads on federally financed invalidity insurance – by actively assisting them in filing for invalidity insurance – but also on unemployment insurance (Bonoli & Champion, 2014, p. 10). It was a widespread practice, in the early 1990s, to set up cantonal job creation programmes related that would provide jobseekers with the needed coverage and tenure to ensure renewal of eligibility for UI. These job creation programmes were an integral part of the cantonal UA programmes. In other words, these UA job programmes were used to renew UI eligibility and thereby dumping caseloads back onto federally financed UI. Similar practices were later also prevalent in some SA job creation schemes. Some of the cantons were even fairly open about the goals of these programmes being to renew UI eligibility (Bonoli & Champion, 2014, pp. 9-10). This instance of institutional moral hazard is reminiscent of Belgian municipal job centres (OCMW/CPAS) using similar methods to offload social assistance caseloads on UI (cf. chapter on Belgium).

A second type of cost-shifting entailed ‘changing the rules’. The federal government reformed the underlying legislation of several social security arrangements: on one hand it tightened the accessibility of some of the different schemes, and on the other hand it introduced activation policies. Accessibility of invalidity insurance was tightened and coupled with activation, while on the other hand the option for the renewal of UI eligibility through public programmes was abolished (Duell, Tergeist, Bazant, & Cimper, 2010, pp. 21-22). This was done during the 1995, 2003 and 2011 revisions of the AVIG/LACI. Besides closing these loopholes for dumping caseloads, these revisions had other implications for the regulation of unemployment. Substantial additional funds for ALMPs were made available and a system of 100 regional PES offices (RAV/ORP) was created.¹⁷ Before the 1995 reform, some 3000 local offices were in charge of activation. This reform raised ALMP spending, as a proportion of total spending on UI, from slightly above 3% in 1990 to almost 12% in 1999 (Bertozi, Bonoli, & Ross, 2008, p. 129). These offices fall under the auspices of the cantons, the services must be in accordance with a federally prescribed list of ALMPs – exactly which of these prescribed policies are utilised is up to the cantons. Initially, these cantons were monitored by the federal level based on input measures, but this was switched to an outcome-based system in 2000.

There has been much discussion about the scope and desirability of the federal role in activation policies, with some initiatives launched to place activation strategy and control completely with the federal government and to introduce a bonus/malus system, but these attempts failed in favour of a cantonal peer review and benchmarking system (Duell, Tergeist, Bazant, & Cimper, 2010, p. 51).¹⁸ Besides the regional PES offices, Switzerland is also characterised by the use of private agencies. This is true for sickness insurance systems, but also for activation and placement services. Funds are dispersed to the cantons, which then subcontract those agencies. The role of private agencies is not to be underestimated; in 2008 their share of interventions was around 70 or 80% (Duell, Tergeist, Bazant, & Cimper, 2010, p. 46). Regional PES offices contract out all ALMPs besides job search and placement activities to these private agencies but the private agencies are not allowed to check employability or impose sanctions – in the case of misconduct they must inform the regional PES office. When services are contracted out, the cantons remain politically responsible for the services rendered.

The regional PES offices, under the responsibility of the cantons but monitored by the federal government, are legally obliged to provide job search assistance to every job seeker requiring it, irrespective of whether she receives UI or not – the regional PES funding is contingent on the rate of registered jobseekers not just UI recipients. In practice, however, they predominantly serve UI

¹⁷ See [Article 85b of AVIG](#)

¹⁸ The attempt to implement a financial bonus/malus system was abandoned after practical difficulties. These difficulties were the result of resistance at local offices (Duell, Tergeist, Bazant, & Cimper, 2010, p. 51).

beneficiaries. The federal rules on types of ALMPs and monitoring only pertain to UI beneficiaries. The regional offices also service social assistance claimants; they can do so either by delivering other (cantonal or municipal) developed and financed measures or with UI programmes, but social assistance claimants are not counted towards the outcome-based performance review system. The federal involvement is predominantly aimed at UI beneficiaries. Concerns over the disparity between activation strategies for SA and UI clients were addressed by an attempt at inter-agency collaboration – the aforementioned ‘second stage’ of the reaction to the unemployment crisis in the 1990s (Bonoli & Champion, 2014, pp. 11-12). It is possible to contrast the Swiss attempt to remedy dichotomisation to the German and the Austrian (cf. the chapters on Germany and Austria). Rather than a centralisation, the Swiss opted for inter-agency cooperation in which the same division of labour is maintained.

