

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

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Abstract

This paper has been written in preparation of a research project funded by the European Commission (on the Feasibility and Added Value of a European Unemployment Benefit Scheme, contract VC/2015/0006). This paper adds information and detailed analysis to the following deliverable of that research project: *Institutional Moral Hazard in the Multi-tiered Regulation of Unemployment and Social Assistance Benefits and Activation - A summary of eight country case studies*; but it was not a deliverable. We use the concept ‘institutional moral hazard’ to analyse intergovernmental relations within multi-tiered welfare states, specifically in the domain of unemployment-related benefits and related activation policies (the ‘regulation of unemployment’). This paper is one of eight separate case studies, it focuses on Austria. The Austrian regulation of unemployment involves the federal government, regional governments (*Länder*) and the federal Public Employment Services (PES). The dominant policy concerns were threefold: divergence between activation practices for social assistance and unemployment insurance caseloads, increasing heterogeneity between regional social assistance schemes and principal-agent issues concerning the PES. The federal government harmonized different activation practices by making the federal PES responsible for all caseloads. Furthermore, the federal government negotiated a nation-wide agreement with the *Länder* on social assistance schemes. Finally, the governance of the PES was reformed and more monitoring and minimum requirements were introduced.

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

List of Abbreviations

AMS - *Arbeitsmarktservice Österreich* (federal PES)
AIVG – *Arbeitslosenversicherungsgesetz* (Unemployment Insurance Act)
AMFG – *Arbeitsmarktförderungsgesetz* (Labour Market Promotion Act)
AMSG – *Arbeitsmarktservicegesetz* (Labour Market Service Act)
ASVG – *Allgemeines Sozialversicherungsgesetz* (General Social Insurance Act)
BMAŠK - Bundesministerium für Arbeit, Soziales und Konsumentenschutz (Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection)
BMS - *Bedarfsorientierte Mindestsicherung* (social assistance)
PES – Public Employment Services
SA – Social Assistance
UI – Unemployment Insurance

Introduction

Austrian regulation of unemployment is relatively centralised. As in several other cases, legislation and financing of social assistance (SA) is the responsibility of a lower tier of government (the *Länder*). Unlike most other cases, however, activation is completely the responsibility of the central PES (the *Arbeitsmarktservice Österreich* or AMS) – including activation of SA recipients. For this reason, Austrian regulation of unemployment serves as a contrasting case. Another (related) interesting feature of the Austrian regulation of unemployment is the similarity with the German and Swiss cases; Austria has experienced similar challenges as those two countries (mainly concerning the stark dichotomy between SA and unemployment insurance or UI) but has opted for a different response.

The division of labour within Austrian regulation of unemployment has been relatively stable. The two most important reforms are the introduction of the AMS, as a semi-independent PES with strong ties to the social partners, and the formulation of an agreement between the federal level and the *Länder* concerning minimum requirements for the legislation of SA. With these moves, Austrian regulation of unemployment has shifted from political decentralisation (SA) towards delegation (the semi-independent PES). There are parallels with the German case in this regard, but also with the Swiss case; Austria takes up a position between these two cases.

Before we turn to the analysis of benefits, it is important to briefly identify a certain characteristic of the Austrian welfare state: equalisation payments. In case of financial poverty, benefits under the ‘statutory pension insurance system’ are “topped up with an equalisation supplement to reach a threshold value (called ‘equalisation supplement reference rate’ – *Ausgleichszulagenrichtsatz*)” (BMAŠK, 2014a, p. 78). The equalisation supplement reference rate is a very important tool in determining minimum amounts of labour market-related benefits. As will become clear (cf. *infra*), this reference wage is used to determine minimum rates for SA, as a minimum to which other benefits will be topped up by SA, and as a threshold for other supplements under the UI legislation.

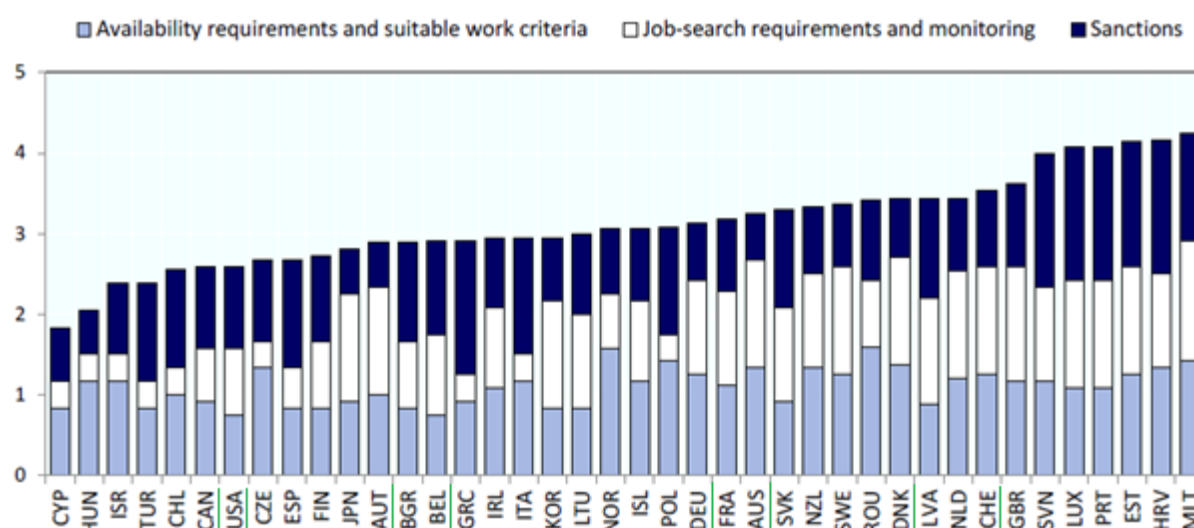
¹ We thank Helmut Mahringer for very useful exchanges on the Austrian system.

