REVIEW OF LABOUR MARKET POLICIES IN SWITZERLAND

SUMMARY AND CONCLUSIONS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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SUMMARY AND CONCLUSIONS

1. Switzerland was one of the few OECD countries where the labour market was able to adjust so smoothly and effectively that external shocks could be absorbed and unemployment did not rise significantly during the 1970s and 1980s. This good labour market performance has been extensively documented in earlier studies which have attributed it to several different factors: the considerable flexibility of the foreign labour force; a modestly sized and tightly managed welfare state creating few disincentives or moral hazard problems; low taxes on labour; a collective bargaining structure which ensured that wage differentials reflected productivity differentials; and a tradition of social partnership (see for example OECD, 1985). When Swiss unemployment started to rise sharply in the early 1990s, the obvious question emerged whether these forces of "adaptive capacity" had been weakening in Switzerland heralding an end to the post-war era of full employment (OECD, 1993a). This report has reviewed some of the evolving forces of "adaptive capacity" of the Swiss labour market -- with a particular emphasis given to the role of passive and active labour market policies in preventing (or worsening) unemployment persistence.

2. Despite the steep rise in the early 1990s, the Swiss unemployment rate of somewhat above 4 per cent in the first half of 1995 is still comparatively low by international standards. Nevertheless, there are some disturbing characteristics of current unemployment:

- unemployment, as measured by the recently created Swiss Labour Force Survey (SLFS), is unevenly distributed affecting in particular foreigners, the Latin cantons and youths;

- the apprenticeship system seems to be operating as an effective insertion mechanism in the German-speaking cantons but less so in the Latin cantons where a relatively high rate of drop-outs prevails;

- the share of long-term unemployment in total unemployment (28 per cent) is relatively high for a country with such a low overall unemployment rate and virtually full employment a few years ago;

- the dynamics of unemployment show a pattern (low inflows but even lower outflows) which is more characteristic of the poorly functioning labour markets of the EU than the dynamic labour market of the United States (high inflows and high outflows).

Placement measures

3. The sudden rise of unemployment in the early 1990s revealed that the available infrastructure of the Public Employment Service (PES) was largely insufficient. A decentralised but understaffed network of some 3 000 local communal labour offices was not in a position to provide adequate placement services especially for unemployed persons with employment difficulties. The normal practice was that staff in the communal labour offices were only working part-time (generally 30 per cent of their time) on labour
issues (mostly registration of job seekers and control of the stamping obligation), the remaining part being taken up by other communal administrative work.

4. In order to upgrade the effectiveness of the PES, a major reform effort is currently underway. A nationwide network of regional placement offices (RPOs) will be set up and is expected to be operational as from 1 January 1997. It will form an intermediate structure between the 3 000 communal labour offices which will mainly be confined to controlling the weekly stamping obligation and the 26 cantonal labour offices which will supervise the RPOs of the canton. Each RPO will have a tripartite advisory commission and qualified staff will be recruited so as to create a team of about 10 officers for 1 000 unemployed persons. About half of each RPO’s staff team will consist of qualified job counsellors. Such a staffing target would permit each unemployed person to obtain in-depth counselling totalling on average 40 minutes per month. This is an ambitious objective which very few OECD countries have achieved so far.

5. It remains to be seen, however, whether the “professionalisation” of the PES will not create the type of problems encountered in other countries. The wish to move away from the image of an "unemployment office" and to establish instead a modern, client-oriented placement service can easily tilt the balance of effort in favour of employers and job changers to the neglect of job losers, especially those at greatest risk of drifting into long-term unemployment or leaving the labour force. Such a risk is greater if placement work -- as is the case in Switzerland -- is institutionally separated from benefit work.

Private placement agencies

6. At the outbreak of the latest recession, Switzerland was in the rather unique situation of having a long-standing and well-developed private placement system and a poorly developed public system. Therefore, the choice facing Switzerland was not the same as for most other OECD countries in which the PES had enjoyed a monopoly or quasi-monopoly position in the past. Instead of the question "is there a role for private providers?" the question for Switzerland was the opposite one: "is there a role for a public provider"? In one canton this question was answered in the negative. Faced with rapidly rising unemployment in the early 1990s, the canton of St. Gallen decided to "buy" placement services from private providers rather than to build up its own PES structure.