Among other initiatives,¹⁹ inter-agency collaboration included setting up two pilot projects; one for the cooperation between regional PES offices, SA offices and cantonal disability offices (Medizinisch-Arbeitsmarktliche Assessments mit Case Management or MAMAC) and the other concerning a single one stop-shop for everything work related (*Pforte Arbeitsmarkt*) (Champion, Pisoni, & Bonoli, 2014, p. 15). MAMAC was an attempt to comprehensively address the needs of benefit claimants with complex needs. It included tripartite assessment of employability, a binding activation agreement with the beneficiary and a determination of which agency was responsible for delivering ALMPs and the follow-up (Champion, Pisoni, & Bonoli, 2014, p. 33).²⁰ *Pforte Arbeitsmarkt* is a more recent inter-agency collaboration pilot. Based in the Canton of Aargau, the pilot involves the establishment of a single gateway that houses the regional PES, the SA and the disability office. “The creation of the single gateway has gone together with a reorganization of the individual support offered to benefit claimants based on their employability rather than benefit status, the integration of all portfolios of ALMPs, and the creation of one specific employer service. To keep the focus on work, the task of benefit payment remains performed separately outside the new job center” (Champion, Pisoni, & Bonoli, 2014, p. 47). A cooperation of a different sort (inter-cantonal) involves the aforementioned setting of common guidelines for SA. This initiative comes from the side of the cantons themselves, and even though there has not been a result in terms of an overarching strategy, the SKOS/CSIAS guidelines can be seen as a soft form of a social assistance framework. Nevertheless, Bonoli and Champion qualify the first two stages of the reaction to the rising caseloads as a (perceived) failure (2014, p. 12).

The final stage in the reaction to increasing caseloads and increasing incidence of long term unemployment in Swiss has been policy innovation from below (Bonoli & Champion, 2014, pp. 12-13). Several subsequent attempts from the federal level to implement a federal law or a restructuring of social assistance have failed. Some municipalities have responded by setting up their own activation offices within their social assistance offices. However, as Bonoli and Champion noted: these offices continue to see themselves “as responsible for social support rather than for promoting labour market participation” (2014, p. 13). The fact that the caseloads of social assistance stabilised (in relative terms) also removed most of the direct pressure for activation reform. The mismatch between the federally designed and financed system, administrated and implemented by the cantons – although with significant leeway in activation policies – and the haphazard system of activation for social assistance claimants continues to this day.

¹⁹ Such as the creation of “integration competence centres for migrants” and a “procedure of interagency collaboration disability offices and private actors involved ahead of disability benefits” (Champion, Pisoni, & Bonoli, 2014, p. 15).

²⁰ 16 cantons participated, the pilot was only aimed at new beneficiaries. It ran from 2005 to 2010.

5. Activation of Unemployment Insurance

Before 1995 thousands of local (municipal) offices delivered merely marginal²¹ activation services, and the 1995 reform that introduced the network of 100 regional PES offices changed this. The federal legislation requires the cantons to set up these offices. The offices contract out the delivery of services to private (often non-profit) agencies, but in doing so the political responsibility remains with the cantons. In essence, the federal level, by means of the AVIG/LACI and the Job Placement Act²², sets the framework for and objectives of the national activation strategy – although this strategy only covers UI beneficiaries (Duell, Tergeist, Bazant, & Cimper, 2010, p. 43). It is the cantons that administrate the offices and are responsible for the delivery of services and the formulation of placement strategies. Which ALMPs are utilised and which delivery strategy is developed is up to the cantons themselves. Their responsibility is, thus, not solely to administrate and implement but also to play a strategic role.