1. Unemployment insurance

Austria has a history of relatively low UI replacement rates (Obinger & Tálos, 2010, p. 110). Currently they stand at 55%², resulting from a lowering of generosity in 2000. This benefit can be topped-up (predominantly in the form of a family allowance) and it can be increased to a maximum replacement rate of 80%, with the aforementioned ‘equalisation supplement reference rate’ being the ceiling.³ The low replacement rates and the top-ups are interrelated: the top-ups prevent UI beneficiaries from falling below the social minimum threshold. The changes in 2000 also lowered these supplements for families, tightened sanctions and limited accessibility (Obinger & Tálos, 2010, p. 117). There is no lower limit for UI (and UA) itself; instead SA can be used to top up UI (and UA) benefits to the social minimum (the equalisation reference wage) (Steiner & Wakolbinger, 2010, p. 4; BMASK, 2014a, pp. 14-15). The duration is fairly short: it ranges from 20 to 52 weeks, depending on the contribution period, and in certain cases it can be extended to 78 weeks – but only after completion of vocational rehabilitation measures.⁴ However, when comparing generosity (certainly in terms of duration) it is important to note that Austria has an unemployment assistance scheme for people who exhaust their UI, which is potentially of indefinite duration (cf. *infra*).

Finally, Austria does not have strict eligibility criteria (see Figure 1), but its job-search requirements and monitoring criteria are somewhat stricter than in other cases (Figure 2). It is probable that this strictness of job-search requirements and monitoring criteria is related to the duration of UA. UA can be prolonged indefinitely if beneficiaries comply with (among other factors) the same job-search and monitoring requirements as for UI (cf. *infra* for a more detailed discussion). Furthermore, the low generosity, coupled with the fact that UA functions as a benefit of last resort for a large group of long-term unemployed, might explain the relatively relaxed sanctions – similar to the Australian case (cf. *supra*).

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

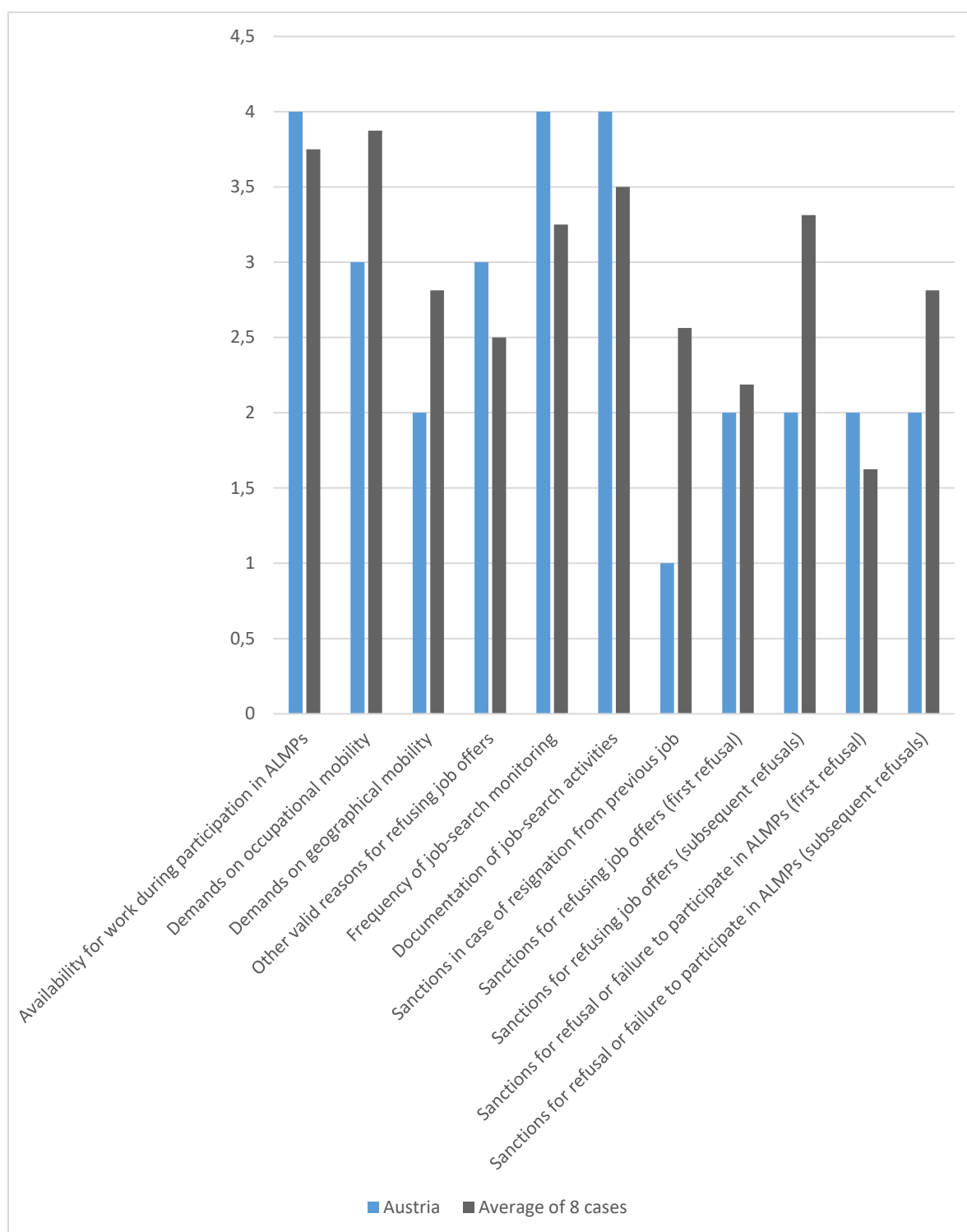


² See [paragraph 21 \(3\) of the AIVG](#).

³ See [paragraph 21 \(4-5\) of the AIVG](#).

⁴ See [paragraph 18 \(1-2\) of the AIVG](#).

Figure 2 Strictness of eligibility in Austrian UI. Source: Langenbucher 2015.



