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Unemployment benefits, activation and the interaction between levels of government

Experiences with moral hazard in multi-tiered
labour market governance systems

Frank VANDENBROUCKE & Chris LUIGJES
Public Economics

Faculty of Economics
And Business



UNEMPLOYMENT BENEFITS, ACTIVATION AND THE INTERACTION BETWEEN LEVELS OF GOVERNMENT

Experiences with moral hazard in multi-tiered
labour market governance systems

Prof. Dr. F. Vandenbroucke & C. Luigjes MSc.

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Background

A consensus is developing concerning the need for a supranational automatic stabiliser in EMU, as acknowledged in the Commission Blueprint¹ and the Four Presidents' Report.² Such stabilisers smooth cyclical fluctuations, restraining booms and busts and stabilise the economic and social situation in the Member States most affected by crises.

The Communication on the Social Dimension of EMU³ reaffirmed that, in the long term, "it should become possible to establish an autonomous euro area budget providing the euro area with a fiscal capacity to support Member States absorb shocks". However, it also drew attention to the fact that supranational EU automatic stabilisers need to be seen as a long-term project, notably in view of institutional issues concerning possible Treaty changes. As a result, discussions on concrete proposals for the implementation of a fiscal capacity have not yet started.

Discussions have started in academic circles, where proposals typically take the form of a transfer system across Member States and a centralisation at euro-area (or EU) level of some counter-cyclical public expenditure (such as an unemployment benefits scheme – or UBS). However, more analysis is needed in order to assess in-depth the different options for a fiscal capacity.

One aspect of this analysis focuses on the interaction between the national and the supranational UBS. Specifically, there may be a risk of moral hazard when the supranational level pays (part of) a benefit but is not necessarily able to check crucial characteristics of the beneficiary (job search effort, eligibility, etc.). This involves a moral hazard risk at the individual as well as the Member State level. The experience of existing federal or heavily regionalised systems in the EU could bring useful lessons for a possible supranational UBS, such as regarding a set of common minimal activation conditions.

¹ European Commission (2012a), 'A blueprint for a deep and genuine economic and monetary union: Launching a European Debate', COM(2012) 777 final/2, http://ec.europa.eu/commission_2010-2014/president/news/archives/2012/11/pdf/blueprint_en.pdf

² Van Rompuy, H. (2012), 'Towards a genuine Economic and Monetary Union', Report in collaboration with José Manuel Barroso, Jean-Claude Juncker and Mario Draghi, Brussels, 5 December, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134069.pdf

³ European Commission (2013), 'Strengthening the Social Dimension of the Economic and Monetary Union', Communication from the Commission to the European Parliament and the Council.

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1. Introduction

There are some who consider supranational unemployment-based automatic stabilizers to be advantageous for the Euro area and the European Union at large (Deinzer 2004; Dullien 2007, 2012, 2014; French Ministry of Finance and Public Accounts 2014; see Figure 1). An E(MU)-wide unemployment benefit scheme could function as an automatic stabilizer but it could also create awareness amongst European citizens for the efforts and the advantages of the Union and it could reinforce convergence of social models. This paper focusses on stabilisation purposes and investigates issues of moral hazard. Even though the political climate in Europe is very hostile to further integration – in some countries more so than others – it would be wise to consider the merits of such proposals as it is the duty for public officials, politicians and researchers to look beyond the problems of today and to contemplate the solutions of tomorrow. If an E(M)U-wide unemployment benefit scheme, or some scheme that reinforces and supports national systems, could actually achieve at least some of the goals stated above, it warrants further investigation.ⁱ

In order to fully appreciate the possibilities and the limitations of a supranational scheme in combination with national schemes, it is paramount to learn from the experiences with actual real world practices of multi-tiered unemployment systems. Nearly everywhere in the European Union, but also in other Western countries, unemployment schemes are already multi-tiered in some form or another. Moreover, there is a strong European tendency to decentralise unemployment administration, social assistance and activation of the unemployed (Van Berkel & Borghi 2008, Wieshaupt 2010, Mosley 2011). It is crucial that, before we even think about adding another layer on top of existing unemployment schemes, we understand the realities and experiences of the (interaction between) existing layers.

This paper will focus on the decentralisation efforts and the experiences with multi-tiered systems of unemployment benefits, social assistance and activation that exist today in order to explore the issue of moral hazard. The current European trend of decentralisation is very much linked to activation and moral hazard. The issue of moral hazard is especially relevant for the solidarity among contributors of any unemployment related scheme. This is one of the reasons for enacting activation systems. Passive labour market policies, administering and disbursing cash benefits, are policies that are often executed at the central level. But the transition from passive to activating unemployment systems requires governments to have more intimate knowledge of unemployed individuals (Van Berkel & Borghi 2008). Activation, in this line of reasoning, requires tailor-made policies and the capacity to administer and monitor those policies. This logic mandates a decentralisation of labour market policies to local governments (OECD 2003: 12-17, Knuth & Larsen 2010). But besides the effort to bring activation closer to the unemployed, there are also other reasons for a multi-tiered system.ⁱⁱ Because there is a variety of motivations behind multi-tiered systems it does not come as a surprise that there are different forms of decentralisation. Bredgaard and Larsen try to bring order in the multitude of questions considering multi-tiered schemes and reforms. They identify two main dimensions: formal policy and operational policy (Table 1). Formal policy reforms concern the actual content of policies, whereas operational policy reforms deal with the relationship and the responsibilities of actors: who implements policy, who is responsible and to whom? Such questions are exactly the type of questions that are relevant for understanding the possibilities and limitations of multi-tiered systems. Therefore, the main focus of this paper will be on operational policy reforms. In practice, the difference between those two dimensions might not be so clear-cut.ⁱⁱⁱ

This paper will investigate different forms of multi-tiered labour market governance systems to draw lessons for possible E(M)U-wide employment based automatic stabilizers – and especially it will review experiences with issues of moral hazard. Different forms of multi-tiered governance relate to possible European schemes in different ways. First of all, the federal form of labour market governance decentralisation of the United States forms the inspiration for the works by Dullien. Arguably, the way in which the American states and the federal level relate to each other is more

akin to the relationship between the member states and the supra-national level of the EU than how municipalities and centralized governments relate to each other. The relation between the American states and the federal government (the leeway they enjoy in labour market governance) but also the size and demographic characteristics resemble the EU member states more closely than the characteristics of municipalities do. In order to assess whether we can draw any lessons from the U.S. experience we need to understand the institutional dimension of the U.S. experience. Secondly, the way in which municipalised or regionalised EU member states deal with issues of moral hazard might provide valuable insights for any policymaker contemplating supranational schemes. The European experiences are, thus, very relevant as well. Thirdly, any European scheme needs to take account of the variety of labour market governance in the European Union itself. In other words, the design of an E(M)U-wide scheme should accommodate or at least recognise the variety of its member states. This paper itself does not represent the full diversity of EU member states, it only deals with a subset of the possible range of constellations.

This paper will proceed in the following manner. Firstly, a theoretical framework will be constructed in order to understand the basic concepts inherent to multi-tiered labour market governance systems. Secondly, this theoretical framework will be used to select cases which represent the different forms of multi-tiered governance models. Thirdly, the institutional framework of the cases will be analysed. The insights gained from the cases will be combined with the theoretical framework in the 'results' chapter. Finally, the conclusions and pointers for further investigation will be outlined in the last chapter.

2. Multi-tiered Labour Market Governance

2.1 Types of multi-tiered labour market governance models

Before we take a look at the cases we must get an understanding of what exactly a multi-tiered labour market governance system entails. We should have some basic conceptualisation of the different forms, practical implementations and issues of moral hazard involved. This is to say, we want to fully appreciate the diversity within our cases on selected issues to draw lessons on full range of the possibilities which are open to policy makers. Furthermore, in order to select relevant cases one must come to grips with the existing diversity among different countries. As said, there are different forms of employment policy reforms and decentralisation, but there are also multiple classifications or typologies of such reforms. This paper takes the separation of formal and operational policy by Bredgaard and Larsen as a starting point (2008). From this starting point we will close in on the empirical level by building on Hugh Mosley who identifies a couple of practical forms of decentralisation and multi-tiered labour market governance (2011).

Hugh Mosley, in preparation of the PES to PES dialogue instigated by the European Commission, authored a most useful analytical paper in which he not only clarifies identifies some of the practical forms decentralisation can take, but also considers the link between policy goals and those different forms of decentralisation. Mosley, thus, focusses mostly on operational policy reform but does not neglect formal changes either. He differentiates between, what he calls, 'managerial' and 'political' decentralisation (2011).^{iv} This classification takes off where the difference between formal and operational reform ends (Figure 2). Managerial decentralisation is mostly driven by the desire for more efficiency and effectiveness. (Mosley 2011: 7). This form of decentralisation is very much influenced by *New Public Management* (NPM) and specifically by *Management By Objectives* (MBO). Reforms include measures such as the setting of targets and ways to measure progress for central agencies (or local offices thereof) to achieve. Sometimes local offices of central agencies are free to choose how to achieve the goals themselves, but often there is some sort of 'policy menu' from which local managers can pick the types of policies they see most fit for their local office. The goals and measurements, however, are centrally set and because of that, this type of decentralisation is actually a *refinement* of central authority (Mosley 2011: 6). In this sense it could be seen as a way to

combat moral hazard issues between levels of hierarchy (see section 2.2). Mosley states that this type of decentralisation is almost universal amongst EU member states and that the European Employment Strategy (EES) has been instrumental in the process of spread and diffusion of these policies (2011: 7). This form of labour market policy decentralisation pertains in the first place to local offices of a central or federal authority. Public Employment Services (PES) are, thus, perhaps decentralised but this does not necessarily entail any real transfusion of authority between layers of government. In other words, these MBO practices can also be applied between different *levels* of government. In essence, managerial decentralisation is not a true form of a multi-tiered system as a central or federal authority can remain in charge of both the design and implementation of policies. Multi-tiered systems often encompass elements of both types of decentralisation so it is paramount not to neglect one of the two forms of decentralisation.

Political decentralisation, on the other hand, is much more a true form of decentralisation and the essence of a multi-tiered system. Political decentralisation implies the devolution of labour market policy authority to lower levels of government. Local PES offices become formal political and legal entities under the responsibility of lower levels of government, which *could* have a very substantial freedom when it comes to formal policy change, policy innovation and the type of implementation. This form will be of the utmost importance for this paper, as it is the closest to a truly multi-tiered system. It is also the most complex form of decentralisation. Political decentralisation, according to Mosley, is not always the result of changes in formal labour market policy but can also be driven by pragmatic or political motivations such as ethnic or linguistic regional differences, the historical development of institutions – for example social assistance is often already decentralised - or the political desire for more autonomy (2011: 12-13). Political processes and formal policy changes are not mutually exclusive when it comes to motivation behind political decentralisation. Nor are political and managerial decentralisation mutually exclusive. It is very likely to see MBO or NPM influenced practices reflected in political decentralisation.

Political decentralisation can take different forms and those different forms are instigated by different motivations and goals. Mosley identifies three types: federal, regional and municipal.^v Essentially, these three types do not just represent decentralisation but are representative of the different forms of multi-tiered labour market governance models. These types *are* mutually exclusive. Federalism is characterised by the greatest autonomy for local government of those three types. Local government here is understood as states or cantons, which are responsible for a range of domestic policy areas including employment policies. Regionalised decentralisation is a form of a multi-tiered system in which regions have some responsibilities in certain policy fields, including employment policy. The term local government in this sense is understood as regions or provinces. Municipalisation, according to Mosley, is a form of decentralisation where municipalities have limited responsibilities in some areas of policy. In this case the responsibilities of municipalities often only explicitly include the activation of some or all unemployed – it is not uncommon for municipalities to be responsible only for social assistance (2011: 8). Table 2 shows a categorisation of European and North-American countries along these lines. Although we consider Belgium as much as a federal state as Canada or the US, we follow Mosley in classifying Belgium as an example of ‘regional political decentralisation’.

To understand the practical implications of decentralisation and multi-tiered systems we need to ask ourselves: in what dimensions of labour market governance can local actors obtain flexibility? Every dimension of labour market governance flexibility has its own practical forms. These are often presented as distinct and separate forms but are in practice, of course, not so distinct and certainly not always mutually exclusive. Furthermore, some forms of flexibility might look the same on paper but can be very different in practice.^{vi} Such issues require qualitative analysis. The ‘practical flexibility’ of local and regional levels of government in labour market governance is very clearly discussed in three prominent sources: Mosley (2011),^{vii} Froy *et al.* (2011) and the OECD LEED report

on flexibility in labour market governance edited by Giguère and Froy (2009, see also Table 3).

Table 4 identifies the most common practical forms of flexibility in managerial and political decentralisation. The purpose of the table is to provide an overview of possible practical forms of decentralisation and how they are divided among the two types of decentralisation. It is by no means exhaustive or conclusive. Another precaution is that most of the forms described are subject to a certain degree of flexibility themselves. Take for example ‘performance measures’: even though a very strict system might be in place in a specific country, it does not entail that every aspect of the policy implementation is covered by those targets. Some activities might be purposefully left out, they could be hard to capture in indicators or they might be left out of the analysis by happenstance. When performance management does not cover all relevant policy areas it creates what is referred to as “accountability gaps”. Such gaps could hinder the interaction between levels of government, but it is not uncommon that performance management systems deliberately do not cover some activities of local actors because this increases the flexibility of those local actors (Froy *et al.* 2011: 43).

2.2 Moral hazard

Moral hazard is a central concept in this paper. It can incur on two levels: the individual level (the benefit claimant) and the institutional level (the institution tasked with administration and activation of unemployment related benefits). But let us first to the concept itself: “At its strongest, the condition that there should be no moral hazard requires that both the probability, p , and the insured loss, L , should be exogenous to the individual. Less stringently, moral hazard is not a problem as long as individuals can influence p and L only at a cost to themselves greater than the expected gain from doing so” (Barr 1993: 92). Relating this to unemployment insurance, moral hazard means that the risk of becoming and staying unemployed becomes, to some extent, subject to deliberate choices of the individual. By insuring the risk of unemployment, the cost of moral hazard is born by the state (or the collective insurance fund). In social market economies, public authorities may be prepared to bear some moral hazard-related costs, given the benefits of the automatic stabilization function and their wish to protect individuals who are truly involuntary unemployed.^{viii} At the individual level, unemployment insurance alters the incentive structure to find employment at the first possible opportunity (Nicholson & Needels 2006: 6, 9). Especially with unemployment related benefits that have a long duration, the state or insurance fund is confronted with this altered incentive structure.

2.2.1 Activation: combatting moral hazard at the individual level and the consequences for moral hazard on the institutional level

Through altering the incentive structure of the individual, it is possible for the state to limit its risk of prolonged unemployment and therefore to reduce the risk of undesired high welfare expenditures. Activation and labour market services have partially been developed to deal with issues of moral hazard for individual benefit claimants (Calmfors 1995, Boone & Van Ours 2004: 4, Grubb 2004: 365). By engaging in job search-contracts with benefit claimants, through monitoring of requirements and by offering services, governments try to counteract the danger that unemployed benefit recipients would postpone their job search. Such activating services and monitoring responsibilities are most conveniently implemented at the local level, either through local subsidiaries of central actors or by local governments or operators (OECD 2003: 12-17, Knuth & Larsen 2010). Because such responsibilities are thought to be better situated at the local level, the authority over the funding benefits and the authority over the implementation of activation policies *could* get separated. In the case where the local level is required to perform and fund activating labour market services but does not bear the fiscal responsibility over the benefits, the incentive structure is skewed towards providing only limited services or even creating ‘shell’ programmes that are only activating in name. This specific form of moral hazard is termed ‘parking’ as the unemployed are parked in programmes

that do not actually entail any activation (Grubb 394-395; Nunn *et al.* 2009: 15-16). The following definition of moral hazard by Mosley, therefore, applies equally to the principal-agent relationship between the state and the individual as to the relationship between levels of government: “Moral hazard refers to the (ex post) condition that the principal is not able to monitor or assess (fully) the activities of the agent which enables the latter to various forms of non-compliance with the contractual terms, e.g. so-called shirking” (Mosley *et al.* 2001: 10). Moral hazard also occurs in situations in which one level of government bears the fiscal responsibilities for the benefits and another administers and disburses the benefit. In that relationship the costs of individuals prolonging their unemployment spell is not felt by the level that disburses and administers the benefit. The purpose of this paragraph has been to demonstrate that linking activation and benefit can create another level of moral hazard: the institutional or governmental level.

Another, related, possibility for the occurrence of moral hazard on the institutional level is when several benefits exist alongside each other, funded by different levels of government. A common example is when local governments fund social assistance and the central level funds sickness benefits. Determining whether or not a benefit claimant is eligible for either sickness or social assistance becomes an issue of moral hazard. This specific form is often referred to as ‘dumping’: intentional wrongful assessment of eligibility to transfer caseloads from one benefit scheme to another. These ideal-typical forms of moral hazard are represented in Table 6.^{ix}

2.2.2 Designing performance measurements to prevent institutional moral hazard

In any unemployment insurance system, the challenge for public authorities is to create incentives towards limiting the duration of unemployment. Such incentives can stem from low generosity or short duration of benefits but activation is part and parcel of the incentive system with which the unemployed are confronted. In a multi-tiered system that delegates activation to a lower level of government whilst maintaining the budgetary responsibility for benefits at the central level, the central level must secure the compliance of the lower level of government with the central objective of activation. To ensure compliance, the behaviour of agencies responsible for activation could be determined by higher levels of government, which is often attempted through performance measures, legal requirements, mandatory reporting, transparency and monitoring of the agencies involved.^x This is what Mosley described as ‘management by objectives (MBO)’ (2011: 6).^{xi} This can be done in two ways: ex-ante setting of operational objectives and performance targets or constant measuring and reporting the performance of operating units against these objectives. (Mosley 2001: 14). There are different kind of objectives or performance measures (Table 5). Three types of measures are differentiated: input measures (budgets, the amount of staff), process measures (also referred to in the literature as ‘output’, which are focussed on the actions of the service provider) and outcome measures, which can be subdivided into intermediate and final outcome measures (Grubb 2004: 358, Nunn *et al.* 2009: 2-3). The use of these indicators is inspired by agency-theory, which assumes that there will be less likelihood of moral hazard under conditions where principals and agents agree on goals, but only when performance can be accurately measured and tied to effort (Moynihan 2010: 31). It must be noted however that: “agency problems, especially moral hazard, are endemic to the performance management approach with its strong emphasis on achieving quantitative targets” (Mosley 2001: iii). Additionally, those conditions which are assumed by agency-theory are rare in public services (Moynihan 2010: 31). Moynihan even states that designing any performance management or contract-based system – a market model – not only creates opportunities for moral hazard to arise but also undermine the Public Service Motivation (PSM) of civil servants (2010; Heinrich 2007: 283-284). The irony is that it is exactly this type of intrinsic motivation that could be the best remedy against shirking performance management (Moynihan 2010: 25). This does not necessarily entail that performance management systems are inherently counterproductive. But there is a consensus in the literature that suggests that performance indicators must accurately, comprehensively and timely reflect actor behaviour, that this data must be robust and that there should be limited number of targets and finally that both levels must be

committed to those goals (Nunn *et al.* 2009: 16, 45; Heinrich 2007: 284; Mosley 2001: iii). Furthermore, performance management has costs, these costs are often opaque (Grubb 2004: 363; Mosley 2001: 91). In order to be effective, any performance management model must increase compliance and efficiency in such a way that it offsets the costs of the system itself. Performance monitoring could also be combined with incentive payments – bonuses. Studies have shown that these payments do not necessarily have to be high in order to affect behaviour (Mosley 2001: 97). But when performance measures are used to allocate bonuses and when these measures are easily manipulated it creates incentives for moral hazard (Heinrich 2007: 285). Additionally they may generate supply of services above the level of demand, leading to higher costs while not producing any added value (Grubb 2004: 363). The purpose of this paragraph is to explain that performance management can be used to enhance the compliance of lower levels of government, but that there are dangers and costs involved.

Concerning the practical uses of indicators: ‘input’ measures refer to what local governments or one-stop-shop operators work with (budgets or staff) and are not particularly common. When they are used, they do not actually incentivise behaviour per se. For example, when local levels of government are granted a specific budget the principal level runs the risk that the local level might not actually implement the budgets in an effective way. When local levels are required to provide a certain budget themselves, the principal level runs the risk that local governments dump their caseloads. Most common measures are ‘process’ performance measures. In essence, such indicators measure the efforts of the local subsidiaries and governments by keeping track of the amount of vacancies they administrate and the types and amounts of intervention policies implemented. Process measures, especially ‘intervention’ measures, are susceptible to parking (see Table 6). ‘Intermediate outcome’ indicators measures, focussed on the *direct* outcomes of the actions of PES, are different from ‘final outcome’ indicators, which are aimed at the social conditions which labour market governance systems should improve in general – e.g. employment rates of the population (Grubb 2004: 358, Nunn *et al.* 2009: 27-32). Intermediate outcome measures include general and specific out-flows of beneficiaries, the results of the vacancy registration and the average duration of benefits. These measures carry with them the danger of incentivising the creaming off of easy-to-place workers (Mosley 2001: 10-11; Nunn *et al.* 2009: 15-16). Final outcomes measures prevent the focus on the short term, as they include indicators as general employment rates and employment rates of specific groups. Specific forms of performance measures, namely penetration and quality measures, can be utilised to counteract some of the perverse incentives. The greatest challenge for the principal level is not so much combatting the individual moral hazard of beneficiaries, but rather creating a multi-tiered system that combats moral hazard on both the individual and the institutional level. It is hard to overstate the problematic nature of this challenge. To provide some guidance on the use of indicators and how to implement what type of performance management, the next section will look at the relevant institutional context-factors.

2.2.3 The institutional context of performance measurement systems

There is a strong consensus in the literature that powerful incentives are only optimal when performance can be readily measured in a straightforward way. [...] In fact, agency theory suggests that this finding is even more relevant for a high performance bonus system with aggregate (for example, state-level) measures of performance, where there are fewer competing agents by which to assess effort levels and more distinctive organizational or environmental contexts that influence performance outcomes. (Heinrich 2007: 284).

What we should take away from this quote is that it is crucial for any system which relies on incentivises and monitoring of behaviour in order to enhance compliance, to focus on behaviour which can viably be transformed into parsimonious performance indicators that reflect the actual actions and effects of those actions. It must be avoided – certainly on an aggregate level – that actors and their environments can distort the measurement or the outcomes of indicators. In section 2.2.2 it was noted that there was a consensus in the literature on the conditions for performance

indicators, there is also strong evidence that the performance measurement system must be compatible with the managerial strategy and the structure of the organisations (Heinrich 2007: 284; Grubb 2004; Mosley 2001: 95, Nunn *et al.* 2009: 4). Mosley identifies two ideal-types which correspond with political and managerial decentralisation: the more centralized and hierarchical agency model and the more decentralized self-administration model (Mosley 2001: 95). Grubb identifies more practical models in increasing order of flexibility: (1) traditional hierarchical management using centralised command and control with in-house service delivery; (2) continuous re-contracting with competing providers, including potentially arms-length public service delivery and where payments are set over the lifetime of a contract; (3) payment for results where payments are determined by levels of performance (volume and quality) over the course of the contract; (4) purchase of services directly by clients who exercise market choice (2004). Research suggests that the nature and incidence of cream skimming, parking, and other gaming activities are strongly influenced by institutional settings (Koning & Heinrich 2013: 463). The flexibility of local providers and the use of (private) third parties and contracts, thus, affect the probability and type of moral hazard issues. Grubb argues against the use of process indicators altogether because they would inherently incentivise parking and creaming (2004). Others point towards the costs of programmes, the ability of local providers to select clients and the likelihood of placing clients in jobs as major causes of creaming and parking. When programme costs are high creaming is more likely than parking (Koning & Heinrich 2013: 477). High risk clients, combined with high rewards is a recipe for the occurrence of creaming and parking – depending on whether these rewards are contingent on outcomes or process indicators. This effect is even stronger when local providers are able to select their clients. “In contexts where the risks to service providers of failing to meet contract expectations are greater, due to factors such as client characteristics that portend barriers to successful outcomes, high powered, performance-based contracts are more likely to induce unintended effects such as parking” (Koning & Heinrich 2013: 480).

It becomes clear that such considerations should also affect the choice of indicators. In a broad review of performance management literature relating to activation and unemployment, Nunn *et al.* summarise that: “in organisations and systems where there is strong centralised process control, it is appropriate that performance measures focus on and set targets for inputs, processes and outputs. In organisations and systems where there is more local or operational autonomy over processes it is more appropriate to focus performance measures on outcomes. In the latter case it may still be appropriate to monitor inputs, processes and outputs, in order to learn from successful practice, but targets should be focused only on outcomes” (2009: 4). This leads them to conclude that devolved managerial autonomy over inputs and processes is compatible with outcome-focused management while strong centralised control is seen as compatible with strong process controls (Nunn *et al.* 2009: 47). Monitoring could be done via internal or external mechanisms. External mechanisms include the use of independent (private) organisations such as audit bureaus or firms, they tend to be more costly and can also undermine the inherent motivation of civil servants. Internal mechanisms require more trust and cooperation. Theories critical of agency-theory suggest that internal mechanisms are more likely to be effective and cost-reducing in public organisations (Heinrich 2007: 285).

2.2.4 Lessons on designing multi-tiered labour market governance systems and moral hazard

So we have learned that moral hazard occurs on two levels, and that one (institutional) is partly the result of a system that combats the other (individual). Activation is thought to be best suited at the local level, but this creates moral hazard between levels of government. MBO and performance management are often implemented to combat this type of moral hazard. This can be done in two ways: ex-ante setting of objectives or constant ‘real-time’ monitoring – possibly supplemented with incentive payments. But these systems create their own incentives for gaming and shirking. Additionally, they may undermine the very characteristic of public service that serves as a bulwark against moral hazard: the intrinsic motivation of public officials. MBO can make use of different kinds of indicators, which are appropriate in different types of institutional contexts. Input and process

indicators are more in line with centralised hierarchical systems and outcome process indicators are seen to be more compatible with devolved systems. This does not mean that the monitoring of input or process indicators cannot be utilised in devolved systems for (mutual) learning or best practice purposes. Even so, they are only useful if: 1) there are a limited number of indicators, 2) when employees actively participate in performance management, 3) reduce density and complexity of administrative rules, 4) provide comprehensive, reliable and timely information, 5) are complementary to management approaches and 6) when assessing and rewarding performance is fair and transparent (Mosley 2001). The ability of providers to select clients, the risk of placing clients and the costs of programmes are all factors that influence morally hazardous incentives, especially combined with high powered rewards.

Both moral hazard issues at the individual and institutional level are relevant to any possible European-wide scheme. Put even more strongly, moral hazard is a greater danger to the European Union than to its member states as it undermines solidarity which is arguably already much weaker at the supranational level than at the domestic level. National solidarity is much more consolidated through centuries of nation and state forming and is vested in national (centralised) institutions, social policies and industrial relations. European solidarity is much younger and is not so much vested in centralized political capacity. Furthermore it is under pressure of competition both within and outside the Union (Streeck 2000). In their report on a European Social Union Vandenbroucke and Vanhercke contemplate the differences between a pan-European and national solidarity: “The pan-European notion of solidarity refers, not only to economic convergence and cohesion on a European scale, but to individual rights such as free movement. Solidarity within national Member States, on the other hand, refers particularly to social insurance, income redistribution and the balance of social rights and obligations” (Vandenbroucke & Vanhercke 2014: 15). Therefore, the authors argue that solidarity is a multi-dimensional concept in a European context and can take either of two forms: mutual insurance or redistribution – in practice it is often a mix of the two but both require *reciprocity*. If a E(M)U-wide scheme would require redistribution the warning by Vandenbroucke and Vanhercke seems appropriate: “When solidarity entails redistribution, it implies a propensity to cooperate and share with others. In all cases, reciprocity requires a sense of common goals and values among those concerned. There is no way back: reciprocity in the EU requires both shared values and a sense of common purpose” (Vandenbroucke & Vanhercke 2014: 16). When performance measurement is flawed and it is revealed that one or more member states ‘fix’ their performance or when moral hazard at the individual level is reduced in one country but not in the other, it could cause unrepairable damage to any notion of reciprocity – thereby undermining budding European solidarity. Given the fact that European solidarity is different from, but also weaker and younger than, national solidarity, moral hazard poses a greater danger to European social unity than to a national sense of shared obligations and trust. Any EU or Eurozone benefit scheme which suffers from severe moral hazard issues would surely be counterproductive in fostering any pan-European solidarity.

2.3 Studying experiences with multi-tiered labour market governance systems and moral hazard: case selection

In order to represent the broad diversity and to increase the likelihood of drawing meaningful policy conclusions from real world experiences with multi-tiered systems this paper will analyse four cases which represent the four forms of multi-tiered labour market governance models – (partial) municipalisation, regionalisation and federalisation. The object of this study is to investigate the possible pitfalls and challenges to a E(M)U-wide unemployment based automatic stabilizer. It is an exploratory study and will not yield definite conclusions on either feasibility or desirability.