The AVIG/LACI dictates which types of services can be delivered to UI beneficiaries (Table 1).²³ The first category mentioned is education, such as reintegration or retraining services. Secondly there are employment measures such as temporary job offers, internships or motivational semesters. Thirdly mentioned are vocational adjustment measures for harder to place jobless workers, which is essentially a work trial during which they receive less pay but are reimbursed through benefits – which is operated through employer subsidies. Then there are training allowances for persons over 30 years old who lack vocational training. Finally there is a separate category of additional measures such as the promotion of self-employment allowances and contributions towards commuter expenses. The AVIG/LACI also stipulates which sanctions are required in which instance.

Table 1 ALMPs eligible for UI under federal law. Source: AVIG articles 60-71d

Education measures	Individual or collective courses for retraining, additional education or inclusion only through training firms or apprenticeships
Employment measures	Temporary employment programmes, job training (internship) and motivation semester.
Vocational adjustment/training grant	Employer can hire an insured jobless worker over 30 for reduced pay as a trainee, with the government providing a grant to compensate for the loss of income (no more than 60% of the normal wage).
Expense compensation	Compensation for commuter costs and additional occupational expenses
Promotion of self-employment	90 daily allowances for the planning phase of a self-employment project

Due to the cantonal authority over which services are rendered, the differences between cantons can be large: “for instance, the share of training measures compared to all ALMPs – measured by the number of yearly places – can vary from 10 to 71% depending on the selected canton” (Bertozzi, Bonoli, & Ross, 2008, p. 147). An evaluation study has shown that there are very different styles of activation, three categories being made: skills-oriented and training-focused with relatively little sanctioning; strict activators, which rely mostly on employment measures and strict sanctioning; and less strict activators which rely heavily on employment measures but do not sanction as harshly (Egger, Dreher & Partner, 2006). Some studies show that minimalist and strict activating strategies are often the result of lower unemployment rates while skill-oriented strategies are often

²¹ These services were referred to as “stamp controls”, as the offices had little capacity to council, educate or refer clients (Duell, Tergeist, Bazant, & Cimper, 2010, p. 68).

²² Which predominantly regulates the relationship between the regional PES offices and the private agencies.

²³ See [Articles 60-71d of AVIG](#), [Article 59d](#) specifies the conditions under which non-UI beneficiaries can receive UI ALMPs.

accompanied by higher unemployment rates; however, exogenous economic circumstances only explain a third of the observed variation, so it is likely that political and administrative factors play an important part in the shaping of cantonal activation strategies (Duell, Tergeist, Bazant, & Cimper, 2010, p. 49).

Articles 85-85h of the AVIG/LACI determine the responsibilities of the cantonal job centres. They should receive and advise the unemployed and provide programmes when necessary, either themselves or through cooperation with third parties. It is purely a cantonal responsibility to check eligibility for UI and employment measures and to refer beneficiaries to programmes – which cannot be contracted out to third parties. The cantons are required to institute a tripartite advisory board that is informed of all the measures taken by the offices and they are required to cooperate with other public institutions such as the federal ministry and cantonal social service offices. The cantons are completely responsible for the logistical operation of the regional centres, including the management and training of staff. Finally, the regional centres can develop their own ALMPs apart from the federally sanctioned measures (but only for SA clients, not for UI clients) (Duell, Tergeist, Bazant, & Cimper, 2010, pp. 48-49). SA clients served by the regional PES can receive both federally legislated ALMPs²⁴ and those designed by the cantons. In practice, most cantons and municipalities serve the social assistance claimants in their own social assistance offices.