The UI scheme was legislated by the federal Unemployment Insurance Act (*Arbeitslosenversicherungsgesetz* or AIVG) of 1977.⁵ The benefit scheme, *sensu stricto*, is completely regulated and financed at the federal level. The revenues for the scheme are predominantly provided

⁵ Other important federal acts include the [Labour Market Policy Financing Act \(*Arbeitsmarktpolitik-Finanzierungsgesetz* or AMPFG\)](#), the [Labour Market Promotion Act \(*Arbeitsmarktförderungsgesetz* or AMFG\)](#) and the [AMSG](#).

through employer and employee contributions, possibly supplemented with some federal funds.⁶ These revenues pay for the complete governance of the UI regime, including costs of the AMS.⁷ The AMS is not only responsible for much of the activation of Austrian benefits (cf. *infra*), but is also the executive body that disburses benefits.⁸

Until 1994, the Austrian PES was fully integrated into the Ministry of Employment Affairs (currently the Ministry of Labour, Social Affairs and Consumer Protection or BMASK). The 1994 Labour Market Service Act (*Arbeitsmarktservicegesetz* or AMSG) introduced the AMS at arm's length of the Ministry, and along with that "the entire governance structure of the Austrian PES changed and a deep 'culture of social partnership' was established" (Weishaupt, 2011b, p. 3).⁹ The AMS is legally supervised by the BMASK and has a three-tier governance structure: a headquarters, nine Länder offices and 99 local offices. Its 'executive body' consists of a two-member board of directors, while the administrative board (*Verwaltungsrat*) serves as a 'legislative' body.¹⁰ This latter board includes nine members: three from federal ministries (two from BMASK and one from the Ministry of Finance), and three each from the employers and unions. Hence, the social partners outnumber the governmental representatives. The administrative board is an important actor: it plays a major part in the translation of ambitions into operational targets but also approves and dismisses the board of directors and distributes the budget (Weishaupt, 2011b, p. 4). This means the governance structure of the AMS itself includes features which can counteract principal-agent issues associated with semi-independent federal agencies; the social partners, who dominate the administrative board, can heavily influence policymaking and goal setting. The interests of the social partners are not the same as those of the AMS and its employees. In other words, the presence and dominance of the social partners in the administrative board function as a checks and balances system for the semi-autonomous AMS.

When we look at the regional unemployment rate (see Figure 3), it is clear that there are structural regional differences in the unemployment rates between the Länder. Four of them had a lower than average unemployment rate for over 20 years, while three others had poorer performances over that same time period. Although Figure 3 does not represent benefit caseloads, it is most likely that these structurally heterogeneous unemployment rates are, at least in part, translated into structurally heterogeneous caseloads. This entails a structural redistribution between the *Länder* since the federal level finances UI, UA and activation for all unemployed.

⁶ See [paragraph 1 \(1\) of the AMPFG](#).

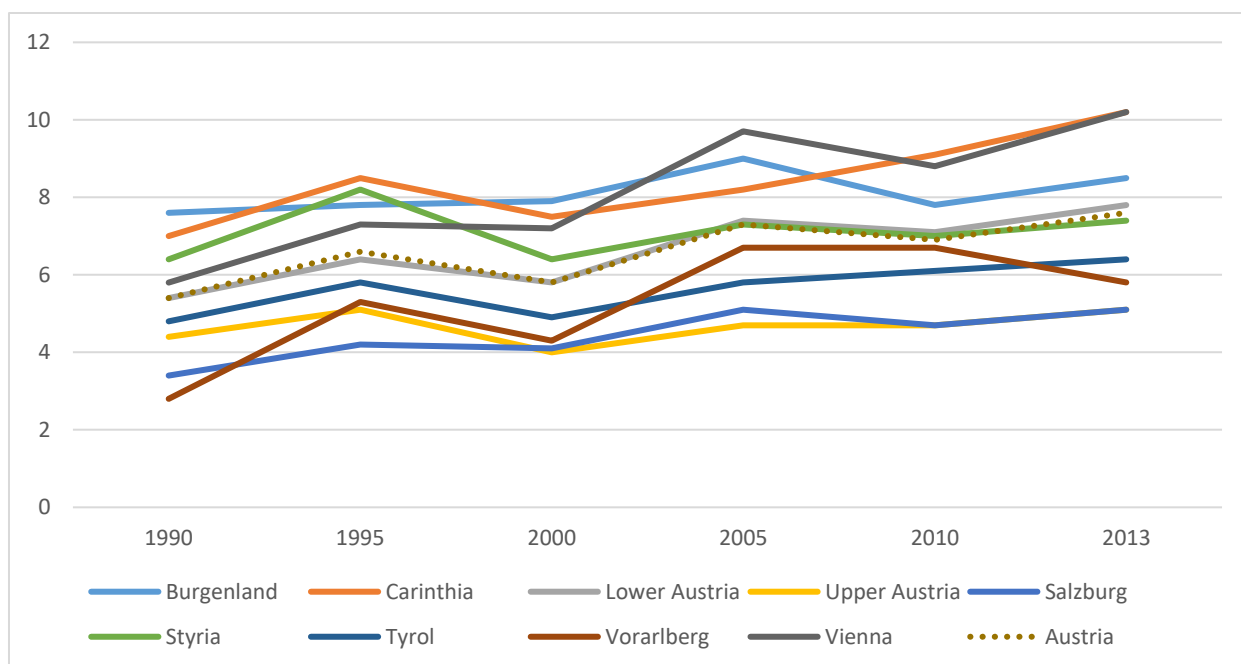
⁷ See [paragraph 1 \(2\) of the AMPFG](#) and [paragraphs 41-52 of the AMSG](#).

⁸ See [paragraph 5 of the AMPFG](#) and [paragraph 33 of the AMSG](#).

⁹ See [paragraph 1 of the AMSG](#).

¹⁰ See [section 2 of the AMSG](#) for the administrative board, [section 3](#) for the board of directors and [paragraphs 58-59](#) for the responsibilities of the Ministry.

Figure 3 Regional and national unemployment rates 1990-2013. Source: Wirtschaftskammern Österreichs 2014: 34.