A federal multi-tiered system would come closest to such a European-wide scheme as it resembles the relation between the supra-national level and the European member states. As one of the main inspirations for the proposal by Dullien is the United States, that country has a leg up on the other

possible cases (2007, 2012, 2013). In the U.S. even the benefit administration itself is a federal-state cooperation (Mosley 2011: 33). The size of the United States and its relation with its states comes, geographically and demographically, closest to the EU as a whole. These reasons make the United States a relevant example for how a possible multi-tiered European wide benefit scheme might look like, or at least some elements of it.

The European cases will represent partial municipalisation, full municipalisation and regionalisation. Germany will represent the partial municipalised mode. In Germany the responsibilities for employment services are devolved to *joint* PES-municipal one-stop-shops (Mosley 2011: 8). Such collaborations are most interesting as it intermingles both managerial and political decentralisation in one case. Additionally, in the German system there is also an experiment ongoing with 105 municipalities which have opted-out of this system and have assumed full responsibility.^{xii} Furthermore, the German experience is one of a complete shock as the new system, based on the Hartz reforms, was introduced almost instantaneous after a scandal involving the German PES (Eichhorst *et al.* 2006: 11, Konle-Seidl 2008: 12). The joint one-stop-shops, the experiment with opt-out municipalities and the clean break with the past make Germany an ideal candidate to represent the hybrid form. For the municipal case it would be relevant to select a case that represents the most extreme case of municipalisation as we already have a case of hybrid municipalisation. It would reveal how full municipalisation looks like and provide contrast to the partially municipalised case. Denmark looks as the best case for the municipal form of decentralisation as research by two leading OECD scholars (Giguère and Froy) shows that the total local flexibility of all possible municipal cases is highest in Denmark (2009: 14, 26). This is even before the final stages of municipalisation effort in Denmark. It has another quite relevant advantage and that is the fact that all of the municipal efforts are made completely public by way of using transparency as an accountability tool (Mosley 2011: 19), which is a very interesting way to increase transparency and potentially to decrease inter-governmental moral hazard. Significant parts of the Danish municipalisation took place between 2008 and 2009 (taking effect a little later) and was a follow up to a previous period of experimentation with fully autonomous municipalities (Froy & Giguère 2009: 51). The third case should represent the regional form of political decentralisation. Table 2 presents us with three options: Belgium, Italy and Spain. As with full municipalisation, it would be most interesting to find a 'pure' case for this form. Mosley estimates the regional flexibilities for all three the cases as high (2011: 34). Froy and Giguère determine that Italy has the most flexibility available to agencies and departments operating below the national level (of all the countries they examined, not just the regionalised ones), followed by Belgium and then by Spain (2009: 39, see tables 2.1 and 2.2). But the Italian flexibility originates at the *sub-regional* level rather than the Belgian and Spanish systems. So out of the three, Belgium is the case which combines high total flexibility with low sub-regional flexibility.^{xiii}

3. The United States

3.1 Introduction

The United States represents the federal form of a multi-tiered labour market governance system. This form is often the result of 'path-dependence' (Mosley 2011: 3). The federalist element within the political and institutional history has a notable impact on the style and motivation behind the multi-tiered system. Essentially, the difference between municipalisation and regionalisation versus federalisation boils down to a top-down imposed desire for decentralisation versus the result of an ongoing bottom-up process attempting to retain as much responsibilities at the lower levels of government as possible (Straits 2003; Eberts 2009). Besides that the U.S. differs from the other cases in the fact that it is a federation of states rather than a (somewhat) centralised state, it has some other obvious differences: it is not European, it is geographically and demographically much larger than the individual EU member states, but the institutional difference is what this case truly sets it apart from the others.^{xiv} Most prominent institutional difference is the clearly demarked legislation

and flow of funds that is separated for unemployment insurance and activation. Activation (requirements) have little bearing on the federal-state cooperation concerning unemployment insurance. Activation can be considered separate because not only because it is dealt with in separate legislation, but also that federal funding for part of unemployment insurance is not contingent on activation of the unemployed.

Rather than a definite point in time where the central government decided that the responsibility over labour market policy would best be devolved to lower levels of government, the federalist tradition has been present throughout the U.S. history. The federal-state cooperation in labour market governance has first been legislated and codified since the era of Great Depression (Eberts 2003: 304; O'leary & Eberts 2008: 1; Quade *et al.* 2008: 348). Much of the unemployment insurance is still governed by the (amended versions of the) Social Security Act (SSA) of 1935, the Federal Unemployment Tax Act (FUTA) of 1939 and the Wagner-Peyser Act of 1933, of which the latter already established a nation-wide network of public employment services decades before many European countries created such a system. The SSA established an explicit federal-state relationship for unemployment insurance and the FUTA regulated fiscal responsibilities and incentives for state compliance with federal goals. This institutional history reflects the comments on path-dependence and remarks on bottom-up versus top-down decentralisation (Mosley 2011; Eberts 2009; Straits 2003). Although the American unemployment related benefits could be headed under 'unemployment insurance' and 'social assistance', they are somewhat different from their European counterparts. First of all, regular unemployment compensation is relatively short and meagre. Secondly, social assistance is divided in very distinct and separate programmes, chief amongst them: the Food Stamp programme (officially the Supplemental Nutritional Assistance Programme or SNAP) and the Temporary Assistance of Needy Families (TANF) programme. Thirdly, there are several contingent federal or federal-state benefits in place. Finally, activation has a less prominent place in the United States than it does in the EU.

3.2 Unemployment insurance

As said, the unemployment insurance is a federal-state cooperation, see Table 8 and Table 9 for the current division of labour (see also Nichols & Needels 2006). The three elements – the basic system, the supplementary benefits and the emergency benefits – are financed in different ways. The basic unemployment compensation and the extend benefits are financed both by the states and the federal government. The state finances the benefits itself through state payroll taxes. The federal government finances both the state and the federal administration of UC, which amounted to almost 10 percent of the total costs last year, through a federal payroll tax (USDOL 2013: 2). States do not receive these federal funds without conditions though: to be eligible for these fiscal transfers from federal accounts they must submit a claim which has to be approved by the Secretary of Labour (see Figure 4).^{xv} The states' claim must comply with federally set ex-ante set requirements (Table 10).^{xvi} These provisions are predominantly administrative requirements. Only a small subset of the requirements have some relation to actual labour market policies and such as the profiling and referral of workers and keeping track of employers' lay-off records (experience rating). Under U.S.C. 42 § 503 (a) (10) the federal government does pose the condition for workers to participate in employment services. However, the states are given the authority to determine whether (past) participation of beneficiaries is satisfactory and states are free to make exemptions for this condition. There are no federally imposed indicators measuring the behaviour of states concerning this condition. In other words, the federal government, through the SSA legislation, does not seem very concerned for activation of UI-beneficiaries.

Additionally, the federal government ensures conformity and state compliance through the levying of the FUTA itself, which is a federal 6% payroll tax levied on every employer on wages (up to \$7000). If the state meets the minimum FUTA conditions (see Table 11) the federal government provides a tax credit for all employers in that state for 5,4 percentage points, or 90% of the FUTA tax liabilities for employers.^{xvii} These FUTA conditions also have ties to labour market policy. However, the FUTA

conditions mainly concern some minimalistic ground rules for eligibility and other administration procedures, it does not pose any activation or other performance measures. A final interesting feature is that all the state and federal funds go into trust funds, which has the fiscal capacity to lend to states.^{xviii} States can borrow from the Federal Unemployment Account for a maximum of two years, but in the second year the loan must be repaid in full or the FUTA credit will be discontinued (US DOL 2013: 7-8). The federal government can also claw back funds that have not been used in a proper manner of have exceeded the maximum amount for administration purposes.

The federal government, thus, effectively ensures compliance with their minimum requirements for state legislation through fiscal transfers and fiscal pressure on the local tax-base.^{xix} Besides the minimalistic FUTA requirements, there are almost no federal rules and regulations on eligibility of claimants and states set their own benefit levels and duration (USDOL 2013: 2, 11).^{xx} The FUTA and state claim requirements are hard to place in a categorisation of indicators. It could best be characterised as management by directives rather than MBO. Most requirements concern state legislative adoption of clauses to share information with other federal and state institutions. The FUTA and the state claim requirements do not refer to actual behavioural indicators.^{xxi} All state laws share some common characteristics: the rules on eligibility, the duration and the level of benefits for individual beneficiaries are always determined by individual experience in covered employment in a past period of time called the 'base period' (USDOL 2013: 11). Workers must show a labour force attachment, but must also continue to show their willingness to work.^{xxii} The states have considerable flexibility (see Table 12). The FUTA conditions and the requirements for state claims are attempts to influence the target group and eligibility dimension. Furthermore, some of the funds provided are ring-fenced for administration purposes, but as most of the funding comes out of the state's own revenue it enjoys significant budget flexibility. Additionally, even though the funds for administration entail a limit on what states can spend on staff, their personnel policies and hiring and firing are unrestricted. So this system seems unconcerned with issues of moral hazard. There is the requirement for states to impose conditionality of participation in employment services for UI-beneficiaries, however the states are free to exempt or deem the participation of beneficiaries as satisfactory as they see fit, there is no performance management-contingent pay or public service requirements build into the regular federal-state cooperation of UI. This could well be because of the traditionally meagre generosity and coverage of UI, unlike their European counterparts. Additionally, only a very modest part of the state UI programme is financed by the federal level. Even during times of crisis, the costs of the administration is unlikely to rise as significantly as the costs of disbursing the benefits will. For these reasons, it is not so strange that the federal level seems unconcerned with individual or institutional moral hazard in regular UI – most states do have job search requirements in their state laws, though (Klerman 2013: 2).

The most prominent permanent supplementary benefit scheme is the Extended Unemployment Compensation (EB) scheme. This is a benefit which is explicitly meant to operate counter-cyclically and functions as a federal automatic stabilizer. When a mandatory trigger is set off, or when states choose to make use of some optional triggers (see Table 13), the duration of the unemployment benefits are increased by half to a combined maximum of 39 weeks – most states enforce a maximum duration of 26 weeks. This extension is in equal parts financed out of federal accounts and out of state accounts (Figure 4).^{xxiii} Other supplementary benefits include the Trade Adjustment Act (TAA). The Temporary Emergency Unemployment Compensation (EUC08) programme was an example of an emergency benefit which has to be put before congress and explicitly renewed at the end of a given period.^{xxiv} The purpose of the EUC08 programme is similar to the EB but functions in times of extraordinary hardship. It extends benefit durations for a certain period, *fully* paid for out of special federal accounts. "Temporary Extended Unemployment Compensation programmes are solely governed by federal legislation, but the federal government (specifically the US Department of Labour) entered into abstract administration agreements with the states. The Disaster Unemployment Assistance (DUA) is structured similarly: federal laws govern the programme, but the

States administer it on a contractual basis (as agreements between the states and the USDOL) and are required to provide non reimbursable re-employment assistance services” (Quade *et al.* 2008: 361).^{xxv} These schemes provide very limited programme flexibility compared to the regular benefits, but states are not obliged to accept the help of the federal government in the first place. But as said, the emergency (but also to some extent the extended) benefits do limit the states’ flexibility on determining their own target groups and eligibility. A crucial difference between the extended and emergency benefits is that the extended benefits operate automatically, while the emergency benefits require legislative action and approval. This entail that the emergency benefits kick in at a later moment in the downturn of the economic cycle (Nichols & Needels 2006: 16).

The EUC08 was part of the U.S. response to the financial crisis: the 800 billion dollar American Recovery and Reinvestment Act (ARRA) of 2009, which included the option for federal-state agreements which increased the levels of unemployment insurance, extended benefits and emergency benefits with 25 dollars per week; it extended the Emergency Employment Compensation; it also included a major (7 billion dollar) incentive package for states to alter (broaden) their UI eligibility and cover the costs for a significant period – which is yet another example of using federal funds to influence state laws on eligibility. These ARRA extensions, programmes and raises of benefits were part of an agreement state could enter into with the federal government, the latter of which would cover most of the costs.^{xxvi} In terms of moral hazard, the ARRA has not changed the labour market governance very much. As with state claims for regular UI funding and the FUTA, the preconditions for ARRA funds are mostly ex-ante legislative changes aimed at convergence of eligibility and administration procedures. Furthermore, the ARRA erected an emergency fund for the TANF programme, for which states in need could apply.

Until halfway during the 1980s it was possible for states to opt-out or exit the extended benefit programme early under certain circumstances, thereby falling back on the federally financed emergency benefits. In effect this could be considered a form of dumping. This form of institutional moral hazard was negated by reversing the order of emergency and extended benefits and scrapping the possibility to opt-out (Nichols & Needels 2006: 16). Both benefits have also gained stricter federal job search requirements for claimants, introduced by the Middle Class Tax Relief & Job Creation Act of 2012 (Klerman 2013: 2).^{xxvii} These requirements are aimed at the individual unemployed. States just have to collect their information and perform random audits. So even with the extension of the duration of regular UI, the federal government has not attempted to implement any meaningful performance measurement systems. The moral hazard of extended benefits is fully understood as *individual* moral hazard and it is the individual that has to undertake action. However, the individual work requirements do show increased concern for moral hazard from the federal level. The Middle Class Tax Relief & Job Creation Act has been a step towards coupling activation with unemployment and social assistance in a more consistent manner. In other words, regular unemployment insurance is since 2012 linked to activation – albeit in a very limited way. Furthermore, the MCTRJA has limited the state’s ability to determine their own eligibility and target group policies.

The dominant mode of federal governance is through the power of fiscal transfers. When the federal government foots the bill, as with the EUC08, it poses federal requirements. When it wants to influence state policy, it does so through agreements which include the availability of funds under certain legislative requirements. The ex-ante legislative change requirements do not deal with the setting of targets. There is no comprehensive performance measurement relating to UI, moral hazard is predominantly understood as occurring on the individual level. States are supposed to deal with this themselves, as is unsurprising given the fact that most funds flow from the states themselves. Through management by directives, the federal level tries to ensure a minimum level of activation increasingly so when it gets more involved in financing – through EB or emergency benefits. Although the extended and emergency benefits extend the duration of UI severely, it would be difficult to imagine that states would be required to have an activation system on stand-by especially for such

circumstances. It is also possible that the automatic stabilization effect of the extended and emergency benefits supersede any institutional moral hazard concerns.

3.3 Social assistance

The U.S. social assistance consists of several programmes: TANF, the Food Stamp programme, public housing, energy assistance and social services. This section will focus on the main unemployment related component of the U.S. social assistance: TANF. However, this paper does not ignore the Food Stamp programme.^{xxviii} The Food Stamp programme is a mostly federally financed programme, which is to U.S. standards not very flexible and provides only limited leeway for state influence. The federal government sets uniform eligibility criteria and provides a calculation for the rates of the benefits, but states are allowed to enlarge their programme.^{xxix} States can set their own eligibility rules only within strict federal parameters. Although it is sometimes remarked that the system is fully federally financed, the states and the federal level equally share fiscal burden for the administrative costs.^{xxx} Furthermore, states are required to enter into an incentive payment scheme related to this benefit. The incentive payments are aimed at local and state entities.^{xxxi} The payments are available to entities that achieve certain targets set by the federal level (the Secretary) and adhere to the eligibility requirements.^{xxxii} The federal funds of these incentive grants cannot exceed 50 percent of the activity. The Food Programme entails very limited state programme-, budget- and organisation of delivery flexibility. The dominant mode of governance is the ex-ante setting of federal guidelines, the Food Stamp programme also includes very limited activating service requirements but incorporates little performance measurement. Even the incentive payments are not based on any significant performance measurement.^{xxxiii}

In comparison to the Food Stamp programme, the TANF programme brings with it a broader range of federal governance compliance methods, but also more leeway. States can apply for block grant funds (a so-called 'State Family Assistance Grant') if they comply with a great number of requirements and develop a state plan.^{xxxiv} The second part of the funding is provided by the states themselves. The states are required to maintain a certain level of spending (Maintenance Of Effort or MOE), which is federally codified (see Table 14).^{xxxv} In 2013 the funding amounted to \$16,5 billion of federal grants and \$10,4 billion of state funds (Falk: 1-2). The block grants and MOE created limitations on the flexibility of the use of funds. The MOE is relatively freely spendable but block grants are subject to federal legislation (see Table 15, Table 16 and Table 18). The TANF programme once also included incentive payments which are utilised by the federal level to create an additional incentive for state compliance, but these were discontinued in 2007 (Heinrich 2007: 282).

In order to start the application for a State Family Assistance Grant (SFAG) a state has to draw up a plan and submit that at the federal Department of Health and Human Services (DHHS). States are required to comply with process indicators such as: work activity rates by providing work activities, re-employment services and related services; ground rules for applying sanctions for specific behaviour. Most of the work-requirements for states and individuals were introduced with the Personal Responsibility and Work Opportunity Act (PRWORA) of 1996 which transformed social assistance into the current TANF form. States are required to implement a minimum of services which are federally determined, further limiting the programme flexibility.^{xxxvi} Their actions must be approved through the state plan and must comply with 42 USC § 604 (see Table 18). So, In contrast to the UI and the Food Stamp programme, TANF does include some form of a performance measurement system. It operates through ex-ante setting of targets (the agreements). In comparison to the other cases, the states have significant programme and organisation of delivery flexibility, the development of own state plans provides them with the opportunity to develop their own forms, but the content of those programmes must comply with federal regulations. So this system operates within a much decentralised context. The requirements for state TANF programmes can be subdivided into two categories: requirements for the state plans and mandatory work requirements which have to be achieved (see Table 18).^{xxxvii} The work requirements for states are: achieving a 50% participation rate and a 90% participation rate for 2-parent families. Work activities, as defined by 42

USC § 604, officially includes unsubsidized employment but goes on to identify eleven other activities such as training, participating in community service programmes or providing child care services to others in community service programmes, also as ‘work activities’ for the purposes of achieving participation rates. This is an example of the use of process indicators with no flexibility on the setting of the performance measures. The literature suggests that the use of process indicators in a much decentralised institutional context increases the risk of institutional moral hazard (Nunn *et al.* 2009: 47).

Social assistance is, in contrast with UC, much more regulated at the federal level and the system displays more concern for moral hazard. On the one hand, this is not surprising as the federal government is heavily involved in financing the Food Stamp Programme and provides more than half of the TANF funds. On the other hand, it is in contrast with a lot of European countries where social assistance is the unemployment related benefit which is more traditionally the role of local governments. The federal level determines the governance of social assistance through (in U.S. terms) strict legislation and process requirements. The actions of states are also to be reported and subsequently approved. They do however have considerable leeway in the practical implementation and the setting of TANF benefits, especially compared to the European local governments in the cases reviewed for this paper. The performance management is done through ex-ante setting of targets (input and process), and the states themselves have to report to the Secretary. The decentralised nature of the U.S. TANF programme, the fact that states themselves report their actions, that those actions are measured in terms of process indicators and the absence of quality measures all raise doubts over whether institutional moral hazard is actually reduced, or that it incentivises the parking of TANF beneficiaries.

3.4 Activation & workforce development

Activation is mainly enforced through three channels: the SNAP and TANF work requirements, through use of the Public Employment Service and through the Workforce Investment Act (WIA) of 1998. Activation has not been as an integral part of U.S. labour market governance as it has been in the EU. The PES, which has been a part of the unemployment insurance system, provided only very minimal services.^{xxxviii} Furthermore the federal-state cooperation in unemployment insurance is not so much reliant on activation requirements. The PRWORA did impose work requirements for TANF recipients in the 1990s, but the Middle Class Tax Relief & Job Creation Act was the first act to actually couple unemployment *insurance* with actual working requirements. Even now, the linkage between the federal-state cooperation concerning unemployment insurance and activation is still almost completely separated between the (non-activation dependent) FUTA and Wagner-Peyser funds and the WIA funds. This (late) coupling is probably due to the extension of benefits of the EB and EUC08, before 2008 the unemployment insurance benefits were very short indeed; at first 13 to 16 weeks. Later most states posed a maximum duration of 26 to 30 weeks. With the extensions of 2008 there were three years where 99 weeks was the maximum combined duration (in 2012 this was cut back to 73, Klerman 2013: 2). Another reason why the federal government might not be so committed to getting involved in activation, compared to Europe, is the performance of the American states concerning unemployment. As Table 17 shows, there is much more homogeneity in the unemployment rates of U.S. states than there is in the European member states.^{xxxix} When the performance of (member) states is rather equal, the need for the federal government to step in is lower than when some (member) states clearly diverge from the pack.

Before we turn to the WIA, it must be noted that the WIA and the institutions it enacted (mainly the one-stop-shops) is not the same as the American PES. The U.S. PES was created almost a century ago by the Wagner-Peyser act.^{xl} Both the unemployed and the employed can register with the PES in order to find (other) work and receive low intensive services (résumé preparation, use of printers etc.). The PES is the mandated agency to execute Worker Profiling and Reemployment Services (WPRS). Nowadays, the unemployment insurance employees are mostly moved to call centres and the PES has moved into the one-stop-shops as created by the WIA (Barnow & King 2005: 28). The

WIA was constructed along seven guiding principles: streamlined services, individual empowerment, universal access, increased accountability, a strong role for the local Workforce Investment Boards (WIBs) and the private sector, enhanced state and local flexibility and improved youth programmes (USDOL 1998).

“WIA’s law and regulations attempt to separate policy development, administration, and service delivery. Thus, the legislation’s default model has local policy set by the local WIB, One-Stop Career Centers operated by independent organizations (which can be for-profit, nonprofit, or a consortium of organizations), and services delivered by Wagner-Peyser Act funded state employees [PES] and vendors selected by the board or the One-Stop Career Center operator — in the case of core and intensive services, and by the customer in the case of training (through ITAs). The statute grants the states sufficient leeway to separate various functions, so administration and delivery can be placed in the hands of the local government” (Barnow & King 2005: 35).

Since the introduction of the WIA the workforce development of the U.S. is operated through workforce investment areas which are governed by Workforce Investment Boards.^{xli} There are state^{xlii} and local^{xliii} investment boards, the latter number in the 600 although not every state has multiple WIBs. These WIBs are the linchpin of the U.S. workforce development policy, in principle they oversee the one-stop-shops and advice state and local policy makers. How these one-stop-shops are operated, though, is left almost entirely up to the states and localities – the governor and the local WIB select the operator, providing almost full outsourcing, collaboration and organisation of delivery flexibility.^{xliiv} These shops are an attempt to combine these responsibilities, but they are not singlehandedly run by the operator; there are a multitude of optional and mandatory partners who can share or have complete authority over specific programmes and funding (which is the only true limit on collaboration and outsourcing flexibility).^{xliiv} The most common setup is where policy development is done by the WIB, the programme administration is done by agencies at the local level and the service delivery is carried out by vendors, but this division is not mandatory: “specifically, the state board may be an independent organization that reports directly to the governor, or it can be placed in the same organization responsible for administering WIA programs. At the local level, the workforce board may or may not have any staff; in the latter case, the board may have little independence from the agency operating the program” (Barnow & King 2005: 16; Figure 5).^{xliiv} Thus, the institutional context is very much decentralised and devolved, with significant local autonomy.

The PES is for 97% funded out of the ESAA, which is fully financed by the FUTA, but it fulfils only a very modest role in the activation and workforce development in the U.S. The WIA is for the largest part funded out of federal grants.^{xliiv} If any states wish to broaden the authority of the WIBs they must finance those responsibility themselves. Increased local and state flexibility is monitored through the formulation of standards and measures, essentially a NPM type of relationship. Under the WIA, both the states and the localities have their own standards.^{xliiii} These measures are centrally determined, the targets which must be achieved are adopted in a planning procedure and contain a mix of process and outcome indicators (see Table 19). The adoption of additional process for hard-to-place clients and quality measures was a reaction to evidence of creaming under the Job Training Partnership Act which preceded the WIA (Heinrich & Marscke 2009: 20). The targets which the states and localities must achieve arise out of negotiations between the state and the federal level, the state then determines the standards for the local offices, and they are allowed to add more performance measures than federal legislation calls for (Barnow & King 2005: 44, 46).^{xlix} Thus, their flexibility on performance measures extents to the negotiation and proposing of performance measures and additional setting of measures for subcontractors. On the one hand, such negotiations over target levels can create a shared feeling of purpose. On the other hand, three different studies have shown that abandoning a standard adjustment model in favour of adjusting target levels through negotiations led to target levels that “are viewed as arbitrary, increased risk for program

managers, greater incentives for creaming among potential participants, and other undesirable post-hoc activities to improve measured performance” (Heinrich & Marschke 2009: 34; see also Heinrich, 2004; Social Policy Research Associates, 2004; Barnow and King, 2005).

This performance management is based on ex-ante setting of goals and reporting. States are required to develop multi-annual strategic plans. Additionally, they are invited, but not required, to develop a unified plan in which they engage in strategic planning with a multitude of federal agencies.ⁱ States, as grantees, are required to monitor and report the use of funds by sub-recipients, state reports are then reviewed by the Secretary of Labour.ⁱⁱ Additionally, the WIA includes incentive grants which are an additional way of enhancing state compliance with federal goals. The use of incentive grants reinforces the need for a performance measurements, thereby supplementing the ex-ante system with more monitoring capacities. The efforts of the state which are measured only include intensive and training services, which means that the core services – often provided by the PES through the one-stop-shops – are not counted towards the WIA performance indicators (Heinrich 2007: 286). The Secretary has the authority to monitor all state conduct and perform financial and performance audits. The level of performance bonuses is modest, however.ⁱⁱⁱ The spending of the bonuses is regulated by federal guidelines.ⁱⁱⁱⁱ “There are three major tasks involved in the implementation of the WIA performance bonus system: 1) the determination of performance standards (expected levels of performance) for each of 17 required performance measures [the number 17 is based on the 2007 situation, see Table 19 for current measures]; 2) the calculation of states’ performance for a given program year using administrative and survey data, and 3) the verification of states’ eligibility for incentive grants (performance bonuses) and bonus allocations” (Heinrich 2007: 288).^{lv} The performance measurement system linked to the incentive payments, thus, measures the total activities of states concerning intensive and training services. The lack of a standardized process and mounting doubts over the accuracy of the data leads some scholars to call for a discontinuation of this system (Heinrich 2007), as evidence has been found of ‘strategic enrolment’ or in other words: creaming and parking (Trutko *et al.* 2005; Heinrich 2007). The federal actions taken to combat creaming under the former JTPA regime have not resulted the desired reduction of institutional moral hazard. The lack of a standardised process is due to the fact that there is no single adjustment model that accounts for externalities, rather the goals are negotiated between the states and the federal level. Therefore, it is hard to precisely and consistently measure the activities of the states as the indicators are perhaps more based on politics than adjusted for economic externalities (Heinrich 2007: 288).^{lv} The WIA has definitely represented a shift towards a more encompassing system, but the planning, reporting and monitoring requirements have also created an overly complicated administration system (Barnow & King 2005: 16). The quality of that complex reporting system could be questioned as it provides incentives for creaming and parking of the unemployed and as doubts arise over the quality of the data in general.

3.5 The U.S. experience

The American state authorities enjoy a lot of flexibility, which decreases with the amount of funds provided by the federal level. The more the federal level funds, the more they engage in federal codification of state conduct to enhance compliance and limit flexibility. There are three main modes of federal control: (mostly) input conditions which, when met, reduce tax pressure; application for block grants which require ex-ante certification of state plans based on input and process conditions; and ex-post formal restrictions for the use of funds is solely governed by process indicators. The difference between the second and the third mode is that the second mode requires creative strategic input from the states or localities. The third mode can be seen as a restriction or constraint on behaviour.^{lvi} Simplified: regular unemployment compensation uses the first mode; TANF, the Food Programme and activation is predominantly governed by the latter two; and the extended and emergency benefits by the last mode. When states are required to meet conditions for tax relief, they enjoy a maximum amount of leeway. State plans still provide flexibility to design policies and the delivery of services, as is especially the case for the workforce development where states can

even design, within federal parameters, parts of the institutional landscape as they see fit. Federal requirements for the use of funds constitute moderate constraints on the degrees of freedom of the states. It must be noted that the FUTA funds and federal funding of state UI programmes have little relation to activation requirements. Table 9 provides an overview of the responsibilities and funding of the different unemployment related benefits and acts.

The US experience contains two important lessons for any supra-national benefit scheme. On the one hand, the monitoring WIA requirements and workforce investment plans have resulted in a complex bureaucratic system. Even though the WIA added some extra indicators to neutralise perverse incentives in the old JTPA system, significant evidence remains that the WIA performance management system is still lacking. It shows how difficult it is to efficiently enforce and monitor compliance with activation policies from a federal level in a much decentralised context without creating moral hazard issues on the institutional level. On the other hand, the unemployment insurance benefit does seem to work without significant considerations for moral hazard issues. Reviewing the states UI claim for federal funds requires only a limited bureaucratic effort as the conditions of the claims are specifically aimed at changing state legislation. They are mainly targeted at eligibility, administrative procedures and transferring client information from one system to another. The advantage of this system is a fairly simple method ensuring compliance without extensive monitoring, the negative side is that is not usable for fighting institutional moral hazard concerning activation.