The operations of the cantonal job centres are subject to some federally imposed minimum requirements. Jobseekers should register at their local authority on the first day of unemployment at the latest and the local authorities must forward this registration to the regional job centre within a week. The first interview must be held within 15 days of the initial registration and counsellors are required to hold one interview with each jobseeker at least once every two months.²⁵ The substance of these interviews is not predetermined by the federal government, and, furthermore, there is no national profiling system in place (Duell, Tergeist, Bazant, & Cimper, 2010, p. 64). Moreover, although they almost always stay within the federal regulatory timeframe, there is evidence that the regional PES offices show large variation in the amount of interviews carried out (Bertozzi, Bonoli, & Ross, 2008, p. 146). The regional PES offices are funded from the same source of revenue as the UI benefits: the federal unemployment insurance fund (AC).

²⁴ Under specific conditions outlined in [Article 59d](#) of the AVIG.

²⁵ See Articles [19](#) and [22](#) of the AVIV

6. Activation of Social Assistance

Activation of social assistance claimants remains a fragmented system. It is completely left to the cantons to implement legislation thereof. The SKOS/CSIAS non-binding guidelines also cover the activation of SA beneficiaries. However, the implementation of activation recommendations is extremely loose, varying considerably across Cantons and social workers (Bonoli & Champion, 2013).

Due to the fact that newly unemployed workers must register with their local authorities rather than the regional PES office, and since only a minority of the people who have exhausted UI remain registered at the regional PES office (Duell, Tergeist, Bazant, & Cimper, 2010, p. 21), the (regional and sometimes municipal) SA offices remains very crucial institutions in the activation of SA beneficiaries (Bonoli & Champion, 2014). The fact that the regional PES may serve SA clients can create incentives for cantons to try and shift the costs of activation towards the federally financed system. However, SA beneficiaries are subjected to a different treatment than the UI beneficiaries by the regional PES (Duell, Tergeist, Bazant, & Cimper, 2010, p. 50). This is linked to the performance management system to which the regional PES offices are subject – which only accounts for the activation of UI beneficiaries.²⁶ When social assistance beneficiaries receive ‘regular’ ALMPs, the cantons have to co-finance 50% of the costs of those measures.²⁷ The inherent bias towards UI clients, less minimum requirements for the activation of SA clients, and the co-financing of policies limits the perverse incentives for cantons to dump activation caseloads from SA offices to the regional PES offices.

This complex system is the result of federal policy competences concerning the reform of SA (and activation thereof) and the introduction of PES offices as a subpart of UI. UI reforms in 1995, 2003 and 2011 closed some ‘loopholes’ to prevent dumping caseloads financed by the cantons (SA and UA) to federally financed benefits. However, this does not eliminate all possibilities for dumping. In some cases, cantons hire lawyers for SA clients in order to maximise their chances of getting incapacity benefits. Even though this is not pure dumping because – as those cantons would argue – such actions can be seen as a way to help people get the right benefit, it is still a way for cantons to influence federal budgets by ‘nudging’ caseloads from their payroll to the federal one.

The lack of a federal take-over of SA is a stark contrast to Germany (and Austria to some extent). Bonoli and Champion argue that Germany went through a similar process in the 1990s and early 2000s, but did realise a federal takeover of SA activation (2014, p. 13). They argue that inaction is due to two factors: first of all, federal politicians deemed a social assistance reform too risky, and secondly, caseloads stopped rising (in relative terms) in the mid-2000s. Even though caseloads are still rising in absolute terms, it has clearly not been enough of an increase to prompt a reform of SA benefits. Bonoli’s and Champion’s analysis suggests that as a result of inaction, both dumping and (perverse) negative behaviour had an impact on the system pre mid-2000s, but that the risks of reform outweighed the benefits and in addition, levels of government tried to avoid ‘owning’ social assistance caseloads rather than trying to claim credit for possible reductions (Bonoli & Champion, 2014, p. 17). However, by eliminating the institutionalised pathways for dumping, and since cantons themselves finance both the SA benefits and most of its activation, there does not seem to be much cause for concern over institutional moral hazard in this regard. We do not argue that the Swiss SA system is without flaws, but rather that there is no large ‘insured risk’ to be manipulated by perverse

²⁶ Cf. *infra* for a more detailed account of the performance management system.