2. Unemployment assistance

As already mentioned, there is also a second-tier unemployment benefit scheme: unemployment assistance (UA, *Notstandshilfe*). *Notstandshilfe* is not easy to classify as either UI or SA because it shares similarities with both schemes (its replacement rates are income-dependent but it is also means tested, cf. infra). In the analytical grid, Austrian UA is part of the column on UI because it is an integral part of the same legislation (AIVG) and subject to the same activation regime. This scheme serves as a residual scheme for persons who have exhausted their UI claim¹¹ and is meant as an emergency benefit for people who experience financial hardship after their previous benefit has run out. This emergency nature is reflected in the fact that the scheme is means-tested and can only be applied for within five years of exhaustion of UI.¹² The replacement rate varies between 92% and 95% of the basic amount of UI (which is 55% of the previous earned wage in the reference period, cf. supra). As with UI, UA can be topped up by SA to the equalisation reference wage. However, starting in 2010 the federal government (in relation to an agreement on SA with the Länder, cf. infra) increased the generosity of the scheme by allowing for more income from spouses and child supplements (BMASK, 2014b, p. 79). This benefit is codified in the same legislation as UI. The financing and governance structure is, therefore, almost completely the same as it is for regular UI – except for the eligibility and generosity. In this sense, it resembles the former German UA scheme, which was also part of the UI legislation. In contrast, the UA that was implemented in some Swiss cantons (and still is for a small number of cantons) is a regional prerogative.

What is so distinctive about this benefit is that it can be prolonged indefinitely (BMASK, 2014, p. 98). *Notstandshilfe* is officially limited to a certain period of time (52 weeks), but can be prolonged indefinitely as long as the requirements are being met.¹³ Beneficiaries only qualify if they have exhausted UI, if they continue to comply with UI entitlement requirements and if they pass the means test. This benefit scheme has important implications: it will reduce opportunities for cost-shifting from UI to SA. Long-term unemployed who have received UI are far less likely to end up in the SA caseload.¹⁴ The size of the SA caseload vis-à-vis UI for Austria is much smaller than in most of the other cases examined in this study – with the exception of Belgium. Furthermore, it increases the need for effective activation of UI/UA beneficiaries, since ineffective activation could result in a large share of indefinitely dependent clients.

¹¹ Or have exhausted an early exit benefit called the ‘transitional allowance’ (*Übergangsgeld*).

¹² See [paragraphs 33 and 36a of the AIVG](#).

¹³ See [paragraphs 35 and 37 of the AIVG, see paragraph 15 for the requirements](#).

¹⁴ In 2012 the UI caseload was 131,217, the UA caseload was 105,132 and the SA caseload was around 221,000 (BMASK, 2014, pp. 96, 99; BMASK, 2014a, p. 81). See Mahringer (2007, p. 5) for the development of these caseloads from 1987-2005 (before the SA reform of 2010, cf. infra).

3. Social assistance

For those who are not eligible for UI and UA, there is a third labour market-related scheme: SA. This benefit scheme has historically been the prerogative of the Länder (Obinger & Tálos, 2010, p. 101). Due to the potential indefinite duration of UA, SA is not as relevant in the regulation of unemployment as in other cases examined in this study. The different regional SA schemes have always included some form of work requirement, enforced by local caseworkers (Leibetseder, 2014a, p. 2). However, these work requirements were not always implemented with the same rigidity as in UI. Research has shown that in at least two provinces, more than half of the unemployed on SA stated that they were not subject to any job-search requirements: “Either they [were] exempted from this obligation or the caseworker [refrained] from imposing such requirements or [left] it to the [federal] jobcentres of the unemployment insurance scheme” (Leibetseder, 2014a, pp. 6-7). Activation of these long-term unemployed generally favoured monitoring and sanctioning rather than the provision of intensive upskilling (Leibetseder, 2014a). The historical autonomy of the nine Länder over SA led to much heterogeneity in eligibility, generosity and activation efforts (Mahringer, 2007, pp. 3-4). Similar issues have caused concern in both Germany and Switzerland. The dichotomy between UI/UA and SA can be an indicator of disparities in the capacity of subnational governments, but also of institutional moral hazard – and probably some mix of both.

The regional dominance over SA was challenged in 2010, when the federal government and the Länder formulated an agreement on a ‘nationwide means-tested minimum income security’, which stipulates a common minimum standard for a new type of SA (*Bedarfsorientierte Mindestsicherung* or BMS). In essence, this was the Austrian reaction to the similar challenges facing the German (Mahringer, 2007) and Swiss authorities: a dichotomisation (of activation regimes) between long-term unemployed caseloads of SA and the UI scheme. This dichotomy was due to the division of labour between levels of government concerning the activation of different caseloads. In practice, these disparities between UI/UA and SA activation practices entailed more intensive activation of the UI/UA caseload and a more social inclusion-oriented and less intensive activation of SA recipients. “The new system – just like the Hartz reforms in Germany – is intended to harmonise existing regulations in order to combat poverty more effectively and to roll-out a national, work-focussed approach for the reintegration of the (long-term) unemployed into the primary labour market” (Weishaupt, 2011b, p. 6). In contrast to Germany, UA and SA were not merged. The 2010 agreement was adopted in the legislation of the Länder, who can still apply some variation to the implementation and legislation of the new SA as long as it adheres to the minimum standards laid down in the agreement.¹⁵ This means that the Länder are still responsible for the legislation of SA, but that they are committed to a set of general principles, which is also contrary to the German case. As a result, regional differences can still exist, for example in the amount of benefits clients receive, since the Länder are free to design top-ups above the minimum standard. Besides combatting the dichotomy between the activation of the unemployment-related schemes and the disparities between the Länder, the federal level also ensured through the agreement (in combination with the

¹⁵ The federal government can make such agreements with the Länder under [Article 15a of the Federal Constitution](#).

strict entitlement criteria of UI) that there are no more opportunities for the Länder to shift their caseloads to federal benefit schemes through activation policies that renew UI eligibility.