The emergency and extended benefits build on this unemployment insurance system. The use of the extended and emergency benefits has been uneven, the extended benefit experience has been more marked by changes while the emergency benefit experience has been stable (Nichols & Needels 2006: 17). The emergency benefits are almost always implemented sometime after a cyclical downturn occurred. Of course, labour markets always lags behind the business cycle but the emergency benefits must then be enacted and approved, while the extended benefits operate automatically (Nichols & Needels 2006: 16). Time-lag affects the automatic stabilization effects of programmes negatively. Both schemes could entail more individual and institutional moral hazard issues than the regular unemployment insurance. On the individual level, when individuals know their benefits will be extended it might negatively affect their job search efforts. However, there is evidence that the extension of duration by the previous emergency benefits reduced the total exhaustion rate of unemployment benefits to pre-emergency levels (Nichols & Needels 2006: 18). This is not to say that beneficiaries do not postpone their job search efforts but it does limit concerns for individual moral hazard. On the institutional level, if states know that additional benefits provided by the federal government will kick in, they might not be as incentivised to activate their workforce. This counts especially for emergency benefits which are fully funded by the federal government. These dangers are recognised by the Middle Class Tax Relief and Job Creation Act, which poses more federal requirements for activation reigning in some of the more extreme forms of flexibility. Additionally, the extra activation or workforce development requirements inherent in the emergency benefits also indicate presence of that pitfall. It would be most likely, though, that the institutional moral hazard of not complying with activation of long term unemployed will relate to the additional requirements only, because it would seem unlikely that states would actively reduce their own activation system in times of crisis. In contrast, states might not be as enthusiastic when it comes to workforce requirements that are added onto their own activation systems. There is one obvious disadvantage of the emergency and extended benefit systems when it comes to the applicability for to the EU: the national unemployment insurance schemes are far more divergent than in the U.S. However, the proposal by Dullien includes an elegant solution: rather than extending the national UI schemes, the E(M)U-wide funded part of the scheme could be extended – both through emergency or extended benefits (Dullien 2014: 84-86, see also Figure 1). In the U.S. extended and emergency benefits extended an UI scheme that is under normal circumstances 26 weeks. The base period for the ‘regular’ E(M)U scheme is twice that, which entails that extending such a scheme would fund

(part of) UI for the officially long-term unemployed.^{lvii} Such an additional option for a E(M)U-wide scheme would only increase the relevance of the U.S. lessons on mounting concern for activation during periods of extension of benefits.

4. Germany

4.1 Introduction

Germany is a case where a process of municipalisation has taken place but only limited to unemployment related social assistance (*Arbeitslosengeld* II or ALG II). Of all the countries where political decentralisation occurs, Germany fits the category where it occurs in the most limited form. The institutional context could, therefore, be characterised as centralised hierarchical compared to the other cases (see for the division of labour Table 20 and for the flexibility of German municipal governments Table 26). The German decentralisation was part of a much larger effort of socio-economic overhaul: the Hartz-reforms, but has since undergone multiple changes.

The PES and decentralisation efforts in Germany is almost wholly characterised by the Hartz reforms in 2002 and the aftermath thereof (Table 21). Ironically, it was a scandal in the German Federal Employment Office, the *Bundesagentur für Arbeit* (BA), which instigated this major overhaul of German social and labour market policies. In 2002 a federal audit of the BA revealed that a significant part of the statistical reporting about job placements done by the BA, was fraudulent. The public outrage about this scandal provided politicians with a “window of opportunity” to break the politically deadlocked labour market governance (Eichhorst *et al.* 2006: 11; Konle-Seidl 2008: 12), with the famous Hartz reforms as a result. As this process was kick-started by events in the Employment Office, a significant part of the Hartz reforms included a transformation of PES practices and governance. As we shall see it entailed both managerial and various forms of political decentralisation but also the creation of (joint) one-stop-shops for the unemployed. In this sense operational and formal reforms were conjoined in the Hartz initiatives. Some would even go so far as to say that Germany was “selling the benefit reform as a precondition for an operational reform that ostensibly would lead to joined-up employment services” (Knuth & Larsen 2010: 8).

Germany had three labour market related benefit systems before the Hartz reforms: unemployment insurance (*Arbeitslosengeld*) and unemployment assistance (*Arbeitslosenhilfe*) for those who did not have or had exhausted their claim to *Arbeitslosengeld*. Both schemes were federally funded through either social contributions or taxation, and both were administered by the BA. The third benefit was social assistance (*Sozialhilfe*) intended for those who had no connection to the labour market, this scheme was the responsibility of the municipalities (Table 22). Although some municipalities had, comparatively speaking, a solid record of activation there was significant variation in the level of activation between the municipalities (Eichhorst *et al.* 2006: 6-7). The burden of social assistance was very unevenly divided, making it harder for municipalities with relatively large quantities of people who were dependent on social assistance (Knuth & Larsen 2010: 9). In this sense, the local flexibility and diversity among the municipalities created divergence of performance. These factors created a situation in which some municipalities found it hard to keep up with their performance and thereby gave municipalities the incentives to “dump” their workload. Confirming the suggestion in the literature on moral hazard that goals and objectives must be achievable, or would otherwise create perverse incentives (Mosley 2001: 22-23; Nunn *et al.* 2009: 68). Concretely, some of those municipalities created work programmes that provided workers with entitlements to unemployment assistance. The effect was that municipalities could remove social assistance claimants from their budget by transferring them to programmes that would turn them over to the federally funded and unlimited unemployment assistance system. Thus, the interaction between old systems of social assistance and unemployment assistance entailed some perverse incentives.^{lviii}

4.2 Unemployment insurance

The current unemployment insurance, ALG I, is a federally funded unemployment benefit, financed by social contributions paid for by employers and employees.^{lix} When it comes to ALG I, the position of the BA remains largely unchanged after the Hartz reforms. It is a self-governing independent organisation run by a management board (*Vorstand*) which is overseen and monitored by a tripartite supervisory committee (*Verwaltungsrat*). According to the *Drittes Sozialgesetzbuch (SGB III)*, which is the legal base for this benefit, the BA remains in charge of the administration and implementation of the unemployment benefit scheme.^{lx} The BA remains responsible for the activation of out of work people, even those who fall under the ALG II regime – which will be elaborated on below (Eichhorst *et al.* 2006: 39). The level, duration and eligibility are all legislated by the federal government.^{lxi} The governance of this unemployment benefit is, thus, not very multi-tiered in terms of *levels of government* and it entails no flexibility for the municipalities. The activation is performed at the local level by the local offices of the BA. The BA must adhere to non-quantified goals in §1 of SGB III, but also negotiates additional frame (outcome) targets (*Rahmenziele*) with the federal government, and tracks and monitors the performance of its local offices through process measures (see section 4.4).^{lxii}

4.3 Social assistance

Perhaps the most important reform implemented as a result of the Hartz Commission, is the creation of the ALG II system by combining *Arbeitslosenhilfe* and *Sozialhilfe* into a single scheme (*Grundsicherung für Arbeitsuchende* or ALG II) regulated by a single legal framework: the *Zweites Sozialgesetzbuch (SGB II)*.^{lxiii} This raised questions as to the responsibility for the scheme because both the old schemes were administered and run by two different actors. The Red-Green Schröder government wanted to transfer all responsibilities regarding unemployment related benefits to the BA, including the ALG II administration and activation. A compromise with the opposition resulted in the following division between municipalities and the BA: the federal government (partially through the BA) funds the benefits and activation while municipalities fund another part of the bill.^{lxiv} The municipalities now finance most of the housing and heating costs and they finance all of the miscellaneous social services.^{lxv} The rates are predetermined by the central and Länder level and are out of the hands of the municipalities themselves.^{lxvi} Before the Hartz reforms the federal government funded *Arbeitslosenhilfe* in full. The old *Sozialhilfe* benefit was paid for by the municipalities (75%) and the Länder (25%).^{lxvii} In other words, the federal level assumed most of the financial responsibilities for unemployment related benefits. As with ALG I, the height and duration of ALG II are centrally set, leaving little flexibility in that regard. The SGB II determines the height and the division of costs of the benefit.^{lxviii} In principle the benefit is indefinite, but in practice the benefit can be cut short. ALG II is contingent on a six month individual integration agreement, which has to be renewed.^{lxix} The monitoring local BA or municipality office can, by not renewing the agreement, influence the duration of the benefit. The transfer of fiscal responsibility of *Sozialhilfe* to the ALG II regime, and therefore to the federal level, led to the (morally hazardous) situation where municipalities were in charge of assessing the working capacity of the former *Sozialhilfe* claimants. This form moral hazard of classifying workers who are in fact unable to work as ‘capable of working’, and thereby transferring them to the federal budget, remained for some time (Eichhorst *et al.* 2008: 47). Deeming someone capable of working would in effect transfer that individual from the municipal budget to the federal budget, consequently 90% of the claimants were assessed to be capable of working (Eichhorst *et al.* 2006: 23).

The administration of the benefits is done by a federal-local cooperation or ‘consortia’ (one-stop-shops called *Gemeinsame Einrichtungen* or EA, see Figure 6 for accountability arrangements).^{lxx} In these consortia the BA and the municipalities work together. Although, towards the unemployed the EA behaves as a unitary actor, the division of labour between the municipality and the BA in those consortia is quite clear.^{lxxi} The municipalities provide the miscellaneous services while the BA handles the activation. The flexibility of municipalities is fairly limited: budgets are predetermined, personnel

flexibility is limited; and there are mandatory work practices such as profiling and integration agreements with beneficiaries. Almost all activating services are performed by the BA. However, the role of the BA in ALG II is different than in the ALG I regime. For the regular unemployment insurance, the BA is a self-governing independent institution. For the delivery of services and administration of the ALG II the BA is contracted as a delivery agent, this has consequences for the governance of the ALG II scheme (Jantz & Jann 2013: 235). It entails that the BA is confronted with different objectives and that, contrary to the ALG I regime, the federal government can in fact instruct the BA on activation. Another striking governance feature is the adoption of an ‘opt-out’ clause for municipalities, which are referred to as *Optionskommunen*. In 2007 a number of municipalities were allowed to opt-out of the delivery of services through an integrated one-stop-shop (see section 4.4).^{lxxii} These opting municipalities also take over the responsibility of the administration of the ALG II benefits, but they do not pay for these benefits themselves.^{lxxiii} In other words, they take over the role of the BA in the ALG II regime in all aspects but financing. To be clear, these responsibilities only extend to the activities of the otherwise joint consortia. Both the regular joint one-stop-shops and the opting municipalities presented steering and control problems right from the start as the Federal Ministry as well as the Federal Employment Agency had only limited competences to intervene in the day-to-day operations at the municipal level (Jantz & Jann 2013: 235). The next section will describe the changes the federal government has undertaken to address these issues.

4.4 Activation

The BA is still the main actor involved in activation of the unemployed.^{lxxiv} But attempts to create a unified structure for labour market services have not brought about a truly coherent system (Konle-Seidl 2008: 17). ALG I activation is the responsibility of the BA as a self-governing institution. It is administered by 156 local BA offices (with about 660 branches) overseen by 10 regional directorates. But the service provision for ALG II is coordinated through the consortia which act as a one-stop-shop for the claimants, in which the BA is a contracted partner (Jantz & Jann 2013: 235). As stated above, these joint one-stop-shops experienced governance problems. In the then-called *Arbeitsgemeinschaften* (ARGEn) tensions arose between local methods of implementation and central goals and coordination. Municipalities felt hampered by central coordination and a compromise was struck: the ARGEn would, after 2005, determine the operational targets themselves (through their governing council) (Konle-Seidl 2008: 16). These changes did not solve the underlying problem, which was “a clash of cultures” between the BA and the municipal employees (Eichhorst *et al.* 2006: 39; Konle-Seidl 2008: 17). Finally, a constitutional ruling determined that the ARGEn were unconstitutional because the federal government cannot create ‘mixed administration’ where responsibilities of the state and the local government are intermingled, because it was opposed to the municipalities’ constitutional right to self-rule (Knuth & Larsen 2010: 11-12).^{lxxv} This resulted in the transformation of the *Arbeitsgemeinschaften* to the current *Gemeinsame Einrichtungen*. Instead of the ‘mixed administration’ directly inside the local agencies due to federal controlling and monitoring, the Länder were now placed in between the local agencies and the federal level: “The new legislation gives the national government the powers to supervise the Länder authorities, which, in turn, are supervising the proceedings of the municipalities.”^{lxxvi} Target agreements binding the licensed municipalities will be achieved in a similar two-tier process” (Knuth & Larsen 2010: 17). Additionally, the *Optionskommunen* are responsible for activation of the ALG II claimants without intervention of the PES. These *Optionskommunen* were, until 2011, not accountable to any higher level of government, but the changes described above also entailed that these opt-out municipalities were also partially made accountable to the Länder level.^{lxxvii}

By contrast, the ALG I activation structure is fairly simple. The types of services to be provided are determined by the federal government.^{lxxviii} The main (non-quantified) goals for the BA and labour market governance in general, are stated in the first paragraph of the *Drittes SozialGesetzbuch*.^{lxxix} But the BA is a rather independent organisation which sets its own operational targets for its local

offices independently from the federal government (Konle-Seidl 2008: 20). It does negotiate additional framework targets (*Rahmenziele*) based on the four non-quantifiable goals with the ministry,^{lxxx} but is not obligated to do so.^{lxxxi} The BA is overseen by the federal Ministry of Labour and Social Affairs but only to the extent that the BA conforms to its own statutes and the SGB III.^{lxxxii} However, the BA does report to the government at least annually on input, output and outcome indicators and on discretionary spending of targeted integration funds.^{lxxxiii} Their differentiated role in the ALG I and ALG II regimes and the targets they had to achieve according to the *Rahmenziele* rose doubts about the incentive structure of the BA. Concerns about creaming, whereby boosting the ALG I performance, was to be reduced by a penalty tax of €10.000 for every person who would transfer from ALG I to ALG II. But this practice was found to be unconstitutional and abolished in 2008 (Eichhorst *et al.* 2008: 46; Konle-Seidl 2008: 21).^{lxxxiv} So regardless of the absence of performance contingent pay, the federal level was concerned enough of institutional moral hazard on the side of the BA to initiate drastic measures.

The ALG II activation regime is rather more complicated (Eichhorst *et al.* 2008: 33). Federal legislation determines that those institutions administrating ALG II (the consortia and the opting municipalities) are responsible for activation of their beneficiaries.^{lxxxv} The consortia are accountable to both the BA and to the municipal council, they are in fact the “servant of two masters” (Jantz & Jann 2013: 242). The day to day management is headed by a managing director, who is appointed by the ‘Assembly of Providers’ (*Trägerversammlung*).^{lxxxvi} This *Trägerversammlung*, which is made up from BA and municipal employees, and is also responsible for the administrative process, regulating the service delivery, establishing annual plans and guidelines. The competent Länder authorities (the labour ministry equivalent) oversee and may instruct the joint one-stop-shops on ALMPs.^{lxxxvii} The federal government, in turn, oversees and cooperates with the Länder in a newly erected ‘Cooperation Committee’ (*Kooperationsausschuss*).^{lxxxviii} In this *Kooperationsausschuss* the implementation of ALG II regime is coordinated and annual outcome measures are agreed upon. Additionally, another federal-state committee is erected to observe implementation, identify issues, compares performances of the joint one-stop-shops and can invite representatives of those local one-stop-shops, all in order to provide advice on the implementation of the ALG II scheme and the activation thereof. The *Optionskommunen* are subjected to the same oversight by the Länder as the regular one-stop-shops. For the determination of objectives, which in the consortia is done by the *Trägerversammlung*, the opting municipalities have to negotiate with the Länder ministries. The primacy in the German labour market governance model lies with the Ministry and the BA, which enter into agreements with the Länder, which in turn monitor the municipalities. When municipalities cannot come to a satisfying agreement with the Ministry and the Länder, the *Kooperationsausschuss* will deliver a proposal which will be considered by the Ministry – essentially casting a shadow of hierarchy.^{lxxxix} Additionally, both the Länder and the Ministry have the right to instruct the jobcentres on service delivery and administration, this reinforces compliance through the shadow of hierarchy.^{xc} The German case, therefore, comes the closest to a centralised hierarchical institutional context. From the four types of institutional context Grubb described, Germany resembles the “traditional hierarchical management using centralised command and control with in-house service delivery” the most (2004). It is therefore, no surprise that most of the monitoring of activation services is done internally by the BA – both for ALG I and ALG II.^{xci}

The formulation of the annual targets for the activation of ALG II claimants is a complicated procedure. In essence, the goals are formulated by the higher levels, and passed down and adapted at the local level. The ALG II objectives (for 2013 and 2014 at least) are predominantly outcome indicators (Table 23). The literature on performance management suggest that the limited flexibility, or rather the fairly hierarchical institutional context, is incompatible with outcome performance measures (Nunn *et al.* 2009: 47). However, there are no funds, bonuses or incentive grants related to performance. This begs the question whether this incompatibility will creates perverse incentives, or that the lack of performance contingent pay rectifies this incompatibility. Other data (mostly process

and outcome indicators) is measured and monitored as well (Table 24 & Table 25). But the German style of NPM does not include any performance contingent pay for the municipalities – as most activation is in fact still done by the BA. Market pressures are utilised in the activation system, but only through a quasi-market for service vendors, not to control or influence local levels of government. “Actually there is rather a mix of governance modes: rule-oriented modes co-exist with NPM models supported by quasi-market mechanisms and network relations between public and private organisations” (Konle-Seidl 2008: 23).

4.5 The German experience

Summarizing, the German unemployment insurance is centrally funded and its social assistance is mostly dependent on federal funds. The activation is done at the local level, mostly by the BA. However, the responsibility for activation lies with the consortia or the opting-municipalities as a separate entity. These entities do not fund the unemployment related benefits. Overcoming the dilemma between efficient localised services and central control over the funds has characterised the reforms since Hartz. “The in-congruency between spending and decision powers at the different layers of government inhibits a more efficient management of employment policies especially for the long-term unemployed. It seems that there is no simple solution of this very German ‘governance dilemma’” (Konle-Seidl 2008: 22). A prominent part of the answer has been the use of the Länder level. Although involving another layer might complicate things further, the utilisation of the Länder level seems to solve some of those governance issues. The German federal government used an already existing layer of government to act as an intermediate, supporting and helping local levels but also monitoring them. Furthermore, they translate the local reality to the federal level and are more capable of formulating stretching but achievable objectives. In essence they serve as a bridgehead between the reality on the ground and the federal government. On the other hand, it shows that the federal government did not enjoy the legitimacy to directly instruct the municipalities. The need for the use of an intermediate level indicates that monitoring local levels requires a substantial bureaucracy and the creation of new institutions and responsibilities on the intermediate governmental level.

The German case shows how difficult it is to implement formal policy changes and how much they are integrated with operational policy reforms. The attempts to create a unified structure ran into several problems: first of all the German constitutional court determined that some aspects of the institutional framework were unconstitutional. Secondly, political compromises established not one but three types of one-stop-shops. And thirdly, the one-stop-shops for ALG II in most municipalities serve two masters. The German difficulties with creating one overarching institutional framework for activation could serve as a warning to European policy makers contemplating a E(M)U-wide activation requirements. Additionally, the German experience with transferring some responsibilities from one level to another showed that there are issues of moral hazard encapsulated within the transformation process itself. In other words, one should be aware of moral hazard not just for the final system *but also during the transition* or initial implementation phase. Additionally the German case holds lessons for the use of performance measurement without coupling with performance contingent pay. The monitoring seems to cover both process and outcome measures and is also devoted to several vulnerable groups. However, the interaction between the BA and activation through municipal one-stop-shops remains difficult. The BA is, as a self-governing actor, responsible for the ALG I benefit and as a contracted partner for the ALG II benefit it is probable that its prime concern is the former. As some authors have noted, there is the danger that the ALG I performance measurement results in perverse incentives for the results of ALG II performance (Eichhorst *et al.* 2008: 46; Konle-Seidl 2008: 21). So even without performance contingent pay, the monitoring of performance can still result in perverse incentives.

5. Denmark

5.1 Introduction

Unlike Germany, the Danish system can be characterised as fully municipalised. What ‘full municipalisation’ in this case refers to, is the total package of activation and to social assistance policies over which the municipal authorities have responsibility (see Table 27). Moreover, they do not only bear the responsibility over activation, through the municipal jobcentres, but also over the administration of the social assistance benefits itself. However, full municipalisation does not refer to authority over unemployment benefits or the setting of eligibility, duration and level of benefits. Even though, politically, the current municipalisation can be traced back to the 2001 new centre-right change in government, mention must be made of a previous decentralisation in Denmark in 1994 which is also a defining moment in the decentralisation of Danish labour market governance (Del Prado 2013: 45). The 1994 reforms had two sides: a substantive or formal side (welfare-to-work) and an operational side (the creation of 14 regional labour market councils) (Hendeliowitz 2003: 69). This regionalisation set the stage for the current decentralisation effort. The regionalised system was characterised by a large discrepancy between the centrally set objectives and what the regions and municipalities actually implemented, Thomas Bredgaard has referred to this as ‘compliance gaps’ (2011: 765). This concept implies a lack of will or enthusiasm for achieving those goals. The problem was not so much that the system created perverse incentives for local actors, but that the central goals were not seen as legitimate or useful targets by lower levels of government (Bredgaard 2011: 765). This early Danish situation is remarkably similar to the early German experience. In the end, such a situation might lead to perverse incentives. Mosley identifies that the importance of local commitment to performance management is a precondition to any meaningful implementation of performance measures and the quality of data (2001: 91). The new 2001 government set itself the task to reign in these hard-to-control regions. Their ultimate goal was to ‘make work pay’ and create a work-first approach, but the autonomy of municipal social workers and the continued dichotomy between the municipalities and the PES was seen as a major obstacle to these goals (Bredgaard 2011: 766).

Municipal reform marked the start of new labour market governance reforms.^{xcii} Four employment regions were created (Figure 7), which delegated responsibilities from the PES central office to local jobcentres existing alongside municipal administrations (M-Ploy 2011: 14).^{xciii} This two-tiered structure entered into force in 2007, but it was transformed again in 2009. In effect, this 2009 overhaul completely municipalised employment services; the municipalities were now in charge of the activation of all unemployed (through one-stop-shops) and in charge of the administration and the paying out of social assistance benefits (through a municipal department). It must be noted that, even though the municipality is accountable for activation, much of the services are actually provided by third parties. Furthermore, Employment Councils – which already existed at the regional and national level in a limited form – were created at every level of the government. They consist of social partners, the representatives of the municipalities/regions/ministry and Danish Council of Organisations of Disabled People. Their responsibility is to support their respective governmental levels in the monitoring and development of policies. The central institution is the National Labour Authority, which is responsible for developing new tools, implementing legislation and following up on results.

There are two types of unemployment related benefit schemes in Denmark, which is also the origin of the former pre-2009 two-tiered system: unemployment insurance and social assistance. Unemployment insurance is based on the Ghent system whereby social partners run (31) state sanctioned insurance funds. When someone is no longer eligible or never had any claim to the insurance the social assistance scheme kicks in, which is historically a municipally run benefit. Activation is run by completely municipalised one-stop-shop jobcentres as the national PES was abolished (Jantz & Jann 2013: 233). See Figure 8 for the complete overview of the practical

implications of this division of labour between the levels of government, the jobcentres and the Employment Councils.

5.2 Unemployment insurance

The Danish unemployment insurance is basically organised along the lines of the Ghent model: social partners administer unemployment insurance funds (*Arbejdsløshedskassen*) which must be formally sanctioned by the government.^{xciv} Furthermore, the central level (in the form of the ministers for Employment and Pensions) oversees the conduct of the insurance funds.^{xcv} The whole system is financed by social contributions which is paid for by the members.^{xcvi} The central government determines the duration, level and eligibility of the benefit.^{xcvii} So although, technically, the *Arbejdsløshedskassen* are not state-owned, the unemployment insurance system is centrally run. It is the central government who determines the main features and leaves no flexibility for the disbursement and administration of UI. The disbursement and the administration of unemployment insurance is multi-tiered only in the sense that they are the responsibility of those specialised funds. The activation, though, is fully municipalised (section 5.5, see Table 29 for full list on the dimensions of flexibility in Denmark).

5.3 Social assistance

Kontanthjælp is a municipally run social assistance benefit scheme. As with almost every other West-European country, it is the central government who determines the eligibility and levels of the social assistance, though.^{xcviii} It is a flat-rate benefit with indefinite duration, aimed at those jobseekers who are without claim to UI. As with the UI there is no flexibility in the target and eligibility dimensions. The way in which this benefit is financed is very interesting from the perspective of this paper. In principle, the municipalities are fully liable for the costs of the benefits, labour market services, monitoring and the administration.^{xcix} However, the central level reimburses the municipalities for 30% of the benefits costs, 50% of the municipal costs for persons who currently in activation programmes or who receive services but 0% of the costs for every person who should and could receive such services but who has not started to do so yet (see Table 30).^c This 'reimbursement model' hardwires incentives for municipalities to engage in, and monitor the activation, of their claimants (Besharov *et al.* 2013: 443). This reimbursement model reinforces the central goals for the eligibility, target groups and programme dimensions. But as Table 30 shows, this is fully contingent on process indicators. Section 5.4 analyses activation, in that section it will become clear how Danish labour market governance deals with the inherent danger of parking. Keep in mind that activation for both the unemployment insurance and social assistance is done by the same institutions. Therefore, the division of labour between the different layers of government will be thoroughly developed in the next section.

5.4 Activation

Activation is very much interwoven into the Danish labour market governance. The funding municipalities receive is directly connected to the efforts of activation – through process indicators. The responsibilities of the levels of government are codified in [Act on the responsibility and control of the active employment measures](#).^{ci} This act sets the leeway of municipalities concerning programmes and the organisation of delivery. Figure 8 maps the former and the current constellation of actors. The objective of the central level behind this system is to create the largest possible workforce, this is a shift away from the central goal of human capital development pre-2001.^{cii} In order to achieve that goal the Minister of Employment sets a small number of priorities annually. Those priorities are set in dialogue with the national Employment Council. During these deliberations representatives of municipalities are present, providing influence (and thus flexibility) over the performance measures – albeit in a very limited form. A critical part of the responsibilities of the central level is what some would call 'ensuring the minimum rights and duties of the unemployed' (M-Ploy 2011: 20-21) but what Bredgaard would call 'ensuring local compliance' (2011). Bredgaard's

vision is, thus, that the central government is reigning in the flexibility of municipalities in the organisation of delivery and determining target groups.

The fact of the matter is that the central level sets out minimum standards for the implementation of policies and the behaviour of the jobcentres as well as for the behaviour of the unemployed. “For example, job centres are typically required to provide jobseekers with a CV/contact interview every three months as a minimum, access to an employability enhancement programme after a certain period of unemployment, and a job plan” (Froy *et al.* 2011: 30).^{ciii} Other minimum requirements include the setting of floors and ceilings on the duration training programmes, the formal coupling of methods with certain profiles of individual unemployed and sometimes it includes launching specific trials and projects (Table 31). This is enforced through the aforementioned reimbursement model, which creates financial incentives to comply with process measures, but enforcement is also secured through constant monitoring (see Table 30).^{civ} Such minimum requirements and the floors and ceilings on intensive services can be seen as a tool to fight perverse incentives. Limiting local flexibility in the minimum services they have to provide and by setting minimum and maximum duration on intensive services the central level limits the possibility for improper use of services. A minimum duration of training services raises the costs for municipalities to use services as a tool to provide the unemployed with the credentials to re-apply for UI, thereby limiting the opportunity of dumping. A maximum duration limits the time in which unemployed with low probability of re-entering regular employment can be parked in programmes. Minimal requirements for services inhibit the option for localities to select their own clientele and thereby they reduce the option of creating programmes that do not actually provide any services. The National Labour Market Authority is the executive institution of monitoring at the central level. It is accountable to the Minister, who is in turn accountable to parliament.

The regional level is characterised by Bredgaard as “the extended arm of the central government” (2011: 767). This is not just a political statement but it identifies a formal power structure which is encapsulated within Danish labour market governance. The employment regions fall under the regime of the National Labour Market Authority. The regions have their own Employment Council, which consists of representatives of the same actors as the national Employment Council. The regions are legally and contractually obligated “to ensure good results and effects in employment measures in cooperation with the job centres” by monitoring and measuring the performance of the municipal jobcentres (M-Ploy 2011: 21-22). The circle of discussing their contractual obligations with the Minister, ensuring implementation, dialogue with the municipalities and following-up on that is regulated by the calendar in Figure 9. An important tool that enhances (public) transparency and the ability of regions to monitor municipalities is the online portal, through which municipalities are required to publish their progress.^{cv} The public reporting must contain participation rates (of individuals and businesses), services provided, funding and outcomes – thus covering every type of performance measure.^{cvi} This system could be characterised as somewhere halfway between internal and external monitoring. The Employment Councils do include actors from the municipality itself, and the employment regions are governmental actors. But this way of monitoring is detached from the municipal government proper.