²⁷ See [Article 59d](#) of the AVIG.

behaviour of the cantons – or at least that the possibilities of manipulating the insured risk are limited enough not to prompt a federal take-over of SA.

7. Concern for institutional moral hazard

Concern for institutional moral hazard has had an impact and has inspired many reforms of the Swiss UI system. This is unsurprising given the fact that the Swiss UI and SA are generous schemes and are characterised by multi-layer financing, design and implementation responsibilities. In other words, the multi-layering of responsibilities could create perverse interactions and the generosity of the system can create the incentives to exploit those interactions. The reform actions taken can be categorised along four lines: those limiting the possibilities for dumping caseloads, methods that adjust financing methods, those adjusting performance management and actions that reduce the potential for individual moral hazard.²⁸

We take the 1995 reform of the UI legislation as a point of departure for this section. It dealt with the reduction of benefits but also the extension of the maximum duration of benefits. At the same time, this reform terminated the possibility for renewal of UI eligibility through the participation in UI activation programmes. In effect, it ended the possibility for clients to prolong UI indefinitely. In other words, the 1995 reform abolished the *de facto* open-ended nature of Swiss UI.²⁹ Furthermore, reforms of disability insurance restricted the potential for inflows into the disability insurance scheme. The ambition of disability insurance reforms was to “help strengthen the principle of ‘priority of integration over [disability] pensions’, and increase the frequency of vocational rehabilitation measures among new inflows, including for persons diagnosed with a mental disability” (Duell, Tergeist, Bazant, & Cimper, 2010, p. 22). Since the early 2000s the number of disability pensioners stabilized and eventually reduced, while the number of activation measures raised significantly. In 2003 and 2011, the AVIG/LACI was reformed again to, among other things, prevent the misuse of eligibility renewal for dumping caseloads from SA/UA onto UI (Champion, Pisoni, & Bonoli, 2014, pp. 24-25). Cantons would promote (or even oblige) the participation in job creation programmes (predominantly in the public sector) which were subject to the payment of social contributions and thereby would renew entitlement for UI. In effect, cantons would dump their long-term unemployed back onto the federal budget. Summarising for this paragraph, the federal government ended the *de facto* open-ended nature of UI, prevented further dumping of caseloads onto disability benefits and prevented the dumping of cantonal caseloads on UI.

Other elements of UI reforms were aimed at a cost-reduction and more austerity, however they did have an impact on the cantonal possibilities to manipulate an insured risk: the cost of activation. One of the first policy reactions in early 2000s introduced budget ceilings, both for administration and the allocation per jobseeker. However this did not prevent a rise in allocation per jobseeker: the utilisation of the federal budget increased from 77% in 2002 to 91% in 2008 (Duell, Tergeist, Bazant, & Cimper, 2010, p. 54). Therefore, subsequent changes to ALMP funding were aimed at the formula for the transfer of ALMP funds. In 2008, this formula changed from a linear one in favour of a degressive formula. Funding is still based on the rate of registered jobseekers but as that rate increases, funding per jobseeker decreases.³⁰ Brackets were introduced, meaning that for a jobseeker

²⁸ A possible avenue for institutional moral hazard, which is very specific one or two cantons, is the (mis)use of UI as a way to support seasonal workers in cantons that attract a lot of tourists (notably: Valais). Seasonal workers can use UI as a temporary source of income in the offseason, renew their eligibility during the tourist season and repeat this over and over.

²⁹ A similar system continues to exist in Belgium where through participation in activation UI eligibility can be renewed periodically.