“The BMS comprises benefits to ensure people’s means of subsistence and housing needs, and to afford protection in case of sickness, pregnancy and childbirth” (BMASK, 2014b, p. 79). It is a means-tested, flat-rate benefit which includes some mandatory top-ups for single parents and medical insurance. Besides a means test, it is subject to an asset test and is conditional upon activation (with exceptions for some categories of clients such as persons above the retirement age). It is of unlimited duration, and the minimum baseline is linked to the federal minimum equalisation reference rate (cf. supra). The minimum requirements laid down in the agreement stipulate that every SA beneficiary can claim services from the federal PES at jobcentres (cf. infra). Furthermore, the 2010 agreement obliges various levels of government and institutions to share information, as well as obliging the Länder to collect data in a certain standardised manner.¹⁶ These last requirements entail that there are even less possibilities for the Länder to shift caseloads and that activation is implemented in a more equal manner for all labour market-related schemes.

Under the new system, the Länder are still the primary financier of the benefits as they were in the previous situation.¹⁷ Most Länder enforce a municipal contribution for the payment of benefits, which in most cases amounts to 50% of the total costs for the Länder.¹⁸ In this fiscal sense, Austrian SA resembles the current Swiss constellation more than the German constellation. Despite the fact that the budgetary responsibility did not shift, the introduction of the new system did entail increased costs for all levels of government. This was due to an increase in the caseload because the agreement broadens the eligibility vis-à-vis the heterogeneous situation before. Furthermore, factors such as a better spread of information, higher rates, and new ways to apply – i.e. a reduction of non-take up – but also an increase in unemployment and the share of eligible persons due to worsening economic circumstance, have all contributed to the stark increase in the post-reform SA caseload (L&R Sozialforschung, 2012, pp. 21-30). The increased caseload also interacts with other parts of the social security system (Reform Monitor Bertelsmann Stiftung, 2010).

SA is also used to top up other benefits, including UI and UA. “Roughly one third of unemployment benefit claimants and roughly three quarters of unemployment assistance claimants receive benefits below the equalisation supplement reference rate defined by statutory pension insurance for single persons” (BMASK, 2014a, p. 81).

¹⁶ See [article 24 of the agreement](#).

¹⁷ However, the extra costs for all the Länder in total are capped at €50 million annually, and at €30 million per individual region. See [articles 20-21 of the agreement](#).

¹⁸ See [here](#) for an overview of the relevant Länder legislation.

4. Activation

Activation is the responsibility of the aforementioned AMS, which is a federal institution. The tasks and set-up of the AMS are codified in the AMSG (cf. supra for the organisational structure). Because the AMS is responsible for all unemployed, we will not provide a specific section for each benefit scheme. The AMS is tasked with the following responsibilities: efficient placement of workers, overcoming hurdles for immediate placement of workers, counteracting the complexity of the labour market, matching labour supply with demand, maintaining as many jobs as possible, ensuring vocational training opportunities for youth, promoting re-employment of physically disabled persons and securing the economic security of jobseekers.¹⁹ It does so by delivering services to employers, employees and jobseekers and by disbursing UI and UA benefits.

Even though the AMS is responsible for activation, most of the services are actually delivered by 'third parties'. The AMS provides the majority of placement and counselling services, but vocational training and adult education is mostly delivered by private institutions created by the Austrian Federal Economic Chamber (*Wirtschaftskammer*), which are called *Wirtschaftsförderungsinstitutionen*, and by institutions created by the workers' chambers (*Arbeiterkammer*), which are called *Berufsförderinstitute*. These institutions are open to everyone (Weishaupt, 2011a, pp. 12-13). Additionally, charities and (licensed) private for-profit agencies may deliver labour market services.²⁰ The for-profit providers tend to operate as temporary employment agencies, while the charities (or communal institutions) mostly perform niche services for 'difficult-to-place clients' (Weishaupt, 2011b, p. 13). The potential services delivered by these four institutions – AMS, social partners, charities and private agencies – are regulated in the Labour Market Promotion Act (*Arbeitsmarktförderungsgesetz* or AMFG). It is the responsibility of the AMS to refer clients to the appropriate services.

The AMS itself does provide some services as well. During their initial intake, the unemployed are classified into three types, corresponding to the level of assistance they will receive. This so-called 'three-tier zone' consists first of an 'info zone' which is mainly aimed at self-help for the unemployed, who are given access to some facilities and registered vacancies. Secondly, the 'service zone' offers job-brokering services and benefit claims processing – this is where the majority of the unemployed start out. Finally, there is a 'counselling zone', in which unemployed are eligible for the full range of ALMPs. This zone includes specially trained staff for difficult-to-place clients. If they are not classified as eligible for the 'counselling zone', the unemployed get access to this zone automatically after four months of benefit dependency (BMAK, 2014a, p. 27). The AMS also provides services to promote and sustain employment such as subsidised training leave, part-time training and part-time employment for older workers.²¹ Services for jobseekers and prospective employers include support for overcoming financial hurdles for vocational training and education, different forms of wage subsidies²² and professional scholarships.

¹⁹ See [paragraph 29 of the AMSG](#).

²⁰ See [paragraph 4 of the AMFG](#).

²¹ See [paragraphs 26-27 and 37 of the AMSG](#).

²² *Kombilohn* and subsidised *Kurzarbeit*, but also contributions to reintegration costs of employers for jobseekers they hire. See [paragraphs 34a, 37a-38 of the AMSG](#) and [paragraphs 26-35 of the AMFG](#).

In principle, beneficiaries of UI/UA and SA have equal access to the services of the AMS and are afforded the same treatment. Before 2010, SA clients could go to the jobcentres, but this option was not yet standardised for all jobseekers nor was it implemented systematically. For all unemployment-related benefits, the financial responsibility for activation currently lies with the AMS and not with a lower level of government. Before 2010, the activation of SA clients in jobcentres was dealt with in territorial pacts (Mahringer, 2007, p. 3). Today, as part of the 2010 agreement, SA clients who are deemed 'capable of working' are sent to the jobcentres where they receive the same activation as persons on UI or UA. The Länder are responsible for classifying the SA clients. This increases the incentives for the Länder and the municipalities to direct as much able-bodied clients to the AMS as possible since activation would most likely positively affect regional SA caseloads, and they are not financially liable for the activation services rendered to their caseload.