The municipality “manages all employment-directed tasks for all groups of citizens: employed people, recipients of unemployment benefits, recipients of social cash benefits, recipients of sickness benefits, rehabilitees, unemployment benefits for people in flex jobs, etc.” (M-Ploy 2011: 25). They enjoy considerable freedom, but municipalities have to abide by the priorities, minimum requirements and sometimes with specific agreements of the central and regional level. The actual implementation of labour market services is done by the one-stop municipal jobcentres, they are responsible for the activation of the unemployed.^{cvi} They can develop their own programmes, but limited to the central legislation which acts as a sort of policy menu. Municipalities do enjoy almost full flexibility when it comes to outsourcing. But whoever they contract, the municipalities remain accountable for activation. So although (private) third parties provide a substantial part of the

(intensive) services, this institutional context resembles what Grubb has described as ‘payment for results where payments are determined by levels of performance (volume and quality) over the course of the contract’ rather than ‘continuous re-contracting’ or ‘purchase of services directly by clients’ (Bredgaard 2011: 770; Grubb 2004). There is a strict division of labour: the job centres handle everything that concerns the services while they do not have any authority over the disbursements of benefits. The municipal administration itself deals with the disbursements of social assistance benefits while the Unemployment Insurance Funds do so for the unemployment insurance. This is a striking difference with surrounding countries, but serves to clarify the accountability structure as there is one single actor who is purely responsible for activation (Jantz & Jann 2013: 238). The monitoring is done mainly through the reporting of the Employment Councils. The behaviour and the performance of local jobcentres are analysed and monitored by the municipal council and the municipal Employment Council. These municipal Employment councils are obligated to publish and report their findings to the regions and the regional Employment Councils. In turn, they report to the National Labour Market Authority and the national Employment Council, and thus ultimately to the Minister of Employment. This system which combines constant performance measurement with constant reporting is very characterising for the Danish experience.

Bredgaard’s thesis that there were hindering compliance gaps and that the government actively pursues a strategy to close them seems validated by the latest round of decentralisation: “The organizational reform can thus be seen as an attempt of central government to regain control and strengthen the accountability structures in labour market policies” (Jantz & Jann 2013: 238). Compared to the two-tiered structure before the reforms, municipalities have decreased flexibility in programme development and performance measurement setting. The use of (process) performance measures and the reporting thereof is perhaps the most defining feature of the Danish brand of municipalisation. The setting of the Ministerial goals and the central employment plan is done with close dialogue of the central Employment Council. This means that representatives of the municipalities have an official channel to influence the decision-making process. The annual planning process is defined by law. Municipalities are obliged to convert the employment plan into local targets. Furthermore, the municipalities are allowed to set their own targets and the great majority has opted to do so (M-Ploy 2011: 49). The Danish system, thus, combines ex-ante setting of goals through this annual agenda, with constant real-time monitoring process used for the reimbursement model. However, it is the latter that really characterises Danish monitoring practices.

5.5 The Danish experience

The Danish experience with multi-tiered labour market governance (decentralisation) has been marked by operational policy reforms. Some would argue that this has been inspired by the desire to get local and regional government levels on board with central goals (Bredgaard 2011; Bredgaard & Larsen 2008). Denmark confirms the remarks by Mosley that the commitment of local levels of government is crucial to successful performance management (2001: 91). Two features of the Danish model jump out: the reimbursement model and the constant and institutionalised monitoring. The reimbursement model, both for activation and social assistance benefits, influences local policies in a similar manner as the US tax reduction and block grants: local governments are not formally forced to exhibit certain behaviour or adhere to central priorities, they are incentivised by central funds. However, there is a major difference. The US financial incentives are contingent on *a priori* planning and policymaking. The Danish refunds are contingent on actual ‘real time’ experience with individual benefit recipients.^{cviii} The difference between U.S. reliance on ex-ante goal setting and the Danish use of real-time monitoring is very clear in this regard. Arguably the Danish system is more effective at ensuring compliance with centrally desired behaviour as it creates financial incentives at the lowest level possible. Nunn *et al.* argue that the amount of flexibility is related to the suitability of types of indicators (2009: 47). Even though Danish municipalities are free to outsource their activities, their flexibility is much more limited than, say, the American states. The attempt of increasing central control over local practices, therefore, seems in line with the focus on process indicators. However

reliance on process indicators inherently creates moral hazard issues in the form of parking. A crucial feature, therefore, are the performance reviews of intermediate outcome indicators that municipalities have to pursue and communicate to the employment regions. The employment regions in turn, cast a shadow of hierarchy as they can take over or delegate the responsibilities of mal-performing jobcentres to other actors. This two-pronged strategy – reimbursement and performance review – requires an extensive bureaucratic apparatus and significant monitoring and reporting efforts. According to an OECD survey 93 percent of all the Danish jobcentre managers indicated that the bureaucracy level was too high (Froy *et al.* 2011: 42).

The Danish multi-tiered labour market governance is predominantly aimed at activation in the form of welfare-to-work. Activation is much more of an integral part of the benefit system in Denmark than in the other cases, as shown by the reimbursement model of the social assistance benefits. The large bureaucracy involved in monitoring process and intermediate outcome would pose serious challenges for any E(M)U-wide scheme. So conceived, a reimbursement system combined with the performance management system which accompanies it, seems politically and practically not feasible for a supranational scheme. It is difficult to differentiate the operational policy (the reimbursement model) from the formal policy (activation). Nonetheless, the Danish experience shows that posing process activation requirements does entail the issues of moral hazard in the form of parking and that fighting those incentives requires a sizeable reporting apparatus. Additionally, the Danish experience with trying to close compliance gaps serves as a confirmation of the importance of local commitment to performance management systems – as much of the operational reform has dealt with this issue.

6. Belgium

6.1 Introduction

The Belgian experience is highly relevant with regard to the issues studied in this paper. Already since the 1980s, Belgium features a clear-cut distinction between one level of government which is responsible for unemployment insurance benefits (the legislation, the funding, the administrative management of the system, and the sanctioning of unemployed individuals when they fail to meet the obligations that make them eligible, such as searching employment), and another level of government which is responsible for the PES and the activation of the unemployed (but not the follow-up of their search effort with regard to their eligibility for benefits).

This division of labour has created considerable political tensions with regard to the governance of the unemployment system, culminating in a new departure in 2004, launched by the *Employment Conference* of September 2003. After complex negotiations between the federal government and the three regional governments (and, parallel, many rounds of discussion with the social partners), a cooperative framework for the activation and follow-up of the unemployed was formally agreed in 2004 between the different levels of government. This *Cooperation Agreement* is the central focus of this section. In 2013, a new *Cooperation Agreement* was negotiated as a follow-up to the 2004 Agreement. The latter will be the last *Cooperation Agreement* of this specific kind; from 2015 onwards, Belgium's institutional architecture changes in the context of a new round of constitutional reform, the so-called Sixth State Reform. In part, this institutional evolution is related to the same challenges w.r.t. labour market policy as inspired the *Cooperation Agreements*; it devolves the political responsibility for the activation and the follow-up of individuals with unemployment benefits and individuals living on means-tested social assistance completely to the regions. Thus, we enter a new era, with important consequences for the issues discussed in this section, but we will not elaborate on the Sixth State Reform here.

6.2 Unemployment insurance

Unemployment insurance is an exclusive federal competence in Belgium: the level, the duration, and the eligibility criteria of unemployment benefits are completely and solely determined by federal

legislation. Trade unions play an important role in the practical administration of the system, as intermediaries between the individual unemployed on the one hand, and the unemployment branch of the federal social security system, which is managed by the *Rijksdienst voor Arbeidsvoorziening (RVA)/Office National de l'Emploi (ONEM)*, on the other hand.

Unemployment insurance in Belgium is different from unemployment insurance in many other countries in two respects. First, in principle, the duration of unemployment benefits can be unlimited. Second, and not unrelated, the Belgian unemployment case load incorporates a number of inactive individuals who would in other countries not be entitled to unemployment benefits proper, but be entitled to social assistance, (long-term) invalidity benefits, or early retirement within the pension system. Consequently, the unemployment case load is comparatively big (see Vandenbroucke 2013: Table 4), but the level of benefits is, in general, not high, certainly not for individuals who are not financially in charge of a household and who are medium- or long-term unemployed.

The notion of an 'unlimited duration' needs qualification though, on two counts. First, the eligibility criteria stipulate that the right to benefits implies obligations: searching employment, accepting 'adequate job offers', and being ready to cooperate with PES that offer activation or training. (These obligations hold for most individuals; for a long time, elderly unemployed were excluded from these obligations, but these obligations are now gradually extended to elderly unemployed.) Individuals who are seen to fail one of these obligations, can be sanctioned. Second, for many years, article 80 of the unemployment benefit regulation made it possible to exclude unemployed individuals from the benefit system, if the duration of their unemployment was considered 'abnormally long'. In the 1990s, a relatively high number of unemployed individuals lost benefits via this system. With hindsight, this mechanism can be said to have been rather brutal in its consequences (exclusion from the right to unemployment benefits, often without prior warning that one should look for work), highly selective (it applied only to a sub-category of mainly women), and not very effective in terms of activation (since it was not incorporated into an activation strategy). In the context of the *Cooperation Agreement* of 2004, article 80 was replaced with a regulation that is not only broader in scope (it covers all the unemployed, though initially it was restricted to the under-50s) and more nuanced in its application (with gradual sanctions), but that also works preventatively.^{cix}

6.3 Social assistance

Social assistance (the so-called *leefloon/revenue d'intégration sociale*) plays a residual role in Belgium; in terms of budgets and caseload, it is relatively marginal (compared to unemployment). From 2002 onwards, new legislation put an emphasis on the need to activate individuals living with a *leefloon*. The legislation, both with regard to the benefits and the principle of activation, is federal, but the practical implementation is completely devolved to the municipal level. The budgetary responsibility for these social assistance benefits, very roughly formulated, can be seen as starting from a 50/50 division between the federal government and local authorities. As a matter of fact, there is considerable variation in the local efforts and achievements with regard to the activation of individuals with a *leefloon* in Belgium (Vandenbroucke 2011). The federal administration facilitates activation (by specific programmes, including also extra financial support), organizes its statistical follow-up, but does not steer it. The Belgian tradition of respect for 'local autonomy' plays an important role in this respect. In the context of the new constitutional reform, the competence for activation of individuals living with a *leefloon* will be devolved to the regions. Whether or not this will lead to a more consequential central steering (by the regions) and less policy discretion at the local level is as yet unclear. We do not pursue this here.

6.4 Activation

With regard to activation, Belgium has been a laggard. A systematic approach to activation, conforming to the 1997 guidelines of the European Employment Strategy, was only implemented from 2004 onwards. Before 2004, there was no systematic 'preventative' attempt to activate new

entrants into unemployment across all Belgian regions; and the 'curative' approach (activating the stock of long-term unemployed) was also very disparate. The Belgian experience before 2004 can be interpreted as an archetypal case of *institutional moral hazard*: regional authorities were under no financial pressure to commit themselves to systematic activation, given the fact that the funding of unemployment benefits was completely federal. The division of labour between federal authorities (supposed to monitor and eventually sanction the unemployed with regard to their job search effort), and regional authorities (supposed to activate the unemployed), reduced the motivation to activate at the regional level, and made it practically impossible for the federal level to monitor and eventually sanction the unemployed. In theory, the regional PES had to inform the federal social security authority (the RVA/ONEM) about unemployed individuals who were apparently not looking for work or who did not cooperate with activation programmes (the regions had to 'transmit' information on non-compliance with the principles of the federal unemployment insurance; in practice, the amount of so-called *transmissions* remained very limited and was very uneven across the regions, as we will explain below. As a result of this rather schizophrenic situation, the main mechanism applied throughout the 1980s and the 1990s to monitor and sanction the unemployed was the infamous article 80 (see above).

However, apart from this non-benign interpretation of the long stand-still in activation in Belgium before 2004, as a pure case of institutional moral hazard, other factors were at play too. If a regional PES wanted to position itself in the market of placement (in competition with interim agencies etc.), it had to build and entertain a reputation of sending 'good and motivated' candidates to companies. Hence, offering jobs to unemployed individuals as a way to 'test' their readiness to work (notably when their motivation would seem limited), was seen as detrimental to the credibility and the competitive position of the PES as a labour market actor. This argument, which is in itself rational, contributed to a policy paradigm that activation had to be a 'positive' endeavour, far removed from any sanctioning mechanism. This explains why, at the regional level the willingness to inform the RVA/ONEM about unemployed individuals who were apparently not looking for work, was very limited. Finally, in order to understand the Belgian policy predicament of the 1990s and the growing political tension with regard to interregional differences in unemployment, one must take on board the very different employment situation in the Belgian regions. Given a tighter labour market in Flanders and more unfulfilled vacancies, counsellors in the Flemish PES faced a different reality than counsellors in the Walloon PES. Despite the factors that inhibited forceful activation efforts both in Flanders, Wallonia and Brussels, in the Flemish region, arguments in favour of a more systematic activation effort gained ground. In Wallonia, the low regional employment rate was interpreted by many actors as solely a labour demand problem and not a supply problem, i.e. as indicating that activation of the unemployed would be futile in Wallonia. Data on the (limited) number of sanctions vis-à-vis unemployed individuals by the federal RVA/ONEM suggested that the Flemish PES was more ready to transfer the files of 'undeserving unemployed' individuals who declined job offers, to the federal RVA/ONEM, with a view to applying sanctions, than the PES in Brussels and Wallonia (see Figure 12 below, at the start of the period under review, the percentage of unemployed individuals that were confronted with sanctions in the context of the federal unemployment benefit system, was much higher in Flanders than in the other regions).

All this changed radically with the intergovernmental *Cooperation agreement* of 2004. Politically, the basic idea was that regional authorities and PES accepted that they had to contribute actively to the budgetary viability and public legitimacy of the federal unemployment benefit system, which retained its defining feature of organizing unemployment benefits with, in principle, no limitation in duration if the unemployed individual continues to search for jobs. (In a sense, the gradual abolition of article 80 even reinforced this fundamental feature of the Belgian system.) Practically, the essence was that the instruments of the federal authorities (with regard to the monitoring and possible sanctioning of unemployed individuals) and the instruments of the regional authorities would be

much better coordinated with each other, in order to establish a real link between individual rights (to benefits) and obligations (to search employment).

The *Cooperation Agreement* implied a marked convergence, across the three regions, with regard to the way activation was organized. The federal RVA/ONEM would invite each unemployed person to an individual face-to-face meeting according to a strict time schedule (a first meeting after 15 months of unemployment for people below the age of 25, and after 21 months for older individuals). The regional PES committed themselves to an activation process that would offer all those individuals adequate opportunities (in the form of counselling, training, job offers) before they would be invited by the federal RVA/ONEM. If, on the basis of this face-to-face meeting, the search effort of the unemployed was judged to be satisfactory by the RVA/ONEM, a new invitation would come after another 12/16 months (if the person would still be unemployed). But if the search effort was considered unsatisfactory, a new invitation would follow after only 4 months; a second negative evaluation would then lead to a gradual build-up of sanctions. This agreement and the mutual regional and federal commitments attached to it, created a strong incentive for the regional PES to step up their activation effort, but also a rather rigid straightjacket in which they had to organize their own processes.

With regard to sanctions, article 80 was replaced with a regulation that is not only broader in scope (it allows to target all the unemployed, including men and heads of households, though initially it was restricted to the under-50s) and more nuanced in its application (with gradual sanctions), but that also works preventatively. The essence of the new model is close monitoring rather than imposing harsh punitive sanctions. As a matter of fact, within the activation framework *stricto sensu*, the number of total and definitive exclusions in 2009-2011 (5906 cases) was 30% lower than under article 80 between 2001-2003; apart from total and definitive exclusions, the new system also provides for temporary exclusions; over 2009-2011, there were 5640 cases of such temporary exclusions. This largely preventative model was not unsuccessful, according to research by Cockx *et al.* (2011a, 2011b), which is not to say that it cannot be improved. The cooperation agreement also created a new momentum for the system of so-called ‘transmissions’, whereby regional employment services can report unemployed persons to the national employment agency for a variety of contraventions of the unemployment regulation: the number of transmissions increased significantly, and so did the number of ensuing sanctions. Although transmissions do not fall within the monitoring scheme applied by the RVA/ONEM, they are closely related to the activation drive and the *Cooperation Agreement*.

We focus here on sanctions, not because we believe that sanctioning ‘undeserving’ unemployed individuals is the *nec plus ultra* of an activation policy. However, the interregional imbalance with regard to sanctions, as it existed in the beginning of the 2000s, came increasingly to be seen as unacceptable. Applying the concepts of this paper, that regional imbalance may be seen as a signal of ‘institutional moral hazard’ which undermines the legitimacy of the system. Figure 10 shows the total number of sanctions, as a percentage of the number of unemployed, linked to the new federal monitoring system (i.e. where the trigger is at the federal level). Figure 11 shows the total number of sanctions that followed from regional ‘transmissions’ to the federal level (i.e. where the trigger is at the regional level). Figure 12 encompasses both categories of sanctions. To be sure, Figure 12 also includes sanctions that are not related to the jointly agreed activation scheme: data mining has made it possible to drastically improve the fight against benefit fraud, which has also resulted in more sanctions.

Figure 12 clearly displays a ‘catching-up process’ in terms of the overall number of sanctions in Wallonia and Brussels. The underlying components reveal persistent differences in the patterns of sanctions (with sanctions from ‘transmissions’ remaining relatively more important in Flanders, and sanctions directly linked to the new federal monitoring system being more important in the two

other regions); however, the *Cooperation Agreement* not only fuelled activation and training efforts in all regions, but also corrected a situation that was politically unsustainable.

Simultaneously, the *Cooperation Agreement* implied a straightjacket for the regional PES, which made subsequent adjustments of the regional policy frameworks to new realities or new insights more difficult. This led to a call to a new approach from 2008 onwards, in which the complete competence with regard to activation, but also with regard to the monitoring of unemployed individuals would be devolved to the regions. One of the arguments in favour of further devolution was that the federal follow-up of unemployed people cannot be based on a sufficiently fine-grained assessment of the real situation of the unemployed individuals: 'clever' unemployed people are able to conceal lack of effort when they are interrogated by the federal authorities (who do not engage in the mediation and training process themselves, since that is done at the regional PES level); vulnerable individuals, who experience real difficulties in finding a job in the regular labour market may also be very vulnerable vis-à-vis an undifferentiated examination procedure at the federal level.^{cx} At first sight, devolving the monitoring of unemployed individuals' search efforts to the regions, would seem to exacerbate the risk of institutional moral hazard. However, the argument fitted into a broader scheme, in which the impact of success (or failure) of activation on regional budgetary revenues would be enhanced (see Vandenbroucke and Meert, 2010, for a proposal to link budgetary transfers from the federal to the regional level directly to regional performance in employment policy, formulated in the context of this new institutional debate). The Sixth State Reform has taken this call for further devolvement of activation policy on board, but no specific intergovernmental 'financial incentive' mechanism was attached to it. Implicitly, the negotiators of the Sixth State Reform seemed satisfied that the overall financial architecture of the new Belgian institutions would constitute a sufficient incentive for the regions to pursue an active labour market policy, since regional budgets would automatically benefit from an increased taxable income basis when employment would increase. The 'Sixth State Reform' has been embedded in legislation and voted in parliament, but it still needs to be implemented in practice. The jury is still out with regard to the impact of this new constellation.

For completeness, we should add that in 2013, a new *Cooperation Agreement* was negotiated, in the same vein as the 2004 Agreement but with some important modifications. For instance, the scope was enlarged (it also extended to unemployed individuals older than 50, and incorporated specific procedures for school leavers) and the intervention periods were shortened (i.e. it implied a speeding up of the follow-up process viz-à-viz the individual unemployed). The 2013 Agreement will be implemented until the Sixth State Reform is fully executed. Obviously, given the Sixth State Reform, this will be the last agreement of this type in Belgium. Implementing the Sixth State Reform may well require a specific agreement between the federal and the regional authorities on a common normative framework for activation policies (to ensure that the principles of the federal unemployment insurance are complied with), but the political and institutional basis of such a negotiation – if it is launched – will be different.

Notwithstanding important institutional change within Belgium, there is continuity in the overarching European framework. In a sense, the *Cooperation Agreements* of 2004 and 2013 can be seen as a translation of key and long-standing guidelines of the European Employment Strategy into Belgian practice, notably the fact that every unemployed individual had to be offered a new start before reaching x months of unemployment (depending on the age of the individual) in the form of training, retraining, work practice, a job, or other employability measures. (The observation that Belgium was a laggard w.r.t. the implementation of these 1997 Guidelines, was an important argument in the internal Belgian debate in the beginning of the 2000s.) Gradually, the European Employment Strategy has become more stringent in this regard, culminating recently in the *Youth Guarantee*. This reinvigorated European framework may become even more important for the overall governance of the Belgian system in the future.

6.5 The Belgian experience

Table 33 summarizes the division of labour among levels of government in Belgium with regard to unemployment benefits, activation and means-tested social assistance. The main lesson learned from the Belgian experience, with regard to unemployment insurance, is the following: a clear-cut distinction between one level of government that is responsible for unemployment insurance benefits (the legislation, the funding, the administrative management of the system, and the sanctioning of unemployed individuals when they fail to meet the obligations that make them eligible, such as looking for employment), and another level of government that is responsible for the PES and the activation of the unemployed (but not the follow-up of their employment search effort with regard to their eligibility for benefits), does create very serious issues of institutional moral hazard, if not in reality, then certainly so in the political perception. In order to counter this problem, either a constraining cooperative framework is needed, or an intergovernmental financial mechanism that would 'reward' successful activation. In 2003, Belgium chose the first solution, with marked impact. Simultaneously, this requires difficult and detailed intergovernmental negotiations; the ensuing straightjacket for the governments responsible for activation also has disadvantages, and, most of all, the monitoring of individual search efforts by the federal authority is sub-optimal. The awareness of these disadvantages led to the Sixth Belgian State Reform, which brings the country in uncharted territory w.r.t. unemployment regulation and activation. Given the Sixth Belgian State Reform, the European guidelines on activation become even more important as a unifying framework for increasingly devolved Belgian policies.

7. Results: the lessons learned

7.2 National lessons learned

This paper has studied multi-tiered labour market governance models, and specifically the issue of moral hazard. Often, the multi-tiered nature of labour market governance is partly the result of the attempt by governments to reduce the individual moral hazard of their workforce; activating policies can be seen as counteracting individual moral hazard. Such policies are thought to be most conveniently implemented at the local level. But multi-layering can come about in different ways: path-dependence due to federalism; or a historical division of institutional responsibilities, e.g. the role of municipalities in social assistance, which has existed for decades in some European welfare states. Whatever the case, this paper has shown that it is the local level which has been predominantly involved in activation, while the federal or central governmental level has mostly been responsible for funding and setting the levels benefits. Counteracting individual moral hazard through ALMPs in such multi-tiered systems has increased the relevance of another type of moral hazard: between levels of government. Institutional moral hazard is not confined to the interaction between activation and unemployment-based benefit schemes, though, it could also arise due to the interaction between different benefit schemes.

The Belgian case (with regard to UI benefits) shows that institutional moral hazard can become a central policy and political issue. Admittedly, the Belgian case is extreme: the complete responsibility for legislating on and funding of unemployment benefits is at the federal level, whilst much of activation and the organization of PES are regional competences. The Belgian experience shows that such a division of labour is unsustainable, if it is not remedied, for instance by a strict cooperative framework with regard to the activation process (rather than performance measurement), as was organized from 2004 onwards. The Belgian experience also shows the importance (at least in the Belgian case) of the overarching European Employment Strategy.

Apart from the specific Belgian experience with regard to its unemployment insurance system, the attempt to combat institutional moral hazard has often resulted in some kind of performance measurement model, or at least some form of performance monitoring. All three EU cases have an unemployment insurance system in which the central government is the dominant level in financing and determining eligibility, levels and duration of the benefits. Social assistance is much more

devolved, both in terms of financing and administration. The obvious lesson here is that any supranational benefit system with automatic stabilization purposes must be focussed on UI benefits because this would limit the need to account for the large divergences in social assistance. In any case, social assistance is not the best benefit to fund if one wants to achieve speedy automatic stabilization effects. However, the experiences with social assistance could be relevant for investigating moral hazard issues because in social assistance there is often more interaction between different levels of government.

The U.S. system of regular unemployment insurance is somewhat of an outlier in this research. The legislation of this federal-state cooperation has little to say on the matter of activation; *a fortiori*, it does not include a measurement of the activation performance of states. Because states are themselves responsible for the financing of the actual UI benefits, they are inherently incentivised to develop their own activation system. In addition, the lack of concern for institutional moral hazard might be due to the meagre nature of regular UI in the U.S. The fact that the flow of funds between the federal level and the state is earmarked for administration purposes, further reduces the federal level's concern for institutional moral hazard. The next reason why the federal level might not be so concerned with the activation policy of the states is that the states have a relatively uniform performance concerning unemployment – at least compared to the European member states (Table 17). When (member) states have a more equal performance, the relevance of activation – or rather the need for federal involvement in activation – is not so high. The FUTA itself – the possibility for a credit when legislation complies with FUTA requirements – is also a way for the federal level to influence state legislation. In sum, the federal influence on state policies is mainly aimed at the convergence of eligibility and administration procedures. This system probably does little in terms of automatic stabilization but it could be viewed as a positive example of fostering convergence.

The federal regulation of emergency and extended UI benefits displays more concern with individual moral hazard because the federal level is fiscally involved in the actual benefits – either for 50 or 100%. Additionally the duration of benefits is greatly extended, which also widens the window of opportunity for individual moral hazard to arise. Therefore, the federal level demands certain requirements of individual claimants. Institutional moral hazard is, again, not so much of an issue for the federal level. If state governments would try to take advantage of either emergency or extended benefits it would mean that they would have to actively scale back their already existing ALMP efforts during crises, which is highly unlikely. However, the possibility of applying such extended or emergency benefits in a E(M)U context seems limited: in some countries the benefits would kick in very late and such a system would create the incentive to scale down benefit durations and thereby undermining social models while leaning on the EU to support them during times of crises. However, the proposal of Dullien works around the divergences within the EU, by proposing the option of extending the E(M)U funded benefit (Dullien 2014: 84-86). In other words, it would not extend the national UI per se, but it would extend the E(M)U contribution to the national UI. Although this might solve the applicability issue (this type of extension would apply to all cases equally), it heightens the issue of moral hazard. As the U.S. has shown, increasing the duration also increases the concern of the federal level for moral hazard. The proposed E(M)U scheme already entails a base-period of one year, extending that would likely raise concerns over it funding long-term unemployment.

The parsimonious nature of the U.S. federal-state cooperation contrasts with the complicated governance of activation policies in the U.S. States have enormous potential to form their own governance structures within the federal guidelines, which entails not just significant local autonomy but also a lot of variation. Attempts to measure and manage the local performance have led to a very complex system indeed. It seems difficult to construct a system in which the activation activities of local governments are both effectively monitored and still given enough leeway to implement tailor made policies. Furthermore, decentralised ALMP responsibilities seem to go hand in hand with strong political struggles over where to place the authority to design, implement and monitor policies. Experiences with activation monitoring and performance measurements in the other three

cases confirm this point. The TANF programme copes with similar performance management problems, although the governance model is much more clearly defined compared to the WIA governance structure.

Concerning the difficulties to create a decentralised governance structure for activation policies, the German experience is a case in point. Operational reforms of German activation policies have led to multiple interventions by the constitutional court, lots of political debate and the erection of *three* types of one-stop-shops. But as a result of the interventions by the Karlsruhe court, the Länder-level has been increased in prominence, which yields an interesting design feature. It resembles the role of the Economic boards in Denmark and the WIBs in the U.S. The Länder constitute a kind of bridgehead between the federal and municipal level. They organize independent reporting, are perhaps better suited to monitor the local level, engage in performance measurement negotiations but also support the local level in their efforts, thereby creating possibilities to incentivise convergence and spread policy diffusion. The Economic boards (U.S. state and local WIBs and the Danish Economic Boards), especially in Denmark, could be also seen as a source of convergence. They are advisory boards that include different partners from different levels, and just as the Länder they report independently, monitor and support the local level. In doing so, they could serve both as a check on local governments and as a source for policy diffusion. Such experiences could be relevant to a E(M)U-wide benefit. Creating mid-level institutions helps bridging the gap between local diversity and central goals, both in controlling and supporting lower levels of government. However, it also shows that in these three cases the federal or central level either lacked the legitimacy or the capacity to monitor local governments effectively themselves. In other words, this finding reinforces the concern that monitoring local levels could require a substantial bureaucracy or at least additional institutions to reinforce the legitimacy of central objectives and power and to enhance the capacity to monitor. The similarity between the Danish and the German experience in this regard is particularly striking. Denmark had issues with the legitimacy of central goals and Germany had issues with the legitimacy of the authority itself. Both created new responsibilities and institutions at the intermediate level to address those issues.