³⁰ The jobseekers rate is determined by dividing the total number of unemployed (including those who are not UI-eligible) by the total employed persons * 100 (SECO, 2009, p. 9).

rate below 1,2% funding per jobseeker amounts to CHF 3.500, when the rate is between 1,2% and 4% cantons receive CHF 2.800 per additional jobseeker, and CHF 1.700 is received for jobseekers within the 4% to 10% bracket (2010, p. 54). Cantons receive no additional funds for additional jobseekers above the 10%. A third adjustment to ALMP financing methods relates to the funding for ALMPs that are utilised for the activation of social assistance claimants. As stated above, the regional PES offices can and do also serve social assistance beneficiaries, for those holding either cantonal ALMPs or regular ALMPs. Cantonal ALMPs, provided both through municipal centres and regional PES offices, fall under the fiscal responsibility of the cantons. The regular ALMPs provided for the social assistance beneficiaries by the regional PES offices are co-financed. Formerly the cantons were obliged to fund 20% of the costs of these ALMPs, and if they did not fulfil their fiscal responsibility the regional PES office would give priority to UI beneficiaries over SA. The 2011 revision of UI legislation raised the cantonal contribution from 20% to 50% (Duell, Tergeist, Bazant, & Cimper, 2010, p. 53).³¹

The third category of UI legislation revisions pertains to the introduction of a performance management system. In 2000 a federal system for comparing the cantonal performance was implemented. For this an agreement was created between the federal level (the department for economic affairs) and the cantons, to be renewed every 3-4 years (Bertozzi, Bonoli, & Ross, 2008, p. 148). Originally, the idea behind this review was to couple it with financial incentives—a bonus/malus system. However, this system was met by cantonal resistance and was abandoned in 2002 (2008, p. 148). The idea of performance indicators has remained; however, the Swiss opted for outcome indicators, 4 of which were selected with different weightings (Table 2). The federal evaluation is also meant to provide advice in the form of the identification of best practices. The performance management system creates a relative ranking of cantonal performance, which focusses on the progression (rather than absolute performance) of the cantons concerning UI. This performance management system controls for economic circumstances. If cantons experience a negative downturn in the activation for their UI caseload, it may be subjected to an in-depth individual performance review (Bertozzi, Bonoli, & Ross, 2008, p. 149).

Finally, reforms of UI included the reduction of possibilities for individual moral hazard. The concepts of ‘suitable work’ and ‘work availability’ were tightened and subjected to a fixed set of criteria.³² Additionally, the sanction regime in Switzerland is among the strictest in the OECD (Duell, Tergeist, Bazant, & Cimper, 2010, p. 89). Individual moral hazard has, thus, been very much in the mind of Swiss policy makers and the Swiss regime has been adapted to counteract the opportunities thereof.

Table 2 Regulated indicators for the review of cantonal performance

Indicator	Weighting	Type
Average duration of unemployment with benefit entitlement.	50%	Intermediate outcome
The share of individuals unemployed for more than 1 year out of the total number of unemployed.	20%	Intermediate outcome
The share of unemployed individuals no longer entitled to federal benefits out of the total number of unemployed.	20%	Intermediate outcome
The share of previously unemployed individuals having reintegrated into the labour market that reapply for unemployment benefits within 4 months of being taken off unemployment insurance.	10%	Final outcome

³¹ Unlike the other reforms concerning the financing of activation, the increase in the cantonal co-financing of SA activation has been explicitly aimed at reducing of what we call institutional moral hazard.

³² See [articles 15 and 16 of AVIG](#).

The concern for both institutional and individual moral hazard has been increasingly institutionalised over the years. This has been a fairly comprehensive adjustment, aimed the issues of dumping, financial incentives structures, performance management and individual moral hazard. However, the majority of these revisions relate to UI rather than SA. The changes in SA pertaining to institutional moral hazard have been indirect: the closing off of pathways for dumping and increase the rates for cantonal contributions. As SA is financed by the cantons themselves, and the majority of activation policies implemented for social assistance are also financed by the cantons, there seems to be little cause for the federal government to implement further measures to reduce institutional moral hazard incentives. To be clear, this does not mean that the social assistance regime is without problems or that there could not be a better inter-institutional collaboration. But from an institutional moral hazard viewpoint *sensu stricto*, there are limited possibilities for cantons to manipulate an 'insured risk'. Cantons still have some limited possibilities to shift caseloads and to use federally co-financed ALMPs for SA clients. The increase in cantonal co-financing by the federal government is testament to that fact. However, their impact is limited (compared to the dumping of caseloads after the 1990s employment crisis) and it did not provoke major revisions of the regulation of (SA) unemployment.