Due to political opposition and resistance from some of the Länder, the PES has not merged with welfare offices such as for the case in Germany (with the exception of the German *Optionskommunen*, cf. infra) (Weishaupt, 2011c, p. 213). Hence, activation and social services without any direct connection to the labour market (provided by the local welfare offices) remain separate from ALMPs. The opposition of the Länder did not so much focus on the activation of their clients by the AMS, but rather on the loss of control over the legislation of SA.

The agreement on a nationwide means-tested minimum income security assures equal treatment of SA beneficiaries within the AMS.²³ To do so, the involved institutions are required to share necessary information. However, there remain some differences in the job search requirements, which are not all codified in the aforementioned agreement. UI and UA beneficiaries have the obligation to report to their local jobcentre, a requirement that can be modified by the responsible jobcentres themselves.²⁴ For SA, each of the Länder can codify such requirements in their own SA legislation, which is an example of remaining possible variations between different entities at this level. In fact, Leibetseder notes that it was common practice for long-term SA claimants to be required to do ten applications per month. These applications were verified with the prospective employers by the responsible government employee (Leibetseder, 2014b, pp. 112-113).

²³ See [article 7 of the agreement](#).

²⁴ See [paragraph 49 of the AIVG](#).

5. Concern for institutional moral hazard & principal-agent issues

Due to the centralisation of activation policies, moral hazard currently plays a more limited role in the Austrian case than in most of the other cases analysed in this study. Before the 2010 agreement, moral hazard played a role in the form of dumping of SA caseloads due to the possible renewal of UI eligibility through regional activation policies. The federal government addressed these issues, together with the dichotomy between the treatments of UI and SA caseloads. The centralisation of activation policies created a large role for a federal agency: the AMS. In other words, Austria eliminated the potential for institutional moral hazard, but has increased the potential for principal-agent issues because of the delegation of activation to this agency.

Two other cases also hold a centralised system of activation for the entire unemployment-related caseload: Australia and Germany. In Australia, however, the role for governmental institutions is rather marginal since the implementation and design of activation policies are almost completely privatised. This results in very different principal-agent issues than for a system in which the PES plays a larger role, for two reasons. To begin with, the PES has no concern for profits. Secondly, there are more formal and direct channels for a minister (and thus the central or federal level) to influence the behaviour and goals of the PES (such as the AMSG, the formulation of policy ambitions, the board of directors and the administrative board in the Austrian context). This means that in a system in which the central PES plays a stronger role, the central or federal level has a more direct way of influencing the regulation of unemployment.²⁵ This might explain why Australia has a more extensive and dense system of minimum requirements and has more difficulties balancing local flexibility and central control.

Austria also differs from Germany, for four reasons; firstly, the German system not only has a centralised activation system, but its SA (ALGII) is also more federalised than Austrian SA – especially when it comes to budgetary and regulatory responsibilities. The German federal level bears almost the full budgetary impact of both activation and benefit schemes – which entails that the German federal level would feel more fiscal pressure from ineffective activation. Consequently, it might be more concerned about principal-agent issues with the federal PES. The fact that the Austrian Länder are the ones financing SA is, in this sense, not a downside for the Austrian federal government since the Länder and municipalities have incentives to move as much able-bodied SA beneficiaries towards the AMS as possible. Secondly, the German jobcentres have merged with local welfare offices while the AMS did not. Austria does not have to deal with any clash of culture between the federal PES and local welfare offices. It is possible that differences in approaches between municipal or regional caseworkers and PES employees remain. However, in Austria it is not possible for this to lead to a situation where local case workers (are seen to) overly shelter their clients with regard to activation policies. The German case has shown that local welfare offices (especially within the *Optionskommunen*, which are not merged with the federal PES) are often more focussed on the provision of social services, while the federal PES is more focussed on a work-first approach (cf. the

²⁵ Even though there are a multitude of ‘third parties’ active in Austrian activation, the AMS has a much more central and influential role than Centrelink. Secondly, for-profit actors take up a larger share of the services provided in Australia than in Austria because much of the private actors in Austria are run by social partners or charities. Thirdly, in the Austrian system, ‘third parties’ are a subcontractor of the PES while in Australia the private agencies enter into contracts directly with the ministry.

German case for a more detailed discussion). This brings us to the third difference between Austria and Germany: in Germany a large number of local welfare offices have remained outside of the scope of the PES and are the responsibility of municipalities by way of natural policy experimentation (they are called *Optionskommunen*). These municipalities seem to be less in tune with federal goals than those in which the federal PES is active. In other words, the fact that Austria only has one central actor responsible for activation closes off yet more possibilities for moral hazard to arise. Even though the Länder and municipalities are financially responsible for SA, their limited role in activation means that they do not have the option to shift their caseload through activation services by requalifying SA beneficiaries for UI or UA. Finally, Austrian UA did not merge with SA as it did in Germany and it remains a benefit with the potential for indefinite duration, meaning that Austrian SA plays a smaller role in the regulation of unemployment. Thus, in contrast to Germany, the AMS is responsible for the activation of short- and long-term unemployment in almost the same capacity.

Federal concern thus focuses mostly on principal-agent issues with AMS, especially after their increased responsibilities resulting from the 2010 framework and reforms. As a result of these principal-agent issues, the federal government enforces a performance measurement system. Goals and targets in the Austrian labour market governance system start out as federal policy ambitions or ‘broad guidelines’ which are formulated by the ministry – in consultation with the administrative board of the AMS (Weishaupt, 2011b, p. 4). The board of directors then translates these goals into a long-term plan that must be approved by the administrative board; both of these actors are then involved in the actual formulation of targets.²⁶ The nine offices of the AMS at the Länder level transpose these national targets and can add their own regional objectives.²⁷ The 99 offices at the district level (in between the level of the municipalities and the Länder) are given the task to implement the policies and achieve the nationally- and Länder-set goals.²⁸ These offices are supported by tripartite employment councils at the same level of government.²⁹

Following the determination of policy objectives and the formulation and approval of a long-term plan, the administrative board sets eight annual labour market policy objectives. The board of directors translates these into a ‘balanced scorecard’. The former is clearly a more outcome-oriented set of overarching objectives while the latter is more operational target setting, which incorporates inputs, outputs, outcomes and quality measures (see Table 1 and Table 2).