The Danish activation model looks more parsimonious in terms of governance structure than the other cases. It has less actors involved and less different types of one-stop-shops than Germany. Its governance structure is more clear-cut than the American WIA model. Danish municipalities also enjoy the leeway to outsource or collaborate with private or social partners in the one-stop-shops if they so desire. Some one-stop-shops have even been completely outsourced to private parties. But the Danish model seems to be very heavily burdened with (excessive) reporting and monitoring. Even though the governance model seems relatively simple, the effort to utilise it is significant. The potential for application of such a system in a E(M)U context seems low.

The only feature all four activation systems have in common is that they are complex, often both in governance structure and in the types of moral hazard that arise. What we have learned is that one should take account of the institutional context before deciding on how to implement performance measurement to fight moral hazard. When both autonomy and diversity among the constituent local governments are high - as it would inevitably be the case in any E(M)U-wide scheme – it would be best to monitor outcome measures. However, the two types of outcome measures, final and intermediate outcome measures, have their own problematic features. Final outcomes measures are influenced by the economic context, which could make them hard to interpret. Especially during periods of global or regional crises, final outcome measures do not accurately measure the effort of activation. When the implied targets are unrealistic or hard to achieve, and the stakes for measuring up are high, incentives for misleading reporting will increase. Intermediate outcome measures are more related to the efforts of activating institutions, but on their own they are susceptible to creaming. Next to penetration measures, process indicators are a way to offset the shortfalls of outcome measures. Measuring the amount and type of intervention has a number of limitations. First of all, with highly flexible and autonomous constituent local authorities it is difficult to

accommodate the range of possible types of interventions without creating incentives for parking. As some of the cases have shown – especially Denmark – it is possible to monitor a broad range of indicators. The danger there is that this will lead to a very substantial bureaucracy, especially when using constant ‘real-time’ monitoring. The alternative option is to monitor the inputs of activation models. The U.S. model has shown that it is also possible to formulate some minimal legislative input requirements to achieve a measure of convergence and compliance. However, this is in no way an insurance that countries would actually actively pursue activation. The legislative requirements in the U.S. system are more aimed at sharing information and convergence of administration systems.

7.2 The relevance for a E(M)U-wide scheme

The E(M)U-wide scheme as proposed by Dullien^{cxix} seems attractive from a moral hazard standpoint. It draws heavily on the American experience, in which policies to fight moral hazard are almost non-existent within the regular UI scheme. However, even though there are (almost) no activation requirements in the (regular) unemployment insurance in the U.S., the efforts to activate the workforce have increased over the years. This has been done through the use of additional individual work requirements in recent legislation and the development of the WIA system. This is relevant for an E(M)U-wide scheme as it shows that even in the U.S., where through extended and emergency benefits the maximum duration is around 70 weeks, activation and moral hazard have become a greater concern. Hence, although twelve months of unemployment is sometimes referred to as ‘short-term unemployment’, the U.S. case suggests that twelve months is already a substantial time span, in relation to which concerns about activation can emerge. It is possible to delegate this concern mainly to the individual member states, as happens in the U.S. However, as Table 17 has shown, the difference between the unemployment rates in the American states is much smaller as the disparity among European member states.

Additionally, the disparity across Eurozone member states concerning the duration of unemployment is substantial, even over a longer period (Figure 3). It is true that trends in unemployment rates can shift over time. Only a decade ago Germany was qualified as ‘the sick man of Europe’ and now it is among the top performers. However, as Figure 3 shows, even over medium-long duration there are ‘structural’ differences.^{cxii} When the constituent member states of a E(M)U-wide scheme continue to show such divergence over longer periods of time, activation becomes increasingly relevant as political tensions might arise over the ‘performance’ of other countries – especially those who are at that time net receivers. Without proper adjustment mechanisms, such a situation can also lead to permanent transfers.

Our research illustrates the close-knit relationship between unemployment benefits and activation. This creates peculiar difficulties for a E(M)U-wide scheme that is, in principle, designed not to get involved in ALMPs. The argument is both practical and more theoretical. Practically, this paper has shown that benefit disbursement is often hardwired to activation on a national level in a complex way. Performance contingent pay, bonuses or non-pecuniary incentives link local policy performance to central funds. Activation programmes link individual behaviour to benefit disbursement. The political difficulties of managing existing links between benefit disbursement and activation at the EU level should not be underestimated. In some countries activation programmes extent eligibility, or participants continue to receive benefits during programmes. When there is little consensus on the effectiveness of such programmes, the EU might be seen to fund the benefits of unemployed workers participating in (or being parked in) highly contested programmes. Also, when participants in activation programmes such as subsidised job creation do not continue to receive benefits, an E(M)U-wide scheme would provide disincentives for national governments to utilise such programmes as that would transfer job seekers from a partially EU-funded passive scheme to a nationally funded activation programme. The theoretical argument is based on the vulnerability of any European notion of solidarity. If a E(M)U-wide scheme requires redistribution, pan-European solidarity requires shared goals and values and also a common sense of purpose. Activation can foster solidarity among workers as it reduces concerns for individual moral hazard. If a European

system does not create convergence of activation policies, significant differences in activation regimes will persist. Some countries invest heavily in enabling activation, some countries rely on punitive activation while yet other countries might not utilise activation on a large scale. This disparity does not contribute to development of shared values, common goals and a sense of common purpose. In other words, an E(M)U-wide scheme that does not display concern for moral hazard might be very vulnerable with regard to the degree of pan-European solidarity it requires in order to be sustainable. This being said, our arguments should not be interpreted as a rejection of specific proposals, but rather as a first exploration of possible pitfalls.

8. Policy Conclusions & Debate

This paper is an exploratory research and by no means definitive. It provides no clear-cut answers on whether or not a E(M)U-wide scheme is desirable, rather it develops an understanding of the role of moral hazard in multi-tiered unemployment benefit schemes. It has shown that it is a complicated endeavour to monitor lower levels of government and to provide them with the right incentives to enhance their compliance with central activation objectives. Central and federal governments in the four cases have struggled to develop a system in which lower levels of government actively and effectively activate the unemployed in accordance with central or federal policy goals. Many of the difficulties in doing so stem from the complicated nature of performance management and monitoring systems.

Even though it has been a challenging endeavour, central and federal governments have tried to enhance compliance at the lower level with central goals because of concern with individual moral hazard. The division of labour between higher and lower levels of government generates specific issues of institutional moral hazard. Performance management systems attempt to direct local behaviour, but they can themselves create new moral hazard challenges (e.g. parking, creaming). If a E(M)U-wide scheme would get involved in activation it would entail adding another layer on top of nationally multi-tiered systems. It seems difficult to formulate performance measures that are compatible with the variety of different institutional contexts in the member states. In essence, this paper suggests a trade-off between, on the one hand, a parsimonious E(M)U-wide scheme that does not get involved in activation but that might be at odds with the legitimacy of and solidarity within the E(M)U as a whole, and, on the other hand, a system which does display concern with activation but which might result in a complicated bureaucratic effort to monitor performance. National experiences show that it is hard to separate activation and benefit disbursement both for fundamental and practical reasons. This conundrum is not easily solved; it requires substantial further research and policy debate.

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10. Appendices

Appendix A – General

Figure 1. Interaction of national and European insurance schemes in the Dullien proposal

Source: Dullien 2014: 66

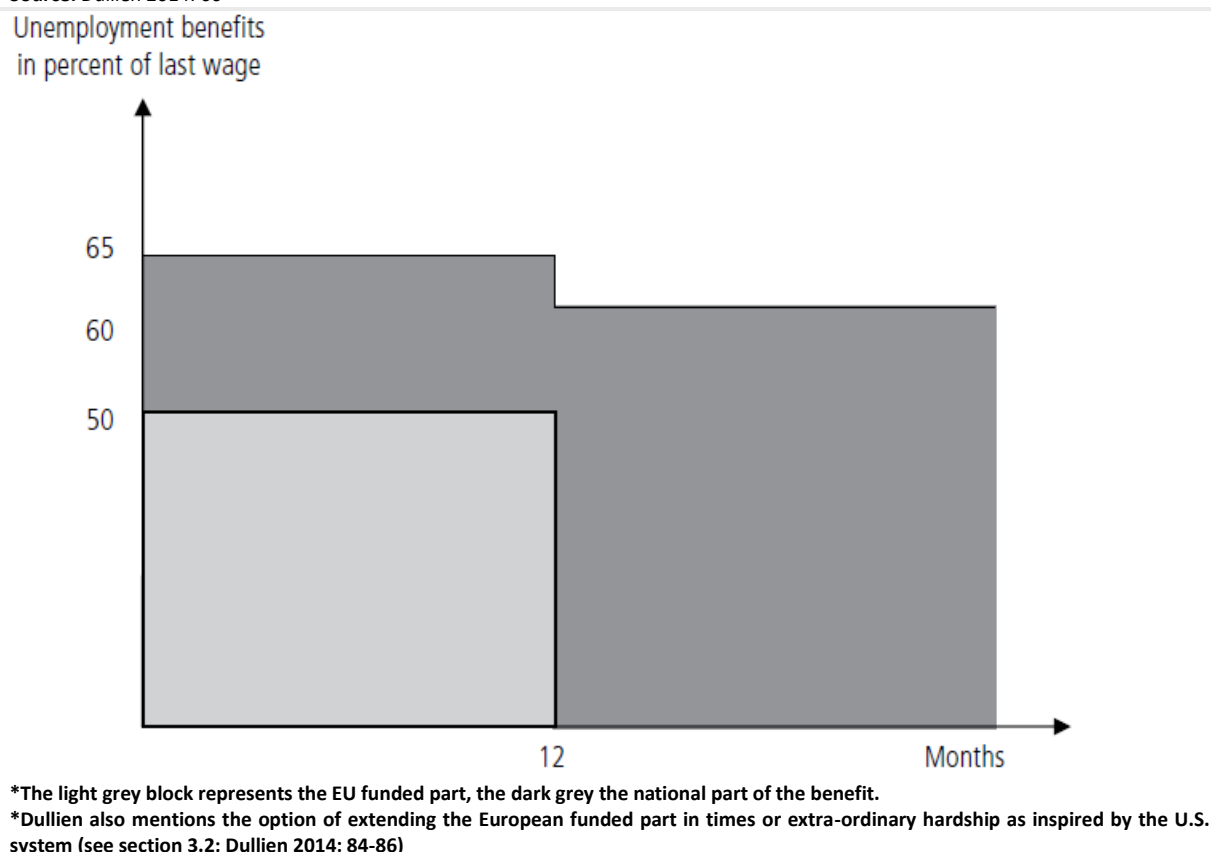


Table 1. Formal and operational policy reforms in employment policy.

Sources: Bredgaard & Larsen 2008: 3. See also Van Berkel & Borghi 2008, Van Berkel 2010.

	Formal Policy	Operational Policy
Definition	The content (substance) of legislation, programmes, schemes and instruments for delivering benefits and providing services	The governing of the implementation structure for administration of benefits and provision of services
Indicators	Changes in entitlements, rights and responsibilities, target groups, instruments, programmes and schemes	Changes in inter-agency cooperation, decentralisation, purchaser-provider split, new public management techniques and instruments, introduction of new or reorganisation of old organisations
Dominant research tradition	Labour market and social policy research	Governance and new public management research, implementation studies

Figure 2. The relations between the classifications of types of employment policy reform

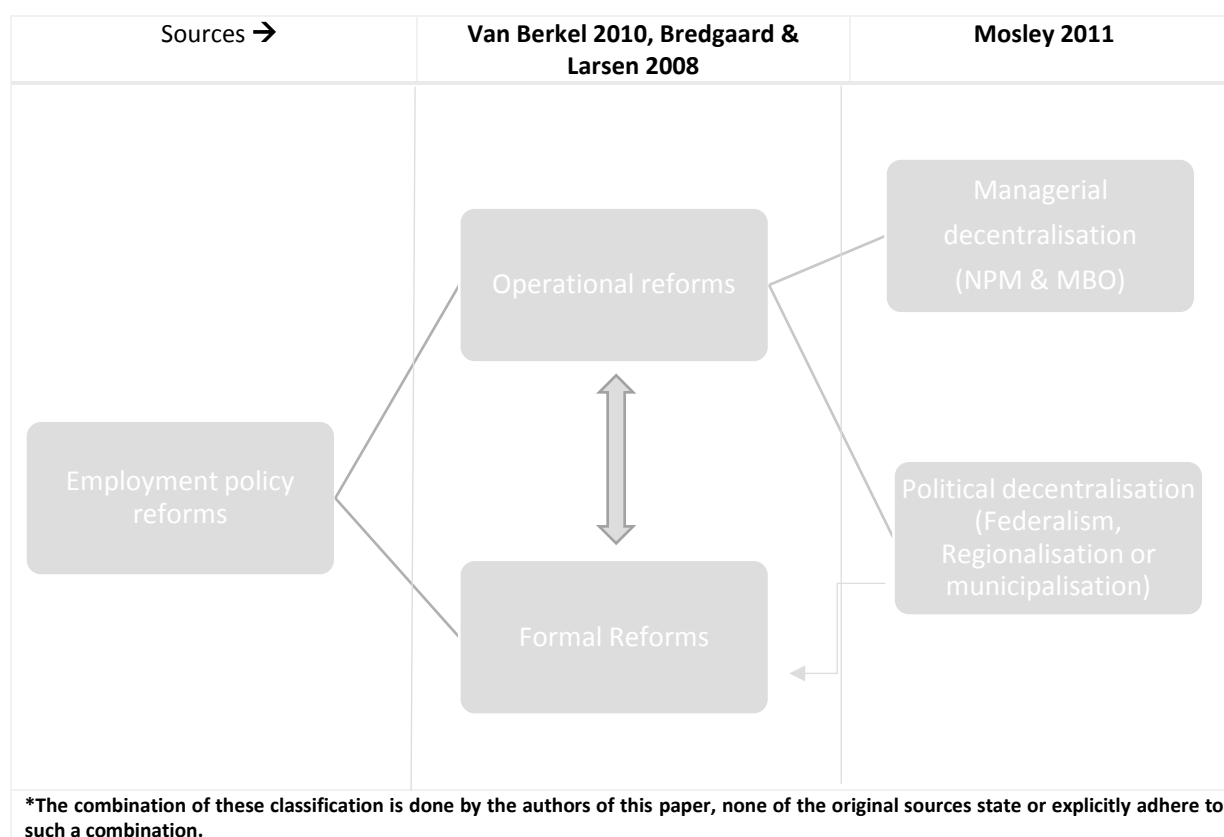


Table 2. The types of multi-tiered labour market governance in European and North-America

Source: Mosley 2011: 9.

Political decentralisation			Managerial decentralisation of national PES	
Federal	Regional	Municipal		
Canada	Belgium	<u>For all the unemployed</u>	Austria	Romania
The United States	Spain	Denmark	Finland	Greece
Switzerland	Italy	Poland	Germany	Hungary
		Norway	The Netherlands	Latvia
			France	Slovenia
		<u>Only for long-term unemployment (and/or social assistance)</u>	Sweden	Bulgaria
		Finland	Estonia	Portugal
		Germany	The Czech Republic	Ireland
		The Netherlands	The United Kingdom	Slovakia

Table 3. The possible dimensions of flexibility in labour market governance

Sources: Mosley 2011, Froy *et al.* 2011, Giguère & Froy 2009.

Mosley	Froy <i>et al.</i>	Giguère & Froy
Budget	Budgets & financing	Financing
Programme	Programme design	Programme design
Target groups	Client eligibility	Target groups
Organisation of delivery	-	
Personnel	Staffing & outsourcing	
Outsourcing		Outsourcing
	Collaboration & partnerships	Collaboration
Performance targets & goals	Performance measures & targets	Performance management

Table 4. Forms of flexibility in managerial and political decentralisation

Source: based on a compilation of Giguère & Froy 2009, Froy <i>et al.</i> 2011 and Mosley 2011.		
	Managerial Decentralisation	Political Decentralisation
Budgets	<ul style="list-style-type: none"> - earmarked and ring-fenced funds (no flexibility) - shifting funds between budget lines - funds to choose from centrally provided policy menu - portion of funds for experimentation 	<ul style="list-style-type: none"> - Shifting funds between budget lines - funds are freely available but only for policies from centrally 'determined' 'policy menu' - portion of funds for experimentation - a budgetary envelope allocated which can be spent as seen fit
Programmes	<ul style="list-style-type: none"> - central designed programmes (no flexibility) - local agencies consulted when designing new programmes - local agencies can choose a policy mix off a centrally set menu 	<ul style="list-style-type: none"> - local actors consulted when designing new programmes - local actors can choose a policy mix off a centrally set menu - design own programmes and/or strategies
Target groups & eligibility	<ul style="list-style-type: none"> - centrally set target groups (no flexibility) - some leeway in stretching eligibility criteria for extra funds - some leeway in stretching eligibility criteria for special programmes 	<ul style="list-style-type: none"> - national set target groups (no flexibility) - some leeway in stretching eligibility criteria for extra funds - some leeway in stretching eligibility criteria for special programmes - Setting own target groups
Organisation of delivery	<ul style="list-style-type: none"> - standardisation of work processes (little flexibility) - national IT system 	<ul style="list-style-type: none"> - local IT system - national IT system
Personnel & Staffing	<ul style="list-style-type: none"> - Personnel in the service of national PES or ministry (no flexibility) - Personnel in the service of national PES or ministry, but local discretion - Personnel in the service of local PES office (as distinct legal entity) 	<ul style="list-style-type: none"> - Personnel in the service of local authorities - Combination of central and local personnel (only in partial municipalised systems)
Outsourcing, collaboration & partnerships	<ul style="list-style-type: none"> - outsourcing decides on the central level (no flexibility) - local influence on which parties could receive contracts from central level - the amount of outsourcing is decided centrally but who to contract and which services is decided locally - local offices decide on what to outsource and to whom 	<ul style="list-style-type: none"> - the amount of outsourcing is decided centrally but who to contract and which services is decided locally - local authorities decide on what to outsource and to whom
Performance measures	<ul style="list-style-type: none"> - central setting of input targets (limited flexibility) - central setting of process targets - local negotiations before setting targets - qualitative versus quantitative targets - financial benefits or sanctions - mutual learning & benchmarking - national management plan 	<ul style="list-style-type: none"> - local negotiations before setting targets - national management plan - self-setting of additional targets - mutual learning & benchmarking

Table 5. Types of performance measures for Public Employment Agencies

Sources: Mosley 2001, Grubb 2004, Nunn <i>et al.</i> 2009	
Type	Description
Input	Budget
	Personnel
Output/process	Vacancy registration
	Interventions
	Penetration measures
	Process quality
Intermediate outcome measures	General off-flow
	Specific off-flow
	Penetration measures

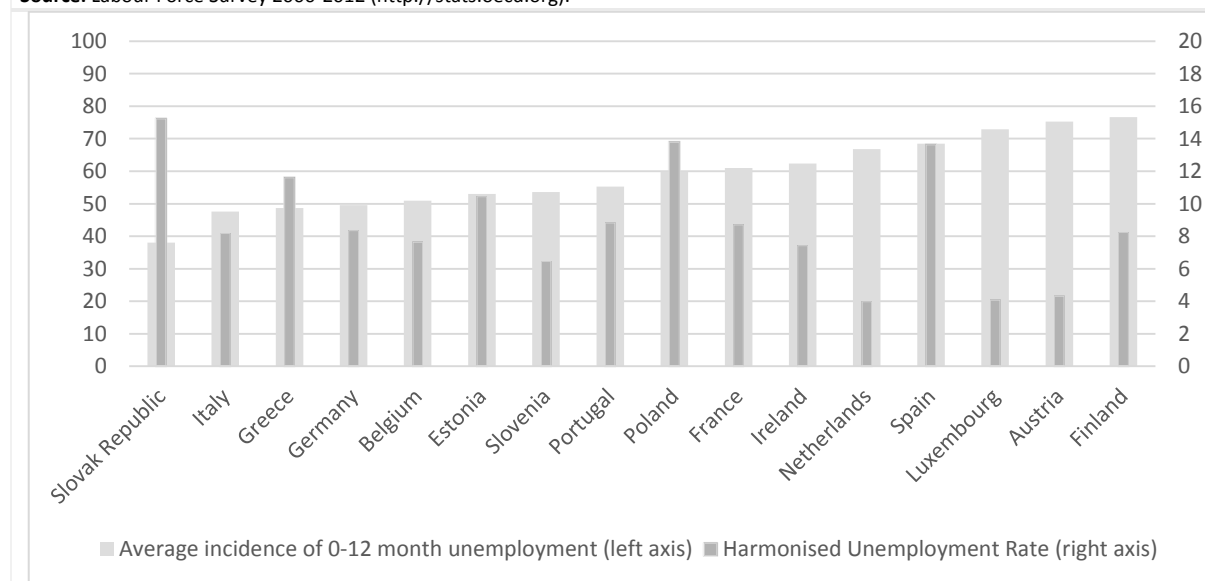
Final outcome measures	Benefit duration (re-employment rates)
	Vacancy outcomes
	Employment rates
	Specific employment rates
	Quality measures (duration of employment, average earned income)

Table 6. Types of moral hazard between levels of government

	Explanation	Most common occurrence
Dumping	Intentionally wrongly assess eligibility or working capacity as to move claimants to another benefit	Transferring caseloads from benefits funded by one level to benefits funded by another
Parking	Including beneficiaries in activation measures, but not actually rendering services	Satisfying output or process indicators in name only by referring unemployed to programmes with little or no substance
Creaming	Cherry picking of easy-to-place claimants, disregarding harder to place claimants.	Satisfying intermediate outcome measures through non-random selection for activation programmes based on high employability
Short versus long term	When local actors pay for labour market services but not the benefit, there is no incentive to actually start activating; Focussing on out-flows with little sustainable prospects	Neglecting activation duties altogether; referring benefit claimants to services or job opportunities that are suboptimal but relieve the institution of further activation

Figure 3. Average incidence of unemployment from '0 to 12 months' in Eurozone countries & average unemployment rate 2000-2012

Source: Labour Force Survey 2000-2012 (<http://stats.oecd.org>).



*Incidence of unemployment by duration is measured as the proportion of the total population of unemployed who have been unemployed for a certain period of time, in this case 0-12 months. Meaning that, for example in Poland 60% of the unemployed are unemployed for a time period between 0-12 months and 40% for a time period of more than that.

The European trend of decentralisation: motivation to create multi-tiered labour market governance systems by increasing local autonomy

The goal of this research is uncovering lessons from real world experiences with multi-tiered labour market governance systems. Most of these practices we investigate, 3 out of the 4 cases, are European cases where there has definitely been a trend of decentralisation (OECD 2003, Wieshaupt 2010, Mosley 2011). This trend is the converse of any idea of adding supranational layers, but are

these trends also contradictory? To answer this question this section looks at the motivations behind decentralisation.

It is often (implicitly) assumed that decentralisation enhances effectiveness or increases adaptability. In other words, there is an increasing appreciation for the benefits of a multi-tiered labour market governance system. But the opposite could be argued just as easily: decentralisation creates a multitude of agencies that are hard to monitor and which operate within very different contexts, conversely we have learned that managerial decentralisation might actually reign in the powers and flexibility of local offices and might set them on a course of completing centrally set goals rather than adapting to their environment. So it is *prima facie* not a clear cut case, multi-tiered systems have their own challenges. The questions as to *why* a country would decentralise or implement a multi-tiered unemployment or social assistance system is, therefore, quite relevant. Especially since there is a clear trend within the EU but also within the OECD to decentralise much of the labour market governance (Giguère & Froy 2009). As we have seen (chapter 2) there is a multitude of forms a multi-tiered system can take, so we have to assume that the motivations behind such a trend might be diverse as well. This section will look into some of the possible motivations, this paper keeps an open mind concerning functional or political motivations behind decentralisation efforts. Obviously policy changes are officially almost always motivated by effectiveness, efficiency, transparency or budgetary gains. Such commonplace motivations are based on assumptions regarding the functioning of changed policies. This section is a brief attempt to expose the actual reasoning behind such commonplace goals. In other words: why would decentralisation enhance the effectiveness of PES's or why would a decentralised system operate more cost-effectively. Articles by Hugh Mosley (2011) and Xavier Greffe (2003) are most helpful in this regard.

Mosley identified six types of policy motivations behind decentralisation efforts (2011: 10). Mosley's list seems to reflect most of the stated policy goals present in academic or policy literature. Mosley's list includes mostly functional motivations while more political reasons or perhaps just very pragmatic reasons do not receive as much attention.⁴ First on Mosley's list is *better information*: it is often reasoned that local policy makers are more in tune with the needs and circumstances of their constituents than national policy makers are. This logic is very prevalent in decentralisation efforts (Greffe 2003: 32). Secondly: *tailor-made policies*, this motivation builds on the first and moves exploit the *better information* assumption. As local policymakers are more in tune with the needs and circumstances they not only have better information but are in a better position to tailor-make policy solutions for their client-base (Giguère 2003: 13). The third motivation is *innovation*: as decentralisation promotes better information and more tailor-made policies, regional units are more likely to experiment, be competitive and learn from each other. The fourth motivation Mosley cites is *overcoming policy silos*. Policy areas such as education, training, social services and even housing and heating are relevant for activation but they are often stowed away in other agencies or institutions and are regulated by separate laws – silos. Centralised hierarchical institutions might be ill equipped to overcome such divisions, but at the local level it could well be easier to join efforts. An OECD report is devoted solely to this argument as it is central to activation (Giguère & Froy 2010). The fifth motivation concerns the effects of decentralisation on local agencies themselves: *local accountability*: decentralisation would place local policymakers and agencies more at the centre of the attention and they would be forced to be more involved, which would enhance their accountability. The sixth and last motivation, according to Mosley, is to *accommodate regional differences/cleavages*. This motivation is the most openly political and non-functional on Mosley's list. According to this logic decentralisation is motivated by more autonomy as an end in itself. Except for the last motivation, Mosley's list of motivations is fairly functional. He is, however, quite critical of such assumptions and clearly states the motivations above as not necessarily true.

⁴ Although he does refer to some other, more political, reasons for decentralisation in his text when it comes to political decentralisation, Mosley neglects pragmatic reasons such as budgetary pressure or the struggle over the role of stakeholders (such as Social Partners)

In that sense is the list that Greffe provides, a little more practical (2003: 34-39). According to this author the first reason for decentralisation might well be budgetary pressure. But managerial decentralisation could create moral hazard for local authorities and furthermore it creates coordination problems. This process could therefore lead to higher costs. In order to overcome such problems, states accept a more pragmatic approach with more flexibility for local authorities (Greffe 2003: 34). There are reasons why decentralisation might be a budgetary relieve: decentralisation could entail a transfer of fiscal responsibilities to lower levels of government, or it could be – under the assumption that lower levels of government are more effective in this policy area – that local authorities operate more cost-effectively or both.⁵ Greffe’s second reason is very akin to Mosley’s *accommodating for local cleavages* but a little more practical: *regions might differ* in geographical or other senses so a local approach might be best fitted to deal with specific problems. The third motivation by Greffe is the fact that *unemployment is such a multifaceted problem*. This logic is fairly similar to *overcoming policy silos*, but less explicit in terms of how government agencies operate but rather that the problem of unemployment issues might not be solely rooted in the labour market. The fourth motivation is the fact that labour market relations are changing: job tenures grow shorter and people change jobs more easily. In other words, the *labour market grows more volatile*. Instead of placing an unemployed individual in the same exact sector in the same job as he/she had before, the current labour market demands a more flexible approach more in tune with human capital developments. This requires more and better information of the unemployed and thus is very akin to the logic of Mosley’s first motivation: *better information*. The fifth motivation, according to Greffe, is embedded in *activation policies*. The link between activation and decentralisation is reasonably strong, especially in academic literature. The logic behind this motivation has been explained earlier in this paper (see OECD 2003: 12-17, Knuth & Larsen 2010) and therefore we will jump ahead to the sixth motivation: *a longer time lag between unemployment and activity*. This motivation relates mainly to a growing group of systematically or structurally long-term unemployed. Avoiding massive direct job creation schemes but still maintaining or increasing human capital during long spells of unemployment requires a meticulous approach. Again, the assumption is that lower levels of government are more adequately implement and monitor such policies. The seventh reason is exactly the same as Mosley’s third reason: *innovation*. The eighth reason might be a little outdated: *increasing social dialogue*. As the current trend in Denmark and Germany shows that the role of social partners might actually be contested rather than enhanced, this might perhaps best be amended to ‘*changing the role of social partners*’. The last reason is more comprehensive: *the need to adopt a strategic approach*. This reason would subsume all other motivations under it. “The decentralisation of job promotion mechanisms is a means of putting initiatives back into a context where economic development is strongly linked to employment and social inclusion” (Greffe 2003: 39). This is a strange motivation for decentralisation per se, as it does not explicitly relates to how decentralisation would alter existing unemployment or social assistance schemes. Table 14 categorises and pairs the possible motivations named by Mosley (2011) and Greffe (2003).⁶

Table 7. Motivations behind the decentralisation of unemployment and social assistance schemes.