8. Analytical grid

Table 3 Analytical grid Switzerland. Source: own compilation.

		Unemployment benefits (AVIG/LACI)	Activation of individuals with unemployment benefits	Unemployment-related social assistance/income support benefits	Activation of individuals with social assistance benefits
1	Degree of decentralisation (i.e. extent of flexibility on lower level) w.r.t. design of the policy: <ul style="list-style-type: none"> - Formal regulation - Policy goals 	No decentralisation	Medium decentralisation Federal level provides broad regulation concerning regular activation policies (which are only for UI beneficiaries) and it prescribes a system of minimum requirements.	Total decentralisation Non-binding common guidelines by inter-cantonal cooperation conference (SKOS/CSIAS)	Total decentralisation Non-binding common guidelines by inter-cantonal cooperation conference (SKOS/CSIAS)
2	Degree of decentralisation (i.e. extent of flexibility on lower level) w.r.t. implementation of the policy	No decentralisation Disbursement and administration is performed by UI funds but they do not have any policy autonomy concerning UI.	High decentralisation Implementation is done by regional (cantonal) job centres. Cantons formulate their own strategy: they may only provide the regular services to UI clients but the choice in which of these services are provided to whom is up to the cantons themselves.	Total decentralisation The cantons are completely responsible for the implementation of SA, without any federal intervention whatsoever.	Total decentralisation SA clients can receive services from regional job centres (the same as for UI clients) and from municipal welfare offices. Municipal welfare offices provide their own services, and at the regional job centres SA clients can receive regular services or additional services designed by the cantons.
3	Budgetary responsibility	Federal The federal unemployment insurance fund (AC) is 92% financed by employer & employee contributions, 6% by federal level and 2% by cantons	Federal Activation is financed out of the AC (cf. cell 3 in the column on UI).	Cantons & municipalities It is a cantonal competence to legislate SA. Cantons can direct municipalities to co-finance SA.	Cantons, municipalities and the federal level. The municipalities fund their own services. Federal funds (AC) are used for the regular services but those must be co-financed by the cantons as well (50%), and cantons finance 100% of the additional services they designed.
4	Budgetary transfers between levels of	Yes	Yes	n.a. with regard to the federal-	Yes

	government?	From the cantons to the AC but these transfers are very limited (only 2% of AC funding).	Funding for activation is transferred from the AC to the cantons. Cantons contribute to the AC (however these are marginal compared to federal funding).	cantons relationship. In some cantons municipalities do contribute to SA costs.	Some of the SA caseload receives regular services. These regular services, however, must be co-financed (50%) by the cantons.
5	Structural redistribution? (measured on a per-capita basis)	Yes Cantonal caseloads differ structurally	Yes Cantonal caseloads differ structurally. The redistributive impact is limited by a degressive formula which entails that funding per client becomes less when the unemployment rate is high. Above 10% unemployment rate the cantons receive no additional funds per client.	n.a.	Yes But only concerning the SA caseload that receives regular services. The redistributive effect is more limited than that of UI activation because only a portion of the SA clients receive those services, which must then be co-financed by the cantons.
6	Political or managerial decentralisation/delegation?	n.a. The UI funds act as agents for the federal level with regard to the implementation of the UI scheme, but they do not have policy autonomy.	Political	Political	Political
7	Indicators used in the monitoring of lower-level performance by higher level (on the basis of: input, output and outcome)?	n.a.	Yes Based on 4 outcome measures.	n.a.	n.a. The SA clients who receive services at the job centres are not counted towards the outcome indicators used for the monitoring of activation of UI.
8	Is a system of 'minimum requirements' applied?	n.a. The legislation concerning UI and the implementation thereof is tightly regulated at the federal level.	Yes Federal legislation dictates the timing of initial registration and the first interview and also prescribes the frequency of follow-up interviews and the definitions of 'suitable work'	No The only federal stipulation concerns the cantonal duty to provide 'a minimum subsistence level'. Non-binding common guidelines by	No Non-binding common guidelines by inter-cantonal cooperation conference (SKOS/CSIAS)