²⁶ See [paragraphs 5-9 and especially 40 of the AMSG](#).

²⁷ See [paragraphs 15-16 of the AMSG](#).

²⁸ In Austrian parlance, the district level is referred to as ‘regional’. See for the offices at the district level [paragraph 23 of the AMSG](#).

²⁹ See [paragraphs 20-21 of the AMSG](#).

Table 1 Indicators on the 2013 AMS Balanced Scorecard. Source: AMS 2013: 6.³⁰

Achievement of the annual labour market policy targets	Outcome (cf. infra)
Duration of unemployment	Intermediate outcome
Outflow of unemployed persons into jobs within six months	Intermediate outcome
Success of the measures of active labour market policy	Intermediate outcome
Satisfaction of jobseekers with the measures of active labour market policy	Output (quality)
Proportion of expenditure for active labour market policy for women	Input
Satisfaction of the job-seeking clients with AMS	Output (quality)
Process quality in the service for jobseekers	Output (quality)
Duration and quality of the processing of applications for unemployment benefits	Intermediate outcome
Utilisation of the AMS e-service	Output
Penetration rate of vacancies and apprenticeship training places	Output (quality)
Duration of vacancies	Input
Satisfaction of enterprises with AMS	Output (quality)
Exact matching by AMS of jobseekers and vacancies	Output
Job satisfaction of AMS employees	Input
Achievement of the internal AMS plan for the advancement of women	Intermediate outcome
Development of selected material costs	Input
Performance of the AMS call centres	Output
Satisfaction with the AMS call centres	Output (quality)

Table 2 Annual Labour Market Policy Objectives for 2013. Source: AMS 2013: 6.

Outflow of older unemployed persons into jobs within six months	Intermediate outcome
Minimalisation of the number of young unemployed persons who remain unemployed for longer than six months	Final outcome
Sustainable job entries of unemployed persons outside of the labour market	Final outcome
Job entries or entry into training programmes of unemployed women re-entering the market	Intermediate outcome
Rate of job entries of trained unemployed persons	Intermediate outcome
Job entries after special training programmes	Intermediate outcome
Number of vacancies acquired and filled by the AMS	Output

These goals and targets are monitored in two different ways: the balanced scorecard is monitored through an internally standardised ‘data warehouse’ system for six clusters of the 99 local offices. The annual labour market policy objectives are monitored for all operational levels and are linked to the division of budgets; higher target values mean higher budgets (*ibid*). The monitoring takes place through systems outside of the scope of the AMS to prevent any manipulation by its personnel (AMS, 2013, p. 2). Furthermore, quality is assured through a quality management process, which not only requires monitoring per local office but also a quality regulation “of the Austrian Foundation for Quality Management with an analysis and assessment of AMS” every three to four years (AMS, 2013, p. 3). Consequences of unsatisfactory results are either self-controlled investigation at the local office or top-down action from the Länder or Vienna offices. This entails that the system relies more on the shadow of hierarchy rather than a system of financial incentives.

³⁰ “The quantitative targets for the personal annual labour market policy objectives are always fixed separately for men and women” (AMS, 2013, p. 6).

There are some minimal requirements codified in the AMSG. First of all, a job or activation offer must be made within four weeks.³¹ Secondly, it is mandatory to develop a personal action plan which details the personal responsibilities of the unemployed in accordance with paragraph 9 of the AIVG.³² Furthermore, if job offers or activation offers cannot be realised for young jobseekers, the AMS is obliged to provide an inter-company apprenticeship. Similarly, if apprenticeships are terminated for reasons not related to the willingness of the apprentice, the AMS is obliged to provide a training course.³³ Finally, there is the standardised work process of the three-zone model (cf. supra).

In summary, it could be said that federal concern over the behaviour of other actors has mostly focussed on the AMS. This concern has been institutionalised in various ways. The strong involvement of social partners in the AMS (they represent a majority in the administrative board) entails a strong consensus-based regulation of unemployment with social partners. The AMS does have a lot of leeway in setting its own targets, but since the social partners play such a central role in the administrative board, the possibilities for the AMS to set easy-to-achieve targets remain limited. Furthermore, by placing some of the monitoring outside of the sphere of influence of AMS personnel, there is additional external control over its behaviour. Finally, a system of minimum requirements increases the ability for the federal level to dictate the behaviour of the AMS – even though this system is rather relaxed in comparison to, for example, Australia.

³¹ For persons under the age of 25 or above the age of 50 and for persons with physical disabilities this mandatory timeframe is changed to three months and eight weeks respectively. See AMSG.

³² See [paragraph 38c of the AMSG](#).

³³ See [paragraphs 38d-e of the AMSG](#).

6. Analytical grid

Table 3 Analytical grid Austria. Source: own compilation.