Source: Mosley 2011, Greffe 2003		
	Mosley 2011	Greffe 2003
Political/pragmatic motivations	-	Budgetary pressure (NPM)
	Accommodating regional cleavages	Particularities of regions
	-	Changing the role of social partners (adapted by the author)
	Local accountability	Adopting strategic labour market approaches
Functional motivations	Tailor-made policies	Activation & balancing passive and active

⁵ As is the case in the Dutch debate about the upcoming healthcare, unemployment and childcare decentralisations.

⁶ We acknowledge that the division (political/pragmatic versus functional motivations) is questionable because the two dimensions are often hard to separate. Not every pair is as closely related as the next.

		Greater time lag between unemployment and activity
	Innovation	Innovation
	Overcoming policy silos	Multifaceted nature of employment
	Better information	Shorter job tenures/Volatile labour markets

One important motivation or driving force behind decentralization is not included by either author and that is *policy diffusion*. PES's and other labour market institutions have become, just like the labour markets themselves, more intertwined. Networks and workgroups have formed over the course of the last decades, thereby creating epistemic communities which reinforce practices and policy diffusion – especially NPM and MBO practices (Wieshaupt 2010). On the European level there is a '[European Heads of Public Employment Service's](#)' (HoPES) which covers all 27 EU countries, plus Norway, Iceland, Liechtenstein and Switzerland and is chaired by the European Commission. This includes a [PES to PES dialogue](#), a peer review programme and a [strategic dialogue programme called PARES](#). On the global level there is an organisation called the [World Association of PES's \(WAPES\)](#) which was founded by the ILO and six countries, but now includes not only members from Europe and North-America but also from Africa, the Americas, Asia and Pacific and the Middle East and the Arabic countries. Furthermore, European member states are involved in a process which reinforces mutual learning and benchmarking: the European Employment Strategy (EES). This process has been described as a critical element for both political and technical policy learning in this policy area (Wieshaupt 2010: 478). Even though it is hard to measure the influence of such epistemic communities there is no doubt that policy diffusion has played a role in the decentralisation trend within European, but also PES's worldwide.

At first glance would adding a supranational layer on labour market governance seem to be in contradiction to decentralisation. Especially innovation, tailor-made policies, involving more policy areas (overcoming policy silos) and accommodating regional differences could overly complicate supranational governance. On the other hand, better information, accommodating a more volatile labour market, local accountability and balancing active and passive measures are in line with some of the goals of a supranational layer. Nonetheless, the U.S. case shows that there are options to combine federal funding with local autonomy. The American states are allowed to set their own regular unemployment insurance durations and levels which could be extended through federal programmes. The problem with that analogy, though, is that the American states have very meagre and short regular UC. Extending benefits would have very different effects for Denmark in comparison to Belgium, for example. Belgian unemployment benefits could, if renewed, be sustained for a very long period. The Danish model of 'flexicurity' is explicitly predicated on short, but relatively high, benefits. Therefore, the extension of benefits would in Belgium, reach less beneficiaries than in Denmark. Furthermore, as the Danish replacement rates are so much higher, it would not only lead to more beneficiaries on EB but also higher costs due to the levels of the benefits.

The EES and the OMC have demonstrated that the EU has the capability to oversee and comment on very different employment regimes, the U.S. state plans and agreements for the WIA and the TANF show that it is possible to incorporate contingent funds and requirements within such a mode of governance. The insights and lessons of these process could be combined in a new mode of governance. However, this relates predominantly to activation. The discussion above on motivations shows that the decentralisation trend is very complicated, even within the US context the WIA has resulted in an overly complicated governance system. Furthermore, governing activation regimes from the supranational level would do little in terms of enhancing counter-cyclical policies and automatic stabilization. In this sense the motivations behind the trend of decentralisation and a European benefit scheme do look somewhat contradictory.

Appendix B – The United States

Table 8. Federal-state cooperation concerning unemployment insurance under the SSA and FUTA today

Source: US Department of Labour: 1.	
Federal	State
Ensure conformity and substantial compliance of state law, regulations, rules, and operations with federal law.	Determine operation methods and directly administer the program.
Determine administrative fund requirements and provide money to states for proper and efficient administration.	Take claims from individuals, determine eligibility, and insure timely payment of benefits to workers.
Set broad overall policy for administration of the program, monitor state performance, and provide technical assistance as necessary.	Determine employer liability, and assess and collect contributions.
Hold and invest all money in the unemployment trust fund until drawn down by states for the payment of compensation.	

Table 9. The division of labour amongst American levels of government concerning labour market governance per unemployment related benefit

	The dominant government level involved in financing the benefit	The dominant government level involved in setting the level & duration of benefits	The dominant government level involved in designing, implementing and monitoring activation	The dominant government level involved in financing activation budgets
Unemployment Compensation	The states (benefits) & the federal level (administration)	The states	The states (PES) ^{cxiii} under federal guidelines	The federal level (PES)
Federal-State Extended Benefits	The federal level (50%) and the states (50%)	The states	See UC above, with stricter requirements from the federal level	See UC above
Emergency Unemployment Compensation	The federal level	The federal level	See UC above, with stricter requirements from the federal level	See UC above
Food Stamp Programme	The federal level	The federal level	Local (Any political subdivision in any state which complies with 7 USC 2029)	The federal level
Temporary Assistance to Needy Families	The federal level & the state	The federal (duration) level & the states (levels)	The states, According to the state plan	The federal level
The Workforce Investment Act	-	-	The states & localities As agreed with the federal level	The federal level

Figure 4. The flow of funds between revenue generating levels of government, the federal-state unemployment compensation program and federal unemployment trust funds

Source: US DOL: 16

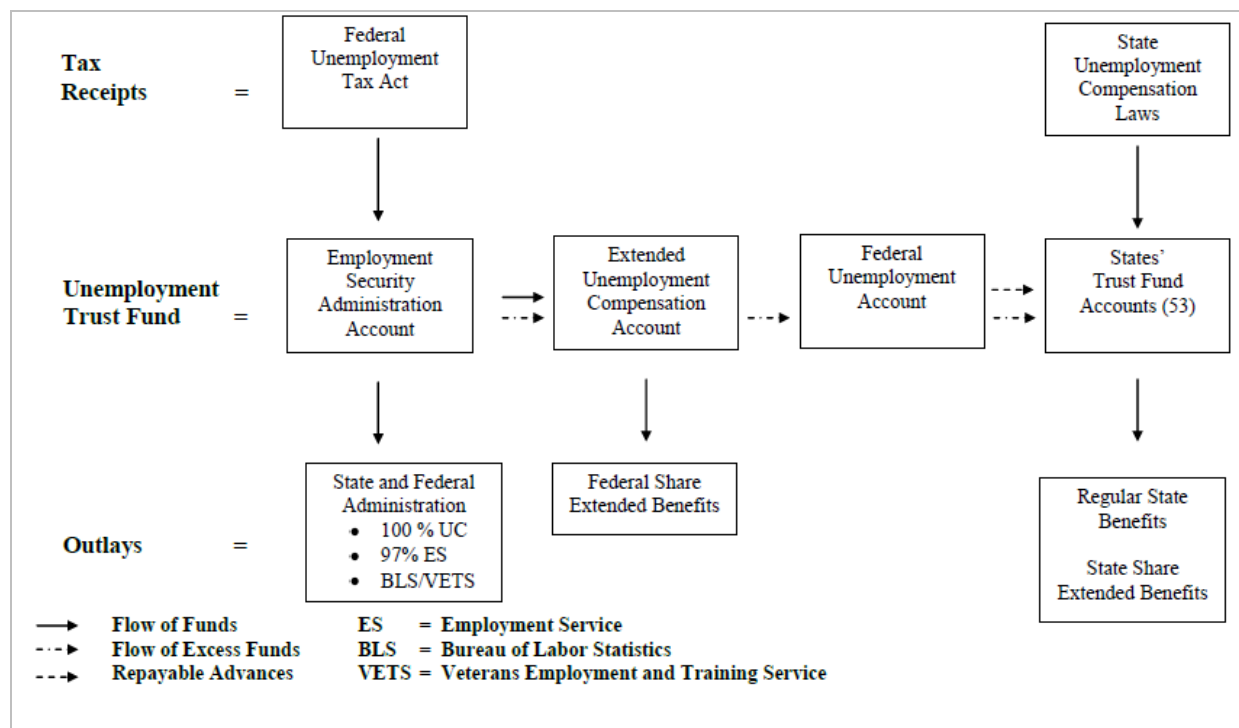


Table 10. Federal requirements for states' claims for federal funds concerning the costs of the administration of the states' UC programmes

Source: 42 USC (7) §503

Requirement	Substance	Penalty
Administration provisions	The use of funds, methods of administration, reporting	No certification, Suspension of payments
Cooperation with federal agencies	The states must make their records available to federal labour market agencies such as the Railroad Retirement Board ⁷	No certification
Disclosure of unemployment compensation information	The states must disclose unemployment records to other benefit agencies (most notably the Food Stamp programme)	Suspension of payments
Disclosure of wage information	The states must disclose wage information to the agencies in charge of child support	Suspension of payments
Income and eligibility verification system	The income and eligibility verification system of states must comply with 42 USC (7) § 1320b-7	
Recovery of unemployment benefit payments	The method of how states should recover benefits	
Disclosure to Secretary of DHHS of wage and unemployment compensation claims information	Quarterly reporting of wage and claim information to the DHHS	Suspension of payments
Provide access to State employment records	States must make their employment records available to the DHUD	Suspension of payments
Engage in worker profiling	Profile claimants, refer them to labour market services and collect follow-up information	Suspension of payments
Transfer of experience rating upon transfer of business	Transfer experience rating records when employers move employees among businesses owned by the same holding	

⁷ Several occupations such as railroad workers and postal workers are federal occupations, the state does not administer their benefits. But in order to work congruently with the federal benefits, they must provide such agencies with their records.

Table 11. Conditions for additional tax credit and approval of state laws (FUTA)

Source: 26 USC (23), § 3303 and § 3304, USDOL 2013		
Compensation is paid through public employment offices or other approved agencies		
All of the funds collected under the state program are deposited in the federal UTF (see table ???)		
All of the money withdrawn from the state trust fund account is used to pay compensation, to refund amounts erroneously paid into the fund, or for other specified activities		
Compensation is not denied to anyone who refuses to accept work because the job is vacant as the direct result of a labour dispute, or because the wages, hours, or conditions of work are substandard, or if, as a condition of employment, the individual would have to join a company union or resign from or refrain from joining any bona fide labour organization		
Compensation is paid to employees of state and local governments and Indian tribes		
Compensation is paid to employees of FUTA tax exempt non-profit organizations, including schools and colleges, who employ 4 or more workers in each of 20 weeks in the calendar year		
Payment of compensation to certain employees of educational institutions operated by state and local governments, non-profit organizations, and Indian tribes is limited during periods between and within academic terms		
State and local governments, non-profit organizations, and Indian tribes are permitted to elect to pay regular employer contributions or finance benefit costs by the reimbursement method		
Compensation is not payable in two successive benefit years to an individual who has not worked after the beginning of the first benefit year		
Compensation is not denied to anyone solely because the individual is taking part in an approved training program		
Compensation is not denied or reduced because an individual's claim for benefits was filed in another state or Canada and the state participates in arrangements for combining wages earned in more than one state for eligibility and benefit purposes		
Compensation is not denied by reason of cancellation of wage credits or total benefit rights for any cause other than discharge for work-connected misconduct, fraud, or receipt of disqualifying income		
Extended compensation is payable under the provisions of the Federal-State Extended Unemployment Compensation Act of 1970		
Compensation is not denied solely on the basis of pregnancy or termination of pregnancy		
Compensation is not payable to a professional athlete, between seasons, who has a reasonable assurance of resuming employment when the new season begins		
Compensation is not payable to an alien unless the alien was in a specified state – such as legally authorized to work – at the time services were performed		
The benefit amount of an individual is reduced, under certain conditions, by that portion of a pension or other retirement income (including Social Security and Railroad Retirement income) which is funded by a base period employer		
Wage information in the agency files is made available, upon request and on a reimbursable basis, to the state agency administering Temporary Assistance to Needy Families; and wage and UC information to the Secretary of Health and Human Services for the purposes of the National Directory of New Hires		
Any interest required to be paid on advances is paid in a timely manner and is not paid, directly or indirectly (by an equivalent tax reduction in such state), from amounts in such state's trust fund account		
Federal individual income tax is deducted and withheld if a claimant so requests		
Reduced tax rates for employers are permitted only on the basis of their experience with respect to unemployment		

Table 12. Dimensions of local flexibility in U.S. labour market governance per benefit

Source: 26 USC (23), § 3303 and § 3304, 42 USC (7) §503, 20 CFR 615, 42 USC Part A, 20 CFR 660-667		
	Unemployment insurance under FUTA & federal requirements	Extended benefits (where different from regular UI)
Budgets	<ul style="list-style-type: none"> - Federal funds can only be spent on administration, which must be run according to federal requirements - All funds retrieved from the state funds (financed by states) must be used for paying compensation or specified activities 	<ul style="list-style-type: none"> - States are only reimbursed for benefit payments
Programmes	<ul style="list-style-type: none"> - Levels are set by the states - Duration is set by the states 	<ul style="list-style-type: none"> - Mandatory and optional triggers will/can set of this programme - Levels are determined by the federal government to not diverge from regular state set levels - Duration is determined by the federal level to

		extent 50% additional weeks on top of regular duration (max. 13 weeks)
Target groups & eligibility	<ul style="list-style-type: none"> - The FUTA determines a base floor for which employees are covered (state & federal, Indian tribe leaders, non-profit and educational institution employees), the states can expand on this - The FUTA determines that some groups or behaviour must lead to exclusion 	<ul style="list-style-type: none"> - Eligibility is federally determined but largely based on state eligibility of regular UI
Organisation of delivery	<ul style="list-style-type: none"> - Federal requirements for sanctioning & retrieving benefits Mandatory disclosure of information to federal institutions (unemployment records, wage and claim information) - Mandatory worker profiling - Experience rating 	<ul style="list-style-type: none"> - Extra profiling: 'classification and determination of job prospects' - Mandatory monitoring whether claimants are actively seeking for work
Personnel & Staffing	<ul style="list-style-type: none"> - A percentage of federal funds is reserved for the administration, no other specifications are given 	
Outsourcing, collaboration & partnerships	<ul style="list-style-type: none"> - Mandatory collaboration with federal institutions 	<ul style="list-style-type: none"> - Mandatory referral of jobseekers to the state workforce agency
Performance measures	<ul style="list-style-type: none"> - Mandatory quality control 	
	TANF	WIA
Budgets	<ul style="list-style-type: none"> - Federally determined budget - Federally determined MOE - Federally determined fields for spending grant money (employment placement programme, benefit transfer systems, development accounts) - Federal limitations on spending grant money - States may not spend more than 15% of the grant money on administration - States can shift limited amounts of grant money to other policy areas - Grant money can only be spend on children or parents below poverty line - States may transfer grant funds from one fiscal year to another 	<ul style="list-style-type: none"> - The Memorandum of Understand (See organisation of delivery) must state the division of operating costs - States must reserve funds for mandatory state-wide workforce investment activities - States may hold on to grant money for a maximum of two years after receiving it - Federally determined allocation formulas, which provides limited discretion for states to allocate their funds to localities - Local boards may shift up to 20% of funds between programme budgets (states must approve) - States must have obligated at least 80% of their budget for that fiscal year to be eligible for reallocation the next fiscal year - Federal minimum requirements for state's reallocation towards localities - Strict fiscal and administrative rules for WIA grant money - Federal costs limits on state and local administrations
Programmes	<ul style="list-style-type: none"> - It must be a programme that 'provides aid to needy families and provides labour market services to parents' - Work activities for parents are predetermined - Grant money can only be spend on the following programmes: employment placement programme, benefit transfer systems, development accounts - States can loan money from the federal level - The possibilities for individual work activities are predetermined 	<ul style="list-style-type: none"> - Federally determined 'core' services which must be made available in one-stop-shops - Federally determined 'intensive' services - Federally determined 'training' services - Federally determined 'supportive' services - Federally determined 'youth' services - One-stop-shops may perform additional services as agreed upon in the Memorandum of Understanding (See organisation of delivery)
Target groups & eligibility	<ul style="list-style-type: none"> - Federally determined eligibility rules for persons on which grant money will be spend 	<ul style="list-style-type: none"> - Minimum requirements for eligibility for persons on 'core', 'intensive' and 'training' services federally determined - Minimum requirements for eligibility for 'supportive services'

		<ul style="list-style-type: none"> - Federally determined eligibility for 'youth' services - Broad target group priorities specified by the federal government
Organisation of delivery	<ul style="list-style-type: none"> - Penalties federally determined - Mandatory engagement in the making of individual responsibility plans 	<ul style="list-style-type: none"> - The state designates Workforce Investment area(s) - Mandatory service delivery through one-stop-shops - One-stop-shop operators are appointed by the state - The local WIB, its partners and the chief elected official must engage in an Memorandum of Understanding concerning their responsibilities and efforts - Training services must be provided through Individual Training Accounts or On-the-Job training or customized training - Local WIBs must be supported by youth councils
Personnel & Staffing		
Outsourcing, collaboration & partnerships	<ul style="list-style-type: none"> - States may administer and provide services through charitable, religious, or private organizations 	<ul style="list-style-type: none"> - Mandatory one-stop-shop partners - Optional one-stop-shop partners - Responsibilities of partners are federally determined - Federally determined partners for 'training services' - Specific minimum requirements for cooperation with private parties in organising On-the-Job or customized training
Performance measures	<ul style="list-style-type: none"> - Federally set performance measures - Mandatory reporting of claimant info, use of funds, parents in work activities, on families. Quarterly and a detailed report annually, both to the secretary - Federal standards for data 	<ul style="list-style-type: none"> - Predetermined performance measures - States may develop additional performance measures - States are involved in setting the targets of those predetermined performance measures - States negotiate local targets with the local WIB of the same measures as states report - States may develop additional performance measures for localities - Must use standardised data for reporting and must describe their accountability system in advance (in the State Plan) - Reporting requirements (sub recipient, financial and progress information) - States must monitor their subsidiaries on financial costs and compliance with state and federal regulations

Table 13. Federal Extended Unemployment Compensation scheme triggers

Source: Code of Federal Regulations, title 20 (5) section 615.12			
	Mandatory trigger	Optional trigger #1	Optional trigger #2
Insured unemployment rate	5%	6%	6,5%
Structural unemployment rate	120% for 13 weeks	-	110% for 13 weeks
Reference Period	Same period in past 2 years	-	Same period in either of the two previous years

Table 14. States' Maintenance of Effort (MOE) requirements

Source: 42 USC § 609 (7), 45 CFR § 264.72, Brown 2012.	
Amount of spending	Conditions and requirements
75%	If a state meets its minimum work participation rate requirements, then it generally need expend only 75 percent of the amount it spent in the fiscal year 1994.
80%	To receive its federal TANF funds, a state must generally spend state funds in an amount equal to at least 80 percent of the amount it spent on welfare and related programs in the fiscal year 1994.
100%	To receive contingency funds, a state must expend 100 percent of that fiscal year relative to the 1994 amount.

Table 15. MOE spending requirements

Source: 45 CFR § 263.2, 263.4, Brown 2012.	
MOE spending counts if paid to:	Families who include a child living with his or her custodial parent or other adult caretaker relative (or a pregnant woman) Families who meet the financial criteria, such as income and resources limits, established by a state for the particular service or assistance as described in its TANF plan. Each state is required to prepare and provide a biennial TANF plan describing its programs to HHS.
MOE spending counts if paid for:	Cash assistance Child care assistance Educational activities to increase self-sufficiency, job training and work (except for activities or services that a state makes generally available to its residents without cost and without regard to their income) Certain administrative costs Other activities considered in keeping with a TANF purpose

Table 16. Requirements for American state plans for TANF SFAG block grants

Source: 42 USC (7) § 602	
1. Outline of the family programme	The subdivision of tasks of state agencies Set work requirements for parents and caretakers Ensure work activity compliance Restrict the use of personal information to ensure privacy Establish goals to prevent out of wedlock-pregnancies Establish education/courses on statutory rape Establish good access to cash benefits Establish ways for beneficiaries to extract their benefits with the least amount of costs
2. Operate a child support enforcement programme	
3. Operate a foster care and adoption assistance programme	
4. Certify the administration of the programme and consult with involved local agencies	
5. Certification that the State will provide Indians with equitable access to assistance	
6. Certification of standards and procedures to ensure against program fraud and abuse	
7. Optional certification of standards and procedures to ensure that the State will screen for and identify domestic violence	

Table 17. Standard deviations of annual average unemployment rates of (member) states

Source: Bureau of Labor Statistics (http://www.bls.gov/lau/) & Eurostat (http://epp.eurostat.ec.europa.eu)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
US	1,04	1,07	1,03	1	1,27	1,94	2,03	1,95	1,73	1,57
EMU	3,44	2,9	2,4	2,13	2,12	4,09	4,95	4,98	6,05	6,47
EU	3,9	3,38	2,71	2,22	2,05	3,57	4,38	4,35	5,23	5,62

Table 18. Most prominent federal eligibility and conduct requirements for TANF programmes

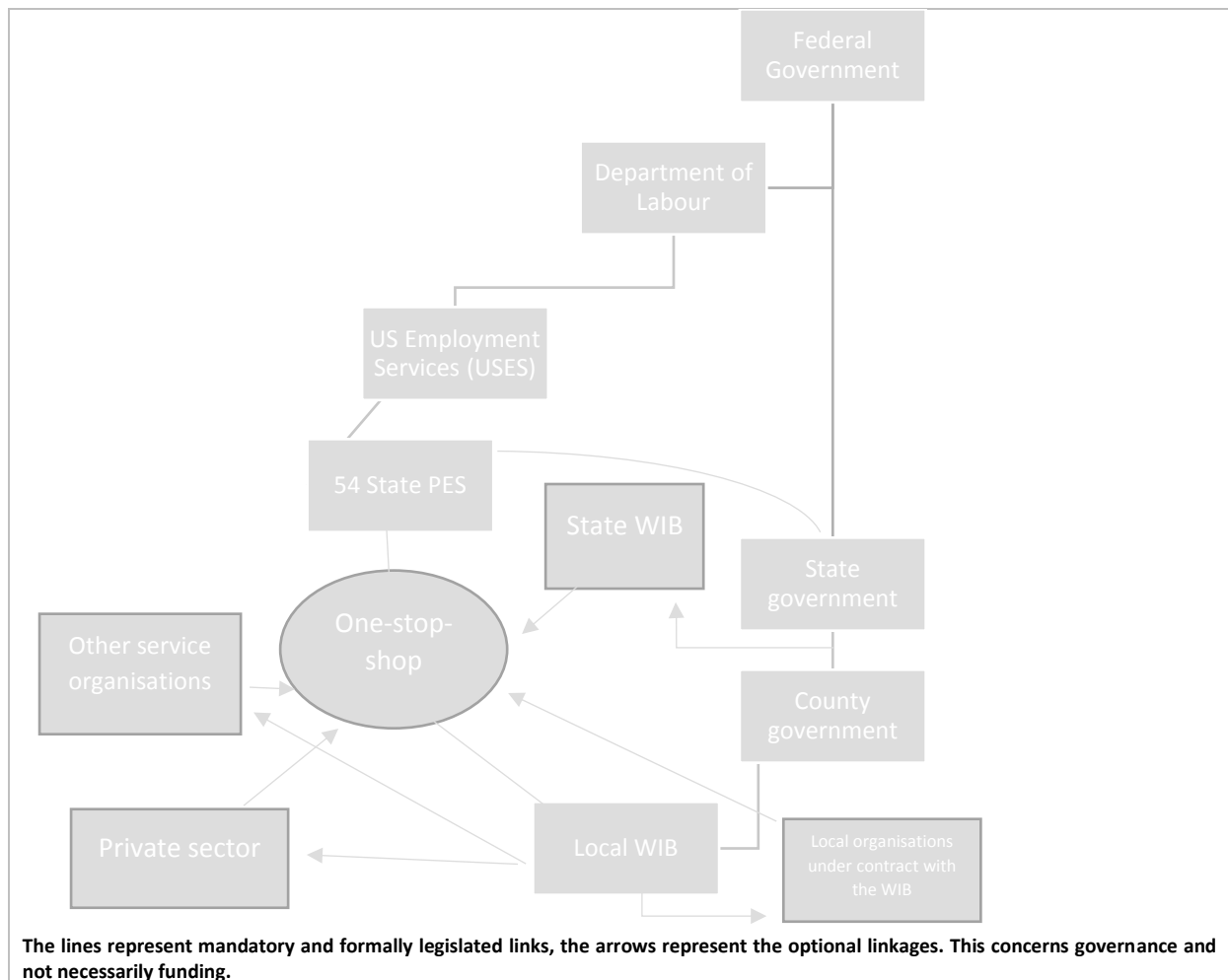
Source: 42 USC (7) § 604 and 608	
1. Income must be under 200% of the official poverty line	
2. Families must have a minor child	
3. Code of conduct for parents	Cooperating in establishing paternity
	Families must assign support rights to the state
	Teenage parents must attend school/training
	Teenage parents must live in adult-supervised households
4. Federal grant cannot be used for any payment to claimants which have received over 60 months of TANF (exceptions possible)	
5. Denial of payments for 10 years for misrepresenting residence in 2 or more states	
6. Denial of payments for children who are absent from their household	
7. States may engage in individual responsibility plans with claimants	

Table 19. Mandatory performance measures for the WIA

Source: 20 CFR 666.110		
Target group	Measure	Type of measure
For adults, dislocated workers, youth 19-21	Entry rates into unsubsidised employment	Intermediate outcome
	Retention in unsubsidized employment six months after entry into the employment	Final outcome
	Earnings received in unsubsidized employment six months after entry into the employment	Final outcome (quality measure)
	Attainment of a recognized credential related to achievement of educational skills (such as a secondary school diploma or its recognized equivalent), or occupational skills, by participants who enter unsubsidized employment	Process
For youth 14-18	Attainment of basic skills goals, and, as appropriate, work readiness or occupational skills goals, up to a maximum of three goals per year	Process/intermediate outcome
	Attainment of secondary school diplomas and their recognized equivalents	Process/intermediate outcome
	Placement and retention in postsecondary education, advanced training, military service, employment, or qualified apprenticeships	Process
For all	A single customer satisfaction measure for employers and a single customer satisfaction indicator for participants	Process (quality)

Figure 5. The most common governance model of one-stop-shops in the U.S.

Source: Eberts 2009: 126, O'Leary & Eberts 2008: 24-25, Barnow & King 2005: 16.