			and 'work availability'.	inter-cantonal cooperation conference (SKOS/CSIAS)	
9	Are performance based-sanctions/rewards applied by the higher level at the lower level?	n.a.	Yes No financial incentive structure, only a possible in-depth review (shadow of hierarchy)	n.a.	n.a.
10	Conclusion from 5-6-7: perception of, concern for, and approach to problems of institutional moral hazard?	Yes Institutional moral hazard is possible: cantons have no inherent incentives to activate. This has been addressed through a system of minimum requirements, a system of performance measurement and a degressive formula that limits federal funding for cantons with high unemployment rates.		Yes Cantons were able to shift SA caseload to UI through renewal of eligibility. These loopholes have been mostly closed. Additionally, cantons can use regular ALMPs funded by the federal AC for SA clients. This has been addressed by (an increase in) cantonal co-financing of those regular ALMPs for SA clients.	
11	Conclusion from 5-6-7: approach to principal-agent issues?	(n.a. to the role of UI funds w.r.t. UI benefits. The central government has tightly regulated these funds w.r.t. the administration of UI benefits.) P-a is not applicable to UI activation (decentralisation has a political character).		n.a. (due to the political nature of decentralisation we do not apply p-a concept here).	
12	Contribution to macroeconomic stabilisation by the benefit system	The Swiss case is not available in Dolls and Peichl.			

9. Conclusion

Switzerland is somewhat of a hybrid between the Anglo-Saxon and the continental welfare state types: its brand of federalism shows features of both German and US types of federalism and its unemployment-related schemes are generous while dismissal protection is very flexible. Historically, the role of the federal government has been more limited than in countries such as Austria and Germany; it could be said that Switzerland's federalism is aimed at preserving and fostering regional diversity. This predisposition has been present throughout Swiss history. While most federal states reacted to the WWI, the Great Depression or the post-WWII area with a federal obligatory UI scheme, Switzerland only introduced such a scheme in 1982. Direct democracy and federalism have pushed back against a growing federal involvement in social security, but once institutionalized, it was these same forces (and especially direct democracy) that also shielded the Swiss welfare state from retrenchment in some cases.

For a long time, institutional moral hazard was not a source for concern for the Swiss. Full employment created a context in which benefit schemes were not of much importance and did not interact as much as during times of rising caseloads. Furthermore, there were almost no activation systems in place – as there was no real need. The employment crisis of the 1990s changed all that when Switzerland was confronted by rising caseloads and the cantons and the federal governments responded initially by trying to offload their caseloads onto other schemes. Such a reaction was unsustainable and other reforms quickly followed. The federal level initiated a network of regional PES offices that were in charge of activating the UI beneficiaries. This system was then subjected to performance review and changes in its financing methods, without which the cantons would have had little incentive for activating federally financed UI beneficiaries. Other important adjustments were the elimination of pathways for dumping caseloads.

This last reform also had an impact on the very fragmented SA system, which is completely under the responsibility of the cantons. Currently, the interaction between the UI and the SA system is mostly limited to the activation of SA clients in the regional PES offices. The federal government forced cantons to pay for half of the costs that these regional PES offices incur in the activation of SA claimants. Furthermore, the Swiss federal government started to promote inter-agency collaboration to overcome the disparities between UI and SA (activation) caseloads. This is quite the opposite reaction of Germany, which faced a similar problem and went through similar stages, but in the end opted to bring activation of SA under federal control. So rather than trying to adjust incentives for moral hazard, the Swiss reaction was to attempt to eliminate the possibility of moral hazard altogether.³³ However, Switzerland still has one of the most fragmented SA systems of all OECD countries.

The Swiss case demonstrated many possible sources for moral hazard, but has also shown many policy reactions to these instances. Institutional moral hazard, thus, played a major role in policy making within the Swiss social security system.

³³ With the exception of regular ALMPs provided through regional PES offices.

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