		Unemployment Insurance and Unemployment Assistance (AVIG)	Activation of individuals with Unemployment Insurance and Unemployment Assistance	Unemployment-related SA (BMS)	Activation of individuals with SA benefits
1	Degree of decentralisation (i.e. extent of flexibility on lower level) w.r.t. design of the policy: <ul style="list-style-type: none">- Formal regulation- Policy goals	No decentralisation	Delegation to the AMS; low decentralisation Formal regulation is completely federal. Policy goals set by the federal ministry and internally transposed by the AMS (but social partners play a large role)	<i>De facto</i> low decentralisation Federal level of government has laid down requirements and policy goals (through an agreement with the <i>Länder</i>).	Delegation to the AMS; low decentralisation Formal regulation is completely federal. Policy goals set by the federal ministry and internally transposed by the AMS (but social partners play a large role)
2	Degree of decentralisation (i.e. extent of flexibility on lower level) w.r.t. implementation of the policy	No decentralisation The AMS implements and administers the disbursement of benefits but has no policy autonomy (hence, no delegation).	Delegated to the AMS; medium decentralisation The federal government has created standardised work processes and minimum requirements, but local AMS offices have significant leeway.	Medium decentralisation <i>Länder</i> are bound by minimum requirements but are still solely responsible for implementation.	Delegation to the AMS; medium decentralisation The federal government has created standardised work processes and minimum requirements, but local AMS offices have significant leeway.
3	Budgetary responsibility	Federal Funded by employer-employee contribution	Federal Funded by employer-employee contribution	<i>Länder</i> and municipalities <i>Länder</i> are the primary responsible actors; in practice, the municipalities often contribute 50% of the costs.	Federal Funded by employer-employee contribution
4	Budgetary transfers between levels of government?	n.a.	n.a.	n.a. w.r.t. the <i>Länder-federal</i> relationship, but the <i>Länder</i> can request financial contributions from the municipalities towards the cost of SA.	n.a.
5	Structural redistribution? (measured on a per capita basis)	Yes Unemployment rates of the <i>Länder</i> differ	Yes Unemployment rates of the <i>Länder</i> differ structurally.	n.a.	Yes Unemployment rates of the <i>Länder</i> differ structurally.

		structurally.			
6	Political or managerial decentralisation/delegation?	n.a.	Delegation, with managerial decentralisation to the AMS The AMS is an agent of the federal level.	Political	Delegation, with managerial decentralisation to the AMS The AMS is an agent of the federal level.
7	Indicators used in the monitoring of lower-level performance by higher level (on the basis of: input, output and outcome)?	n.a.	Two sets of performance indicators Balanced scorecard: input, output and quality measures Annual objectives: outcome and quality measures	None	Two sets of performance indicators Balanced scorecard: input, output and quality measures Annual objectives: outcome and quality measures
8	Is a system of ‘minimum requirements’ applied?	n.a. The legislation concerning UI and the implementation thereof is tightly regulated at the federal level.	Yes Fixed time limit for first job offer (extra rules for young clients); jobcentres must engage in a personal action plan with their clients; standardised work practices concerning differentiation in intensity levels for different types of clients	Yes The agreement between the <i>Länder</i> and the federal level stipulates a minimum subsistence level, mandatory top-ups and in-kind benefits, mandatory activation by the AMS and means and asset tests.	Yes Fixed time limit for first job offer (extra rules for young clients); jobcentres must engage in a personal action plan with their clients; standardised work practices concerning differentiation in intensity levels for different types of clients
9	Are performance-based sanctions/rewards applied by the higher level at the lower level?	n.a.	Yes Shadow of hierarchy: in the case of bad performance, first a self-evaluation and otherwise directions from a higher AMS level will follow.	n.a.	Yes Shadow of hierarchy: in the case of bad performance, first a self-evaluation and otherwise directions from a higher AMS level will follow.
10	Conclusion from 5-6-7: perception of, concern for, and approach to problems of institutional moral hazard?	n.a. There is no political decentralisation. Hence, there is no institutional moral hazard.		The responses in the past have eliminated most opportunities for institutional moral hazard: the AMS implements activation, and loopholes for dumping have been closed off.	
11	Conclusion from 5-6-7: approach to principal-agent issues?	Yes The principal-agent issues relating to the AMS’s responsibility for activation are recognised and addressed by two systems of performance measurement and a strong role for the social partners in the governance of the AMS (who act as a check on possibly perverse incentives in the AMS).		Yes W.r.t. the AMS: cf. row 11 in the columns on UI	
12	Contribution to macroeconomic stabilisation by the benefit system	The Austrian case is not available in Dolls <i>et al.</i>			

7. Conclusion

The Austrian regulation of unemployment is relatively centralised. The only division of responsibility concerns the regulation and financing of the benefit schemes; UI and UA are the responsibility of the federal government (through the AMS) and SA is the responsibility of the Länder – with the municipalities contributing to the costs thereof. Activation lies completely in the hands of the central PES, which is internally decentralised with headquarters in Vienna, nine offices at the Länder level and 99 local offices.

There are relatively little possibilities for perverse interactions between the benefit schemes due to the centralisation of activation, the existence of federal minimum requirements for cantonal SA legislation and the fact that UI and UA benefits are contribution-based. The relative strict eligibility criteria for UI concerning the contribution record make dumping impossible.

There are interesting parallels between Austria, Germany and Switzerland. All three cases have historically been confronted with a similar challenge: a growing dichotomy between the position of SA and those jobseekers who fall under the UI regime. In all three cases, SA and the activation of SA recipients was the responsibility of a lower level of government. This created internal heterogeneity in the activation of SA recipients between the regimes as well as heterogeneity between the UI and the SA regimes. Where Switzerland has opted to leave activation of the SA beneficiaries to the cantons, Germany and Austria chose to centralise the activation regime. In Germany, the regional jobcentres of the central PES (the BA) merged with local welfare offices. In contrast, the AMS did not merge with local welfare offices; rather, the Austrian solution was to subsume activation of able-bodied SA beneficiaries completely under the AMS. Germany also centralised the SA (ALGII) benefits *sensu stricto*, while in both Switzerland and Austria SA has remained the prerogative of the canton and Länder levels respectively. In that regard, however, with the introduction of minimum requirements for SA, Austria actually takes up a position somewhere in between Germany and Switzerland – even though the Länder are still financially liable for the costs of those benefits. The resulting regulation of unemployment does not provide opportunities for moral hazard, but creates possible principal-agent issues in the relationship between the federal government and the federal PES. Austria has institutionalised concern for principal-agent issues through a system of minimum requirements as well as a performance measurement system. Additionally, the large role of social partners decreases opportunities for the federal PES to manipulate the performance measurement system and the setting of goals.

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