Appendix C – Germany

Table 20. The division of labour amongst German levels of government concerning labour market governance per unemployment related benefit

	The dominant government level involved in financing the benefit	The dominant government level involved in setting the level & duration of benefits	The dominant government level involved in designing, implementing and monitoring activation	The dominant government level involved in financing activation budgets
Unemployment insurance (ALG I)	The federal level (through the BA)	The federal level	The federal level (through the BA)	The federal level
Basic security benefits for jobseekers (ALG II)	The federal level & the municipalities	The federal level ^{cxiv}	The federal level, the Länder & the municipalities	The federal level
Partial unemployment (Teilarbeitslosigkeit)	The federal level (through the BA)	The federal level	See ALG I	See ALG I
Short-time work (Kurzarbeit)	The federal level (through the BA)	The federal level	See ALG I	See ALG I
Seasonal short-time work (Saison-Kurzarbeit)	The federal level (through the BA)	The federal level	See ALG I	See ALG I

Table 21. Contents of German Hartz reform packages 2003-2005

Source: Konle-Seidl 2008: 7 & Eichhorst et al. 2008: 9.	
Hartz I 2003	Redesign and introduction of new ALMP measures, closer targeting
Hartz II 2003	Reform of mini-jobs and new start-up program (Me-Inc.); deregulation of temp-agency work /TWA (including midi- and mini-jobs)
Hartz III 2004	Reorganisation of PES (BA) according NPM principles
Hartz IV 2005	a) benefit schemes to the new “basic income support for able-bodied jobseekers” b) Creation of a second tier service provision for welfare clients (i.e. long-term unemployed)

Table 22. Old (until 2004) and new (after 2005) benefit schemes in Germany

Source: Konle-Seidl 2008: 8.	
Old System	New System
<i>Arbeitslosengeld</i> (unemployment benefit): unemployment insurance benefit; funded through contributions, earnings-related, limited duration	<i>Arbeitslosengeld I</i> (ALG I): funded through contributions, earnings-related, limited duration
<i>Arbeitslosenhilfe</i> (unemployment assistance): earnings-related unemployment assistance; tax-funded, earnings-related, meanstested, infinite duration	<i>Grundsicherung</i> (Basic income scheme for needy jobseekers) Consisting of a) <i>Arbeitslosengeld II</i> (ALG II): tax-funded, means-tested, flat rate, after expiry of ALG I (and temporary supplement) for people capable of working; infinite duration b) <i>Sozialgeld</i> (social allowance) for kids below the working age of 15 living in a household of an ALG II recipient
<i>Sozialhilfe</i> (social assistance): tax-funded, means-tested, flat rate, infinite duration	<i>Sozialhilfe neu</i> (Social assistance): meanstested, tax-funded for those working age people permanently not capable of working and for needy persons above 65 years

Figure 6. Accountability structure of the German labour market institutions

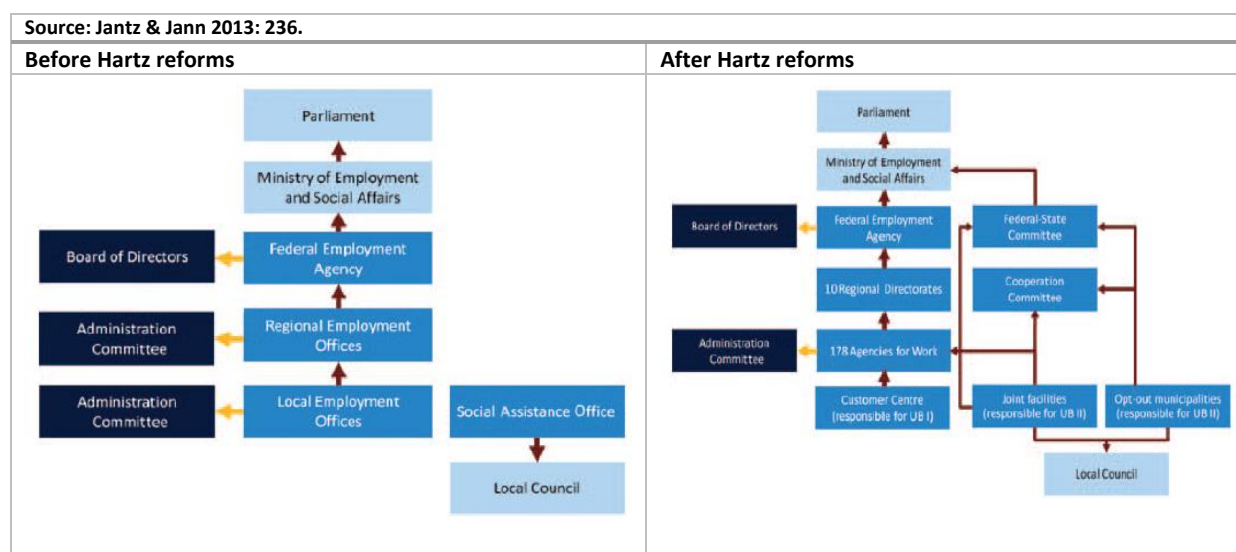


Table 23. ALG II objectives for 2013 & 2014

Source: Bundesministerium für Arbeit und Soziales (2012 & 2013)		
Goal	Core indicator	Additional indicators
Reducing the need for assistance	Change in the sum of services	Changes in heating & housing services Changes in the number eligible service beneficiaries with working capacity Average inflow of the number eligible service beneficiaries with working capacity Average outflow of the number eligible service beneficiaries with working capacity
Improving the integration into employment	The ratio of integration	The ratio of entry into marginal employment The ratio of entry into subsidized employment The duration of integration The integration ratio of single-parents
Avoiding long-term use of services	Changes in the total number of long-term beneficiaries	The integration ratio of long-term unemployed The activation rate of long-term unemployed The inflow of long-term unemployed The outflow of long-term unemployed

Table 24. Mandatory data to be collected in municipal jobcentres which has to reported: inclusion report

Source: §54 SGB II, §11 SGB III
The proportion of expenditure per individual service type
Average expenditure per unemployed taking into account of the background of the individual (long-term unemployed, disabled persons, the elderly and low-skilled)
The participation of special needs groups as a share of total unemployed
The participation of women in ALMP relative to their size as a group to the whole of the unemployed
Placement ratio into non-subsidized employment
The number of workers who no longer are unemployed after six months of completing participation in ALMP measures
The number of workers who no longer employed in regular employment after six months of completing participation in ALMP measures
The development of a framework for inclusion in the regional labour market
Changes over time in ALMP policies
The labour market situation of immigrants

Table 25. Mandatory data to be collected in municipal jobcentres which has to be reported: effectiveness

Source: §55 SGB II, §282 SGB III
The extent in which participation in ALMPs has improved employability of the participants
Comparing the costs of benefits in relation to their effect
Net economic effects of the use of ALMPs
The effect of ALMP on employment histories of participants
The above per labour market region

Table 26. Dimensions of local flexibility in German labour market governance per benefit

	Unemployment Insurance (ALG I)	Social assistance (ALG II)
Budgets	- Federally determined (social contributions)	- Federally determined (tax-funded) - Earmarked federal funds
Programmes	- The federal level determines level and duration	- The federal level determines level and duration
Target groups & eligibility	- Eligibility is determined by the federal level	- Eligibility is determined by the federal level
Organisation of delivery	- Federally determined	- Federally determined
Personnel & Staffing		- At least 90% of the one-stop-shops must be BA personnel
Outsourcing, collaboration & partnerships		- Mandatory collaboration with BA in one-stop-shop (except for <i>Optionskommunen</i>)
Performance measures	- The BA reports on centrally set process and outcome targets (§11 & 282 of SGB III)	- Municipal jobcentres must collect data on their efforts and their outcomes - Centrally defined indicators
Activation ALG II		
Budgets	- Determined by the federal & the Länder level. The federal level determined the division of costs, the Länder level calculate the precise contribution of the municipalities	
Programmes	- The BA delivers the services, which are centrally defined - Municipal services are limited to miscellaneous social services and centrally defined	
Target groups & eligibility	- Eligibility is centrally determined - Eligibility is assessed by the BA, but this can be contested by the municipality	
Organisation of delivery	- Through a municipal one-stop-shop - Mandatory use of individual six months integration agreements - The BA instigates and maintains contact with the unemployed individuals - The conduct of BA concerning activation is centrally legislated - <i>Trägerversammlung</i> sets out guidelines and regulations	
Personnel & Staffing	- At least 90% of the one-stop-shops must be BA personnel - <i>Trägerversammlung</i> determines the conduct of personnel	
Outsourcing, collaboration & partnerships	- Mandatory collaboration with BA in one-stop-shop (except for <i>Optionskommunen</i>) - Training vouchers - Local certification of appropriate (third party) training & service providers - Beneficiaries may seek out private vendors	
Performance measures	- Municipal jobcentres must collect data on their efforts and their outcomes - Centrally defined indicators for municipal reporting - Mandatory comparison of that data - Specific annual targets are set by <i>Kooperationsausschuss</i> (Länder & federal government) - Municipal objectives are negotiated in the <i>Trägerversammlung</i> between the municipalities and the BA (in the <i>Optionskommunen</i> they are negotiated by the municipalities and the Länder).	

Appendix D – Denmark

Table 27. The division of labour amongst Danish levels of government concerning labour market governance per unemployment related benefit

	The dominant government level involved in financing the benefit	The dominant government level involved in setting the level & duration of benefits	The dominant government level involved in designing, implementing and monitoring activation	The dominant government level involved in financing activation budgets
Unemployment insurance	The central level (Unemployment insurance funds)	The central level	<u>Implementing & designing</u> : municipal and regional level <u>Monitoring</u> : central, the regional and the municipal level	The central and the municipal level (division based on behaviour and results of the municipal level)
Social assistance (kontanthjælp)	The central and municipal level (division based on behaviour and results of the municipal level)	The central level	<u>Implementing & designing</u> : municipal and regional level <u>Monitoring</u> : central, the regional and the municipal level	The central and the municipal level (division based on behaviour and results of the municipal level)

Figure 7. The new employment regions of Denmark



Table 28. The mandatory contact and job plan procedure municipalities must engage in with insured unemployed or able-bodied social assistance claimants

Source: chapters 2-7 of the Act on the Responsibility and Control of the Active Employment Measures

The state	Has created the 4 employment regions
	Created regional offices and appoints regional director
	Appoints other staff, recommended by the regional director
	Is the highest administrative authority for employment regions, the Employment Council conducts the day-to-day management
	Pose rules and regulations for the municipal Employment Plans

	Pose national requirements for tenders and contracts for third parties involved in Act on Active Employment , Act on Active Social Policy and the Act on Sickness Benefits Act, the right to leave and sick pay for maternity
Employment regions	Monitors and analyses regional labour markets
	Advises the jobcentres on the regional labour market developments
	Provides documentation of employment services results and performance results of jobcentres
	Provides assistance to municipal councils and ensures that council decisions are legitimate
	Is involved with agreements made and information provided to third parties
	Will enter into agreements with poor performing jobcentres and can:
	1. appoint other actors to perform the jobcentres responsibilities
	2. mandate other actors to be involved in employment services for persons under the Integration Act
Municipalities	3. ensure effectiveness and results by getting involved the decision of points 1 and 2
	4. make the municipal council comply with, and finance the costs of, point 1.
	It could finance consulting services that could help the performance of jobcentres
	The municipal council has the responsibility to decide how the municipality should plan and perform employment services in the jobcentres
	It must form an annual Employment Plan which must be passed by the municipal council and covers:
	1. the execution by the municipalities
	2.a dissemination of local businesses, opportunities for cooperation and how business might be involved in providing services
	Ensure that administration of benefits and employment services shall be separated
	The finance department of the municipality is responsible for the direct management of the municipal duties under the Act on Active Employment , chapter 10 of the Act on Active Social Policy and miscellaneous benefits (integration, maternity etc.)
	It could create a standing committee to take over the responsibilities of the finance department (above)
Jobcentres	Prepare an annual performance review that shows the results and effects of the employment in the jobcentre
	Communicate the Employment Plan and performance review to the employment regions
	Develop targets for other actors involved in the Act on Active Employment
	Publish expense reports for dealings with third parties Act on Active Employment
National Employment Council	Execute the employment services
	Must be involved in the formulation of the Employment Plan
	Advise the Minister of Employment in matters of employment policy
	Make recommendations for
	1. national employment policy proposals, including the organization and publication of analyses
	2. experiments, projects and policy programmes
Regional Employment Council	3. the contract with the regional employment, including the Minister's announcement of targets for employment activities
	4. the follow up on Employment Plans
	5. acts, laws and regulation on national employment policies
	Monitor and analyse developments in the regional labour market and help to ensure the results and effects of Employment Plans
	Engage in annual contracts with the Minister for Employment setting targets for Employment Plans and goals and performance requirements for the regional Employment Council itself
	Involve relevant partners with the formulation of the annual contracts
	Coordinate training and vocational training
	Take over the jobcentres responsibilities if they do not meet the agreed upon requirements
Local Employment Council	Launch special regional labour market initiatives with state funds
	Launch special regional initiatives to compensate for major business foreclosures with state funds
	Advise municipal authorities and coordinate and develop municipal labour market services for jobseekers
	Monitor and analyse the jobcentre performance and advise the municipal council on improvements
	Advise and get involved in the municipal annual Employment Plan
	Make recommendations to the regional Employment Council
	Develop business orientated initiatives with state grants

Table 29. Dimensions of local flexibility in Danish labour market governance per benefit

	Unemployment Insurance	Social assistance
Budgets	- Fully determined by the central level	- Central level determines that in principle the municipalities are liable for 100% of the costs - Centrally determined reimbursement model - Floors & ceilings on service costs
Programmes	- The (calculation of the) levels are set by the central government - The duration is determined by the central government	- The (calculation of the) levels are set by the central government - The duration is determined by the central government
Target groups & eligibility	- Eligibility rules are set by the central government	- Eligibility rules are set by the central government
Organisation of delivery	- Through state sanctioned Insurance Funds	- Municipalities must enact a local employment council
Personnel & Staffing		- Floors & ceilings on administration costs
Outsourcing, collaboration & partnerships	- Only state sanctioned funds may operate Unemployment Insurance	- Municipalities must administer and disburse benefits
Performance measures		- Municipalities are subject to annual performance audits based on their employment plans - Municipalities must provide statistical, policy and priority information
Activation		
Budgets	- Centrally determined reimbursement model - Floors & ceilings on services costs	
Programmes	- Central level determines types of services and the conduct of jobcentres - Central level set rights and duties of the insured unemployed - Central level set rights and duties of social assistance beneficiaries	
Target groups & eligibility	- Target groups and eligibility are predetermined at the central level	
Organisation of delivery	- Municipalities must enact a jobcentre - Standardised process for contact with individual jobseekers - Jobcentres must engage in individual job plans	
Personnel & Staffing		
Outsourcing, collaboration & partnerships	- All the responsibilities of jobcentres could be outsourced - The central level lays down common nationwide requirements for tenders and contracts with other actors	
Performance measures	- Central level sets minimum requirements - Reimbursement contingent on process indicators - Goals agreed with employment regions - Public reporting	

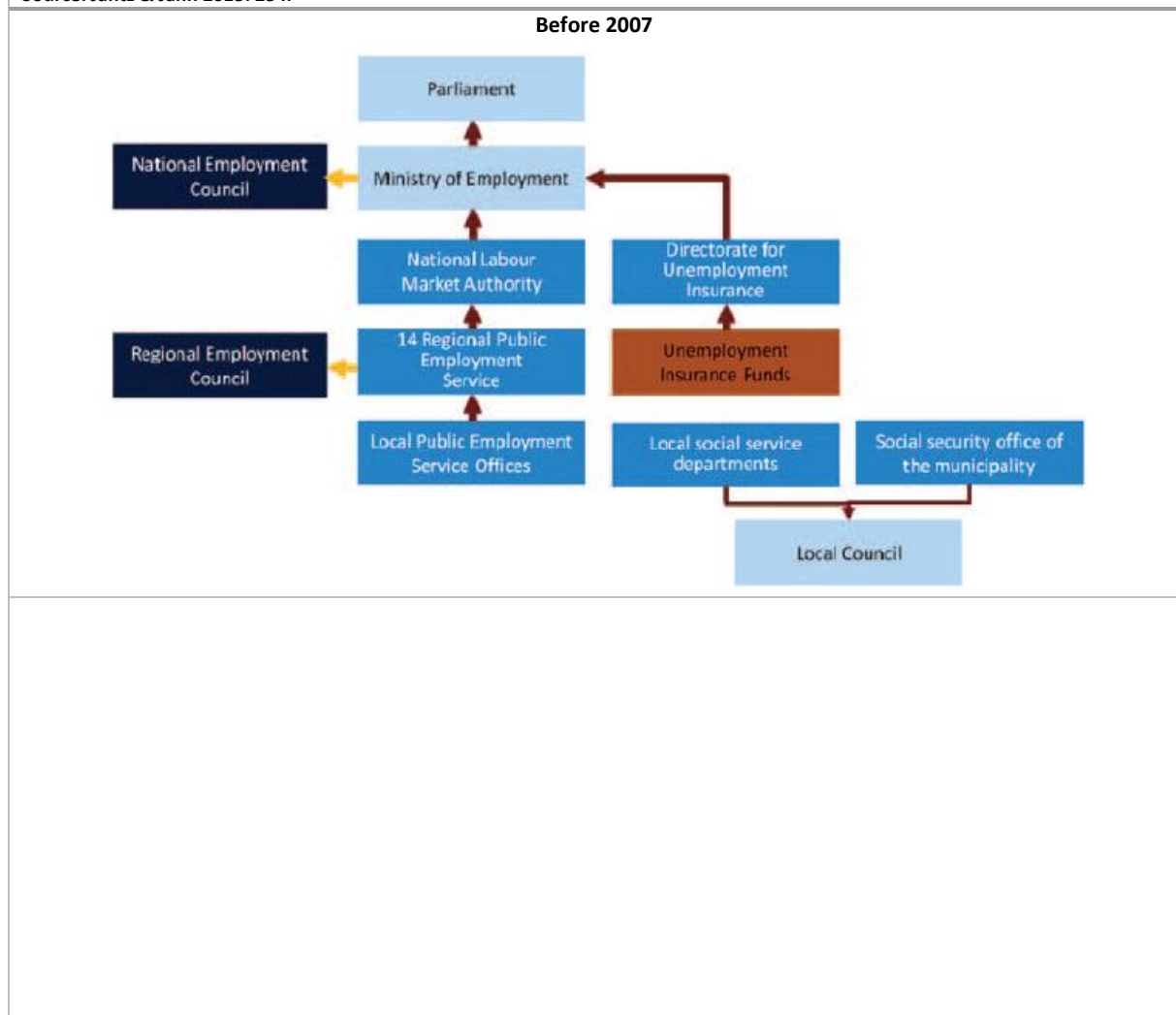
Table 30. State-municipal reimbursement and conditions for Danish Kontanthjælp

Source: chapter 14 of the Act on Active Social Policy	
30% reimbursement of:	The costs under chapter 4 on the Act of Active Social Policy : Cash benefits The costs under § 51 of chapter 6 of the Act on Active Social Policy : Costs for rehabilitation services within the confounds of personal job plan The costs under § 74 of chapter 7 of the Act on Active Social Policy : Special grants & grants
50% reimbursement of:	The costs under chapter 4 on the Act of Active Social Policy : Cash benefits for persons who receive rehabilitation services under Chapter 6 or activation under chapter 11 of the Act on Active Employment . The costs under chapter 4 on the Act of Active Social Policy : Cash benefits for persons who receive rehabilitation services as a result of the Integration Act . The costs under chapter 23 118 of the Act on Active Employment

	<u>Training costs</u>
	<u>Costs of subsidized employment</u> under § 51 (2) and § 52 under the Act on Active Employment
	<u>Housing costs</u> under § 64-64a of chapter 6 of the Act on Active Social Policy (for persons in rehabilitation services)
	<u>The costs of extra or emergency social assistance</u> according to <u>chapter 10 and 10a on the Act of Active Social Policy</u>
65% reimbursement of:	<u>The costs of persons participating in job offer programmes</u> pursuant to chapter 11 of the Act on Active Employment
0% reimbursement of:	<u>The costs of people who are in flex jobs</u> for over 18-24 months according to <u>chapter 13 on the Act of Active Employment</u>
	The costs of under <u>chapter 4 on the Act of Active Social Policy</u> : <u>Cash benefits</u> for persons who do not comply with their rights and duties according to <u>chapter 17 of the Act on Active Employment</u>
	The costs under <u>chapter 4 on the Act of Active Social Policy</u> : <u>Cash benefits</u> for persons who receive social assistance on based on health reasons but who are not considered as sick based on the health monitoring responsibilities of the municipalities § 12b of chapter 4 on the Act of Social Policy or aliens receiving <u>cash benefits</u> based on their status who do not comply with their rights and duties under § 20 of chapter 4 of the Integration Act
	<u>The costs of flex jobs</u> (chapter 13 on the Act of Active Employment) when the government has not fulfilled its duties according to § 70 and 74a of <u>chapter 13 on the Act of Active Employment</u>

Figure 8. Accountability structure of the Danish labour market institutions

Source: Jantz & Jann 2013: 234.



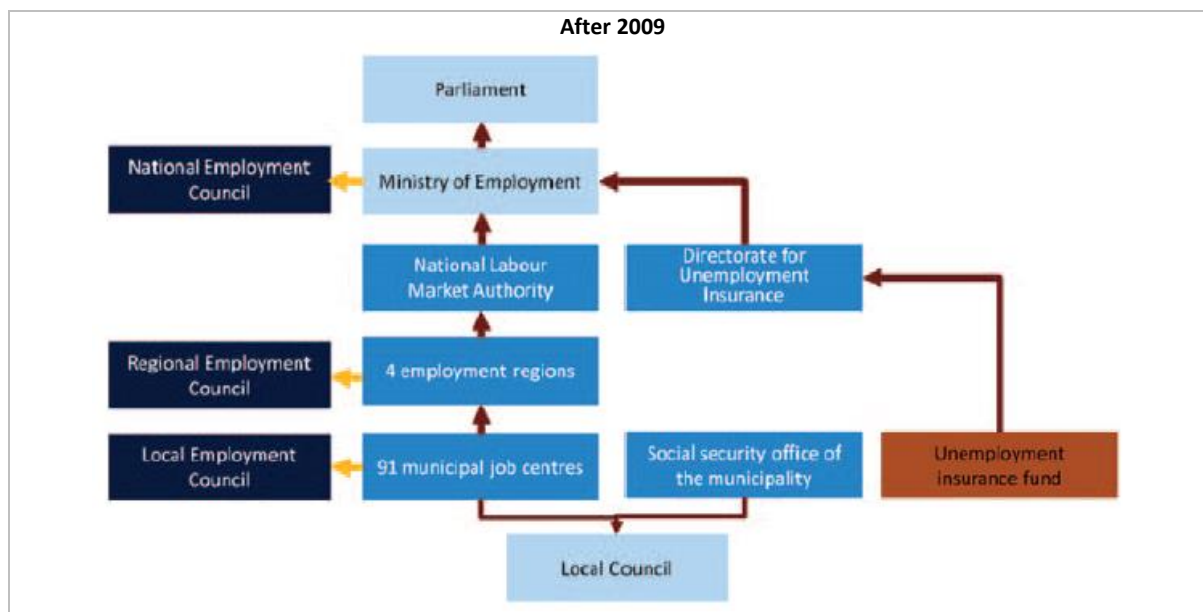


Table 31. The mandatory contact and job plan procedure municipalities must engage in with insured unemployed or able-bodied social assistance claimants in Denmark.

Source: Chapters 7 and 9 of the Act on Active Employment

The mandatory process for contact with insured unemployed and able-bodied social assistance beneficiaries (§ 2 (1-3) chapter 1)	Individual interviews on the job search activities of the unemployed
	Assessment of the distance a person has from the labour market
	Follow up interviews with persons receiving activation under chapters 10-12
	Information on the interviews must be entered into the jobnet portal
	An interview after every three months when persons receive activation under chapters 10-12
	First interview must be before 1 month after applying for the benefit or activation if the person is under 30 years of age and before 3 months if the person is over 30 years of age
	Claimants over whom suspicion on their availability has arisen must be contacted and interviewed within 2 weeks
	Obligation for persons under 25 without qualifications must complete training
	One must receive a job offer within five days, this process must continue until three months have passed
The mandatory content of individual job or rehabilitation plans for insured unemployed and able-bodied social assistance beneficiaries (§ 2 (1-3) chapter 1)	After three months a person must be offered either guidance, qualification, internships or subsidised work (chapters 10-12)
	The plan must contain a strategy to obtain regular employment
	Which type of services/offers will be provided (§ 22 chapter 8)
	For persons on social assistance it must contain a strategy to stabilise their physical, mental and social situation
	It contains a description of the desired employment in a field where there is demand for labour
	If the Jobnet portal contains such vacancies the person must be referred to them
	A job plan must be formed before any offer according to chapters 10-12 can be made
	The job plan can only be revised due to significant changes in the persons personal life or the labour market, this must be justified.

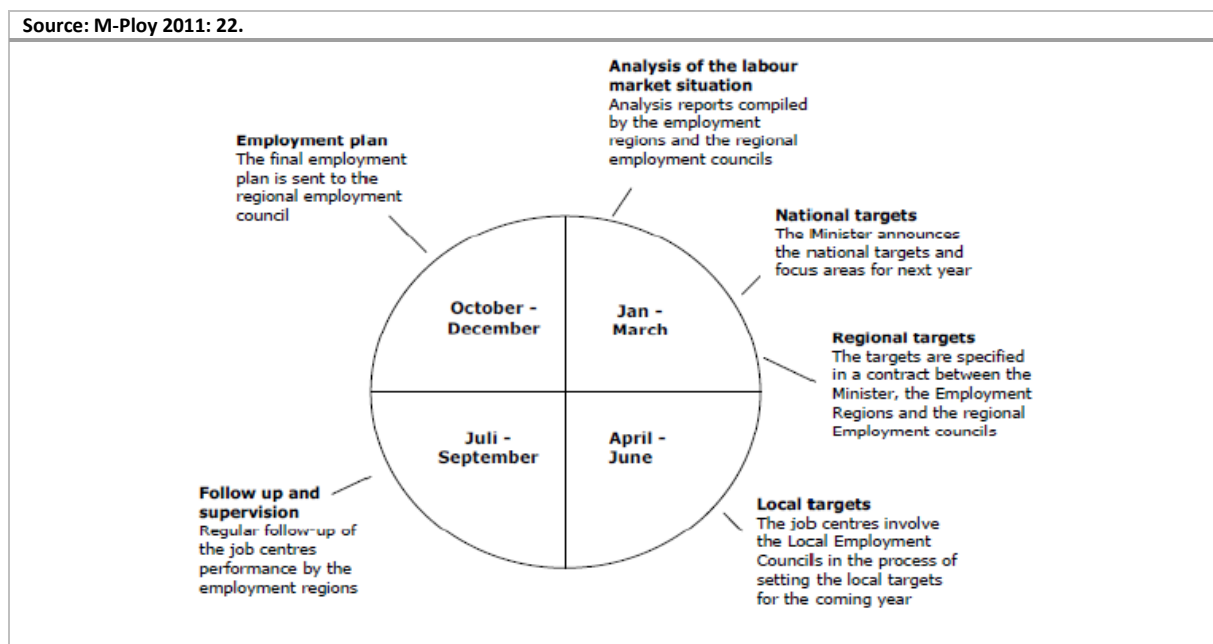
Table 32. State-municipal reimbursement and conditions for activation policies in Denmark

Source: chapter 23 of Act on Active Employment

50% reimbursement of:	<p>The costs under § 2 of chapter 1 of the Act on Active Employment:</p> <p><u>Activation costs</u> (for persons who receive activation because they are insured unemployed, receive social assistance because solely because they are unemployed, receive social assistance because solely because and receive rehabilitation services, receive sickness benefits and persons with limited working capacity § 2 1-5 & 7 of chapter 2) of guidance and qualification services (chapter 10), training</p>
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	<p>materials (§ 76-77 chapter 14), partnership costs with firms (§ 81a chapter 14), flex jobs (§ 73b chapter 14), upgrading skills for persons who are hired with wage subsidies (§ 99 chapter 14)</p> <p>The costs under § 2 of chapter 1 of the Act on Active Employment:</p> <p>Activation costs (for persons who receive activation because they are below the pension age and unable to maintain regular employment, permanent reduced working capacity, persons under the disability act, persons under 18 in need of education § 2 6-9 & 11 of chapter 2) of guidance and qualification services (chapter 10), training materials (§ 76-77 chapter 14), partnership costs with firms (§ 81a chapter 14), flex jobs (§ 73b chapter 14), upgrading skills for persons who are hired with wage subsidies (§ 99 chapter 14)</p> <p>The costs under § 2 of chapter 1 of the Act on Active Employment:</p> <p>Wage subsidy costs (chapter 12)</p> <p>Mentoring costs (§ 78-81 chapter 14)</p> <p>Travelling expenses (§ 82 chapter 15) for persons participating in activation or training offers (chapters 10-12)</p>
65% reimbursement of:	<p>The costs under § 2 of chapter 1 of the Act on Active Employment:</p> <p>Wage subsidy costs (chapter 12) for persons with limited working capacity (§ 2(4) chapter 1)</p> <p>Wage costs (§ 70f chapter 13) of persons in flex jobs (chapter 13)</p> <p>Self-employment subsidies (§ 70g chapter 13)</p> <p>Employer grants (§ 71 chapter 13) for flex jobs (chapter 13)</p>
100% reimbursement of:	<p>Rotation benefit costs of the job centre when an employed temporarily in education and training period hired someone to cover for the employees (§ 98a chapter 18)</p> <p>Wage subsidies to employers who hired vocational training students (§ 98c-g chapter 18)</p>

Figure 9. Tasks and roles of the employment regions in the planning process



Appendix E – Belgium

Figure 10. Sanctions as a % of the total number of unemployed, directly linked to the federal follow-up

Source: Cockx et al. (2011a)

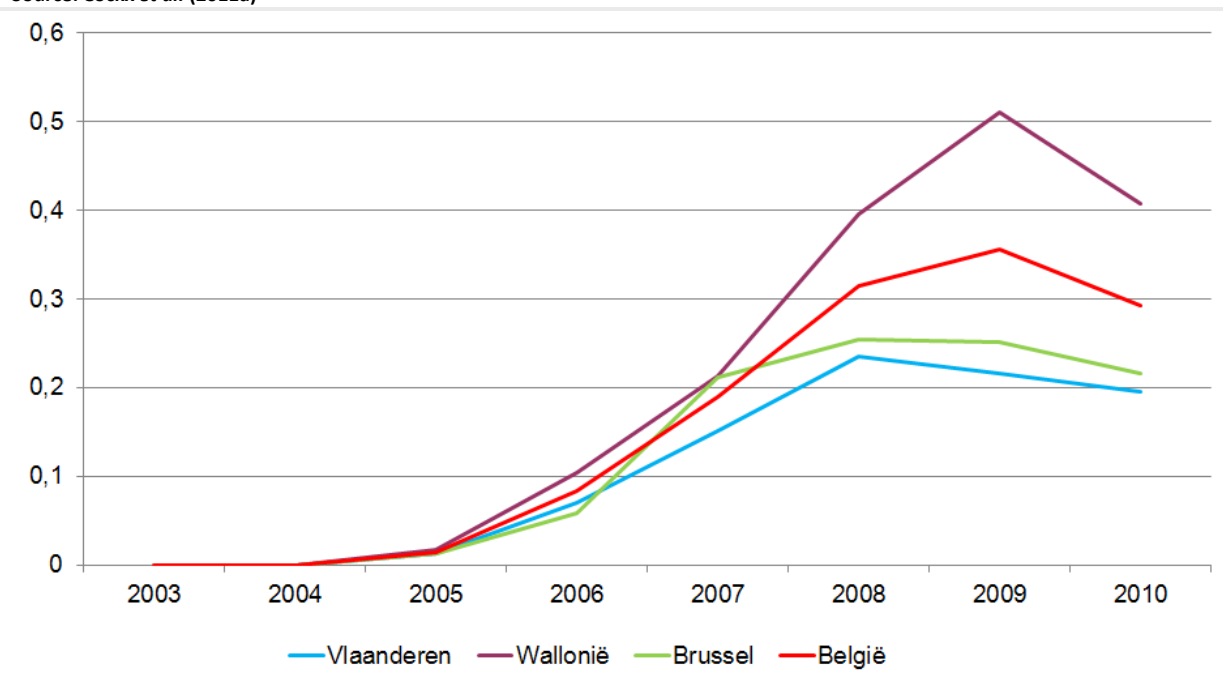


Figure 11. Sanctions following from 'transmissions', as a % of the unemployed

Source: Cockx et al. (2011a)

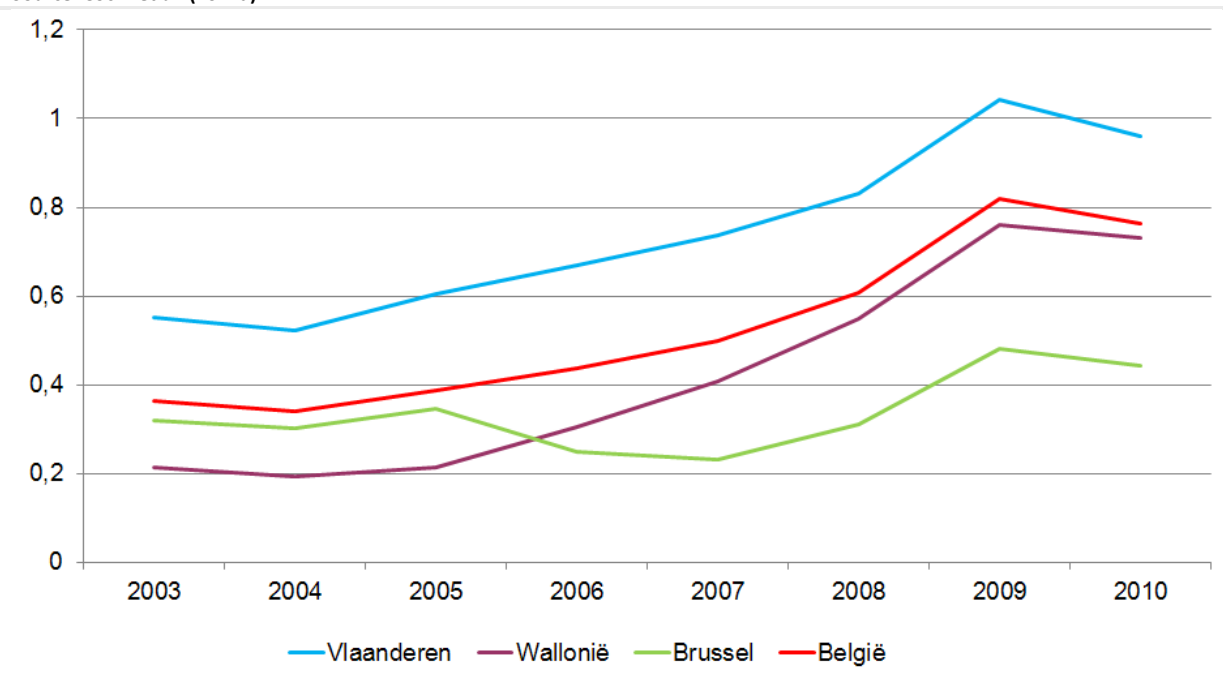


Figure 12. Total number of sanctions, as a % of the number of unemployed

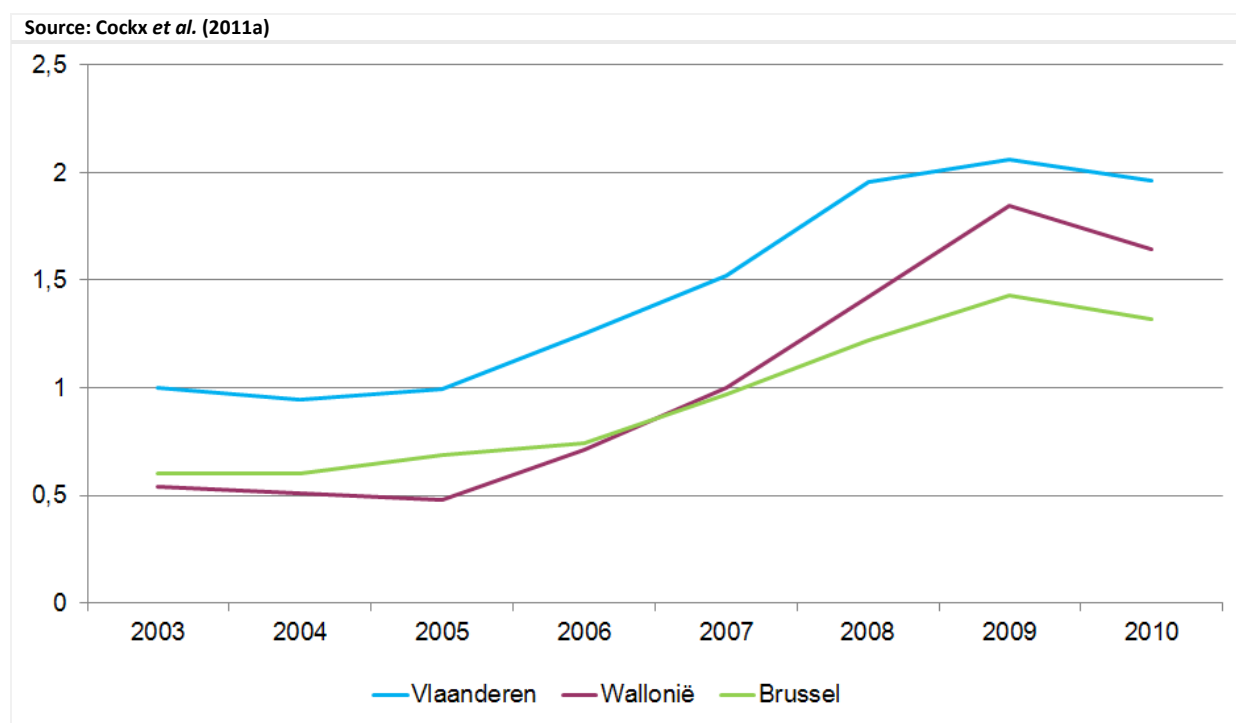


Table 33. The division of labour among levels of government in Belgium concerning unemployment and social assistance and activation

	The dominant government level involved in financing the benefit	The dominant government level involved in setting the level & duration of benefits	The dominant government level involved in designing, implementing and monitoring activation	The dominant government level involved in financing activation budgets
Unemployment insurance	The central level: the federal social security system	The central level: unemployment benefits are completely regulated by federal legislation	<p><u>PES are fully regionalized, but in 2003 a cooperation agreement defined the rules of the game...</u></p> <p><u>2003-today</u></p> <p><u>design</u>: regional level, but constrained by federal legislation with regard to principles of availability for the labour market, and constrained by a cooperation agreement with the federal level with regard to the organisation of the process</p> <p><u>implementation</u>: regional level, but constrained by a cooperation agreement with the federal level with regard to the administrative organisation of the process</p> <p><u>monitoring</u>: compliance with cooperation agreement is monitored, but no monitoring of regional 'performance', but a systematic monitoring on the level of the individual unemployed is organized at the federal level</p> <p><u>From 2015 onwards (6th State Reform)</u> Design, implementation and (individual) monitoring are fully regionalized.</p>	<p><u>2003-today</u></p> <p>The regional level is responsible for PES budgets, but a federal lump sum subsidy supports the regional budgets for activation services</p> <p>Activation instruments at the level of individual unemployed and individual employers are funded by federal level</p> <p><u>From 2015 onwards</u> Activation</p>

			Sanctioning of individual unemployed is also completely regionalized (but on the basis of federal unemployment regulation and federal normative framework)	budgets are full regional responsibility
Social assistance (<i>leefloon/revenue d'intégration sociale</i>)	The central and municipal level: the federal state budget and municipal budgets	The central level: <i>leefloon</i> is completely regulated by federal legislation	<p><u>2003-today</u> <u>Implementing & designing</u>: municipal level, but on the basis of federal legislation (only general principles of activation are specified in federal legislation) <u>Monitoring</u>: central level, but inconsequential <u>From 2015 onwards</u> Legislation on <i>leefloon</i> remains federal, but activation policy, as a competence, is regionalized.</p>	<p><u>2003-today</u> The central level organizes some extra funding for 'leefloners' who are activated. <u>From 2015 onwards</u></p>

Endnotes

ⁱ It is our contention that there could be a more crystallised debate on what exactly is the purpose of the specific proposals: macro-economic stabilization, harmonization, developing social functions of the EU or a combination of those three. In some instances, policy proposals partly rely on implicit motivations without developing these explicitly. The three goals are interrelated but are not always congruent, some policy proposals might be seen as more preferable due to implicit motivations, and this could complicate the analysis of the effects and desirability of proposals.

ⁱⁱ local governments might have better information about the local economic and employment context, they could be more able to form local alliances, and there might be strong regional divergence or a political intolerance for central authority (Mosley 2011: 11-13).

ⁱⁱⁱ Take, for example, activation policies. The transition from passive to active policies is certainly formal policy reform; it deals with the content of unemployment policies such as conditionality and eligibility. But as has been argued here and by others (Bredgaard & Larsen 2008, Van Berkel & Borghi 2008), activation could require decentralisation, which is a form of operational policy reform. So one type of reform might necessitate another. The reverse might also be possible: a call for more regional autonomy might include the transfer of responsibilities of unemployment benefit administration, which might be integrated with other policy fields that were already decentralised such as social assistance. The result of this operational policy reform would very likely influence the content of policy.

^{iv} These forms that Mosley identifies are very reminiscent of what Anne Kjaer named: deconcentration (where the centre holds its authority but delegates implementation) and devolution (where authority itself is decentralised) (2004: 149-169). 'Devolution' is the most common synonym for political decentralisation, while there is a multitude of possible synonyms for 'managerial decentralisation' – including: new public management reforms, performance measurement efforts etc.

^v Mosley does not categorise all federal states, such as Belgium and Germany, as federal multi-tiered labour markets. Although we support his categorisation when it comes to labour market policies, not classifying Germany and Belgium as federal is in contradiction to the overall political and institutional structure of those countries. What is meant by 'regional' is the type of decentralisation rather than the political-institutional context.

^{vi} Take for example two countries where local agencies can choose activation programmes from a central 'menu', in one country there might be a very limited arrange of options and a centrally set ratio of which sorts of policies could be chosen in what measure while in the other there is a broad range and total freedom of choice. In practice, therefore, there might be a large difference between the two countries in the measure of flexibility even though this might not be so obvious on first sight.

^{vii} See also Mosley 2009, but as this concerns an earlier article of the same author Mosley 2011 will serve as the main reference as to incorporate the latest insights.

^{viii} Of course, this is not the only factor in institutionalising unemployment related insurances, normative and ideological consideration come into play

^{ix} It must be said that there is an almost endless variety in the constellation of benefits and institutions, the forms of moral hazard discussed here are ideal-types and are not necessarily mutually exclusive, the list is therefore not exhaustive.

^x This type of decentralisation is very pervasive, it is present in almost every Western country (Mosley 2011: 7).

^{xi} Which should not be confused with managerial decentralisation, MBO is a management approach which could be applied to political decentralised or multi-tiered systems as well. Obviously, the more autonomy local governments receive the less objectives they will have to adhere to, but MBO and political devolution are not mutually exclusive.

^{xii} Initially this number was lower, but this was expanded in 2011 to represent around 25% of the total number of municipalities.

^{xiii} Although again, we follow Mosley in his classification of Belgium as 'regional political decentralisation' but we recognise that, from a political perspective, Belgium is a fully-fledged federal state.

^{xiv} Of course, the fact that it does not partake in any European mutual learning processes influences the institutional setting, but the U.S. has a very different approach to labour market policies all together.

^{xv} In this case the Employment Security Administration Account.

^{xvi} See USDOL 2013: 4-6 for an extensive list or see [42 USC \(7\) § 503](#) for the applicable paragraph from the United States Code's chapter on social security.

^{xvii} See [26 USC \(23\) § 3303](#) as well as [26 USC \(23\) § 3304](#) for the applicable FUTA paragraphs.

^{xviii} See [42 USC \(7\), § 1321-1324](#) for all provisions governing this possibility.

^{xix} An interesting state requirement is that the states engage in: “the system under which employers are assigned tax rates in accordance with their individual experience with unemployment (and subject to the needs of the state program) is referred to as ‘experience rating’” (USDOL 2013: 9). But even though there are federal requirements for the implementation of experience rating there is a lot of bandwidth for states to set tax rates.

^{xx} The only federal limitation on eligibility is that it must be paid to persons who are ‘able and available’ which is defined in a very broad sense ([20 CFR 604.3](#)). The levels of benefit vary between a weekly maximum of \$555 in Connecticut and \$240 in Alabama

^{xxi} The requirements which come closest to performance indicators are reporting requirements, through which the federal level ensures that institutions share their data and information about the claimants.

^{xxii} This is a new requirement inserted by the The Middle Class Tax Relief & Job Creation Act of 2012, see below

^{xxiii} For the full text on the division of costs see [20 CFR 615.14](#)

^{xxiv} It expired january 1st 2014

^{xxv} This is excluding the TAA, which is mostly governed by state law since 2002.

^{xxvi} This section of the ARRA is referred to Assistance for Unemployed Workers and Struggling Families Act, to install the requirements for these contracts the ARRA amended the aforementioned [26 USC \(23\) § 3304](#)

^{xxvii} [Section 2141 \(b\) of this act](#) that for EUC08 ‘actively seeking work’ entailed that individuals were: registered for employment services, has engaged in an active search for employment, has maintained a record of such work search and when requested, has provided such work search record to the State agency, states must perform a certain number of random audits. For extended benefits [20 CFR 615.8 \(g\)](#) states that ‘the state shall provide that an individual who claims Extended Benefits shall be required to make a systematic and sustained effort’ which has been defined in 20 CFR 615.2 (o)(8) as: a high level of job search activity, a plan of search for work, actions by the individual must be comparable to those actions by which jobs are being found by people in the community and labour market, a search should not be limited to classes of work or rates of pay to which the individual is accustomed or which represent the individual's higher skills, a search by every claimant (without exception for individuals or classes of individuals other than those in approved training), a search can only be suspended by severe weather conditions or calamities and there must be tangible evidence of an active search for work.

^{xxviii} Which is largest of all social assistance programmes in terms of numbers of claimants.

^{xxix} See [7 USC \(51\), § 2014](#) for eligibility criteria and [7 USC \(51\), § 2015](#) for disqualification grounds, the latter includes work requirements (§ 2015: paragraph d-1 i-vi). The state's responsibility is limited to determining eligibility according to these standards. It can however pose its own conditions but they cannot be stricter than the conditions of similar programmes (similar programmes are defined as programmes operating under [42 USC § 601 et. Seq.](#) Paragraph 4-D of § 2015 determines that states must have available some programmes, these include training programmes but also provide the opportunity to develop own state programmes, including a workfare programme compliant with [7 USC \(51\), § 2019](#). [7 USC \(51\), § 2017](#) determines the calculation of the benefit value. The overall leeway states enjoy is interpreting the federal rules.

^{xxx} See [7 USC \(51\) § 2025](#)

^{xxxi} See [7 USC § 7517](#)

^{xxxii} Also in [7 USC § 7517](#)

^{xxxiii} It is mostly up to the discretion of the Secretary

^{xxxiv} It is, however, a surprising feature that the legal relationship between the welfare agency and the benefit recipient is not federally codified. In other words, there is (since 1996) no federal welfare entitlement (Quade *et al.* 2008: 394). The federal requirements that are in place for states being able to apply for a block grant are just that: requirements for funds. It is hard to overestimate the importance of central codification (of the legal relationship between the state and the individual claimant) in terms of flexibility for the state level. In the German, Belgian or Danish cases, decentralisation is always done within the parameters of central legislation. However, all American states do currently operate a TANF programme.

^{xxxv} See [42 USC § 609 a 7 i](#), also see Brown (2012) for an excellent discussion on this subject

^{xxxvi} [42 USC 607\(d\)](#) specifies 12 work activities: (1) unsubsidised employment; (2) subsidised private sector employment; (3) subsidised public sector employment; (4) work experience (including work associated with the refurbishing of publicly assisted housing) if sufficient private sector employment is not available; (5) on-the-job training; (6) job search and job readiness assistance; (7) community service programmes; (8) vocational educational training (not to exceed 12 months with respect to any individual); (9) job skills training directly related to employment; (10) education directly related to employment, in the case of a recipient who has not received a high school diploma or a certificate of high school equivalence; (11) satisfactory attendance at

secondary school or in a course of study leading to a certificate of general equivalence, in the case of a recipient who has not completed secondary school or received such a certificate; and (12) the provision of child care services to an individual who is participating in a community service programme

^{xxxvii} Work requirements are legislated by [42 USC § 607](#), the state plans by [42 USC § 602](#).

^{xxxviii} And is now integrated into the WIA jobcentres

^{xxxix} Of course, the definition unemployed and the coverage of unemployment insurance varies a great deal between (and in the EU case, within) the U.S. and the EU. The comparability might not be so high, but these different definitions and scopes are used for national policy input.

^{xl} The one-stop-shops are governed by the Wagner-Peyser act but as amended by the WIA. The four PES responsibilities devolved to the states are: firstly, facilitate the match between job seekers and employers. Secondly, provide labour market information to job seekers and employers. Thirdly, to make appropriate referrals to related employment and training programs and finally to meet the work test requirements of state unemployment compensation systems (see also O’Leary & Eberts 2008: 3).

^{xli} See [20 CFR 661.250](#) for the requirements of Workforce Investment Area designation.

^{xlii} Pursuant to [29 USC 2821](#) the State WIB includes the governor, two members of each state legislature and governor appointed business, labour and expert representatives, furthermore some chief elected officials and the one-stop-shop operator.

^{xliii} See [20 CFR 661.300](#) for the legal standing and [20 CFR 661.305](#) for the responsibilities of the local WIBs.

^{xliv} See [20 CFR 662.400](#) for the complete list of possible operators and [20 CFR 662.420](#) for the guidelines under which the WIB may fulfil this role.

^{xlv} See [20 CFR 662.200](#) for the mandatory partners and [20 CFR 662.230](#) for their responsibilities.

^{xlvi} Even though the local WIB might not necessarily have any staff, they must include one member representing every mandatory partner, a member representing the operating agency, business and trade association representatives (see [20 CFR 661.315](#))

^{xlvii} See [20 CFR 667](#), the requirements for funding are codified in WIA section 112, Wagner-Peyser Act section 8, and [20 CFR 661.220](#), [661.240](#) and [652.211-652.214](#).

^{xlviii} See [20 CFR 666.110](#)

^{xlix} See [20 CFR 667.300](#) and [20 CFR 666.110](#)

^l See [20 CFR 661.240](#)

^{li} See [20 CFR 667.400](#) for the responsibilities of the Secretary, [20 CFR 667.410](#) for the responsibilities of the states.

^{lii} “The total performance bonus funding made available in WIA is comparable to that of the TANF high performance bonus system, which limits bonuses to no more than 5 percent of a state’s TANF block grant. Wiseman (2004) reported that the \$200 million in annual performance bonuses amounts to less than 1 percent of TANF expenditures” (Heinrich 2007: 287).

^{liii} The use of funds is limited to “any one or more innovative programs under titles I or II of WIA or the Carl D. Perkins Vocational and Technical Education Act” (see [20 CFR 666.210](#)).

^{liv} States are eligible for incentive bonuses when they achieve at least 80 percent of the negotiated (expected) performance levels on each of the performance measures and a cumulative program area score of at least 100 percent for each of the major performance measure groups.

^{lv} Concerning the quality of data, the USDOL has experimented with independent verification of the data submitted but these results of these attempts have been kept confidential, further exacerbating the initial doubts.

^{lvi} More management by directives than MBO

^{lvii} As defined by Eurostat, according to [the Eurostat metadata](#).

^{lviii} This practical form of moral hazard shows that the ideal-types of moral hazard do not always cover the broad spectrum of reality. Creating work programmes with limited actual service provision resembles parking, but by doing so the municipalities transferred unemployed to the federal budget, which is a form of dumping.

^{lix} See [§ 341-349 of SGB III](#) for regulations on the amounts of contributions, how they are collected and when they are paid. [§ 363-365 SGB III](#) determines that the funding of the BA comes from the federal level, any deficit the BA may experience is also covered by the federal level (Ebbinghaus 2007:35-36).

^{lx} See [§ 280-283](#) and [367-370](#) of the SGB III in particular

^{lxi} For legislation on the duration see [§ 147-148 SGB III](#), for the level see [§ 89](#), [129](#), [149-154](#) and [§ 118-121](#) for eligibility and for exemptions and limitations see [§ 155-160](#).

^{lxii} See [§11 & 282 SGB III](#)

^{lxiii} See [§ 7](#) and [19-20 SGB II](#) for the levels (based on [Art.1 of the constitution](#)), [§ 10 SGB II](#) for eligibility

^{lxiv} See § 20, 21 SGB II, conform 22, 22a, 22b and 22c SGB II the Länder set the rates which municipalities contribute.

^{lxv} Miscellaneous social services include: the care of minors or children with disabilities or interpersonal care, debt problems, psychological care and addiction counselling (SGB II §16a)

^{lxvi} See SGB II § 22a-c

^{lxvii} According to MISSOC comparative database for Germany (2004-05-01) [checked: 15-05-2013].

^{lxviii} See § 20-23 SGB II

^{lxix} See §15 SGB II

^{lxx} Originally called *Arbeitsgemeinschaften* (ARGEn) but as of 2011 they are called *Gemeinsame Einrichtungen* or 'Job Centers'.

^{lxxi} See § 16 & 44b SGBII

^{lxxii} As said, in 2007 there were 69 *Optionskommunen* and this was expanded to 105 in 2011, for the relevant paragraphs see §6(3) and 6a SGBII

^{lxxiii} See § 6-6d SGB II

^{lxxiv} See § 367 SGB III and 368 SGB III

^{lxxv} *Bundesverfassungsgericht*, decision of 20/12/2007

^{lxxvi} See § 48-48b SGB II

^{lxxvii} See § 48 SGBII

^{lxxviii} § 3 and 29 SGB III

^{lxxix} § 1 SGB III

^{lxxx} These agreements set quantifiable goals within three permanent categories: reducing the number of persons depending on basic income support; preventing long-term dependence on basic income support benefits; and improving re-integration measures (Wegrich 2013: 11-12).

^{lxxxi} See here, here and here for the *Rahmenziele*

^{lxxxii} Social partners used to occupy a central position in the operational policy making, but their role has been cut short as a result of the Hartz reforms (Jantz & Jann 2013: 235).

^{lxxxiii} See §11 & 282 SGBIII

^{lxxxiv} "Since the reform [Hartz], selection into training measures and job creation schemes have deliberately used cream skinning in order to choose those clients who will benefit most" (Konle-Seidl 2008: 24).

^{lxxxv} In practice this means the BA (either as a local office or through a consortium with the municipalities) or the *Optionskommunen*. § 14 and 16 SGB II determines that ALG II beneficiaries are entitled to the same instruments as ALG I beneficiaries, § 16(2) SGB II provide additional services for those with specific disadvantages (psychological counselling, child services etc.), § 29 provides the option of a 'starting allowance'.

^{lxxxvi} See § 44c & 44d SGBII

^{lxxxvii} See § 44b(3) SGBII

^{lxxxviii} See §47 SGB II

^{lxxxix} See §48 SGB II

^{xc} See § 47(1) & (2) SGB II, in the case of disagreement, the *kooperationausschuss* determines (§ 44^e SGB II)

^{xci} See § 49 SGB II, but the federal court of auditors checks benefit payments and the use of funds (§ 46 SGB II)

^{xcii} 271 municipalities were merged to 98 municipalities. It is often stated that Denmark has reorganised its municipalities in order to deal with the decentralisation (Mosley 2011: 22), but the some argue that the reorganisation (upscaling and merging) of the Danish municipalities provided a window of opportunity to rekindle former municipalisation dreams (Bredgaard 2011: 766-768).

^{xciii} Jobcentres were to be organised as independent municipal agencies only responsible for job (re)integration, while benefit administration should remain a responsibility of either the local governments (uninsured unemployed) or unemployment insurance funds (insured unemployed). See the Act on the responsibility and control of the active employment measures chapter 2 paragraphs 5-12

^{xciv} See chapter 7 of Act on Unemployment Insurance for the formal requirements for state sanctioning of unemployment insurance funds.

^{xcv} See chapters 14-15 the of Act on Unemployment Insurance

^{xcvi} See § 76-78 of chapter 12 of Act on Unemployment Insurance

^{xcvii} See chapter 9 of Act on Unemployment Insurance for the levels and chapter 10 of the same act for the eligibility (§ 55) and duration.

^{xcviii} See Act on Active Social Policy chapters 2 and 3 eligibility, chapter 4 (specifically § 25-26) for the levels.

^{xcix} See §99 of the Act on Active Social Policy

^c According to §100 of the [Act on Active Social Policy](#). The services which are reimbursed fall under [chapter 6](#) and [11](#) of the Act on Active Social Policy.

^{ci} The [Act on Active Social Policy](#) covers the activation of social assistance and the [Act on Active Employment](#) that of the unemployment insurance and social assistance beneficiaries who receive social assistance solely because they are unemployed and those who are not in rehabilitation programmes (§ 2 of the latter Act). [Chapter 5 of the Act on Active Employment](#) regulates who can register at the jobcentres.

^{cii} The implicit argument is that deterrence is a more effective and efficient way of fighting individual moral hazard than enhancing the motivation of the unemployed (Bredgaard & Larsen 2008: 5).

^{ciii} See [chapter 7 of the Act on Active Employment](#) for the minimum requirements. [Chapter 3 of the Act on Active Social Policy](#) and [title IV of the Act on Active Employment](#) determine the types of services and the conduct of the jobcentres. [Chapter 16 of the Act on Active Employment](#) determines the rights and duties of the insured unemployed, [chapter 17](#) the rights and duties of social assistance beneficiaries.

^{civ} See [chapter 23 of the Act on Active Employment](#).

^{cv} [www.Jobindsats.dk](#), see [chapter 11 \(§59\) Act on the responsibility and control of the active employment measures](#). The National Labour Market Authority administers this statistical database, the regions and municipalities must report their efforts through common or certified IT systems.

^{cvi} See [chapter 12 Act on the responsibility and control of the active employment measures](#)

^{cvi} These jobcentres may be run by other actors than the municipality ([§ 4 b Act on Active Employment](#)), which is in fact encouraged.

^{cvi} This does not mean that Danish local governments do not engage in the formulation of strategic annual employment plans, they do.

^{cix} On a critical note, one might say that the activation policies deployed by the regional PES, still do not reach out (or, at least not sufficiently) to the 'stock' of long-term unemployed. Hence, in reality, replacing art. 80 by the new mechanisms of sanctions and control may not have changed the situation of the long-term unemployed with regard to activation that much.

^{cx} A key to understanding the *Cooperation Agreements* is the following 'division of labour': the regional authorities were ready to share 'facts' with the federal authorities, but not to transmit an overall evaluation of the search effort of the unemployed individual (on which they have much more and more detailed 'first-hand' information than the federal authority).

^{cx} Dullien has proposed a system in which the supranational level would provide 50% of the last earned wage as a unemployment insurance, national governments can top this up to whichever level they prefer. The supranational contribution would only run up to twelve months per unemployed, after which the national governments take over again. See Dullien 2014 for the latest version of his proposal.

^{cxii} Keep in mind that the figures in Figure 3 represent LFS statistics and to not necessarily reflect those who would be covered under an E(M)U-wide scheme. It does not fit within the objective or scope of this paper to go into a detailed costs and divergence analysis of the E(M)U-wide scheme.

^{cxiii} This section only pertains to the PES enacted under the Wagner-Peyser Act, the WIA will be described separately. The WIA has amended the Wagner-Peyser Act, but has explicitly retained the separate funding stream for PES services (Balducchi & Pasternak 2004: 49).

^{cxiv} The maximum duration is six months, after which the benefit has to be renewed at the one-stop-shop, giving the municipality or the local office some influence over the duration ([§ 15 SGB II](#), see also Konle-Seidl 2008:27).