7. In spite of its appealing idea, the St. Gallen model has shown some serious drawbacks. The costs to the public purse of subcontracted placements have turned out to be significantly higher than those of placements by the public labour offices suggesting that the fees paid by the public authorities are too high. Also, there appears to be some evidence that the private placement agents are "creaming off" the easiest-to-place candidates -- in spite of safeguards to prevent this outcome. The experience with the St. Gallen model seems to suggest that the key difficulty is how to set the right "price", i.e., the fee to be paid by the public authorities to the private agency. The option chosen in the St. Gallen model of compensating the private providers for the time spent per job seeker does not seem to be an optimal one. Instead, the fee should be set in advance and vary with the degree of difficulty in placing job seekers reflecting their employment handicaps. The payment of the fee would then be conditional on effective placement. Furthermore, it is essential that job seekers can choose between several competing providers who are operating in the same local area and that there are no barriers to entry or exit. Such a competitive environment would be the best guarantee that the public fees paid to the private placement agencies are not dissipated in excessive rents. It is desirable, therefore, that the St. Gallen model moves in this direction.

8. The federal authorities do not intend, however, to further develop the St. Gallen model. They intend to extend and improve the public system and to develop co-operation between private and public
placement agencies with a view to exploit synergies between the two networks. Few unemployed persons register with a private placement agency; the most important clients of the private agencies are employers looking for workers with specific qualifications. Thus, there is a basic difference in the clientele to be served by the public and private sectors. Nevertheless, some healthy competition is also at work: witness the concern expressed by the private agencies about the current plans of the government to extend and upgrade the services provided by the public agencies.

9. Job seeker and vacancy information is provided electronically throughout Switzerland via a data bank called PLASTA. The system covers the whole country but not all local labour offices have access to it. Moreover, the data bank provides only limited transparency even with regard to the vacancies notified to the PES. Vacancies for temporary or non-qualified jobs or those which are expected to be filled shortly are often not entered into the data bank. The vacancy notification rate is rather low by international standards (about 9 per cent of all hirings in 1994 compared with 24 per cent in Denmark and 32 per cent in Finland). It would be important to register all vacancies notified to the PES (possibly even vacancies advertised in local newspapers) and to make this information systematically and regularly available to the unemployed preferably by a variety of means, such as vacancy boards in local labour offices, information hand-outs, and PC terminals.

10. Vacancy display in the local labour offices is usually "semi-open" which means that the employers’ name and address can only be obtained through contacting a placement officer. With the creation of the new regional placement offices a number of innovations are planned such as an on-line computer network for employers to register vacancies and to consult job-seeker lists electronically; the possibility for job seekers to utilise PLASTA terminals in the labour offices; the possibility for employers to choose between "fully open" vacancy display, "semi-open" display and "active broking" by the placement office, i.e., the immediate selection of a number of suitable candidates from the job-seeker register who will be contacted by letter or telephone and invited to go for interview.

11. This flexibility in the provision and choice of vacancy advertising and placement methods would be very important because experience in other OECD countries has shown that too great emphasis on one particular method can easily become counterproductive. Too much emphasis on "active broking", for instance, can easily induce employers to shy away from using PES services because they get the feeling that candidates are imposed on them. On the other hand, for certain jobs, e.g. fixed-term, short-duration or seasonal jobs, active broking may be the most adequate method. Similarly, too much reliance on completely open files might neither be in the interest of employers who are likely to get too many applications nor in the interest of the PES which becomes completely detached from the process of job-search and job finding. Job seekers may also become frustrated by frequent but unsuccessful applications.

Active labour market programmes

12. The scope of active labour market programmes in Switzerland remains very limited, especially if intermittent pay subsidies (i.e., wage subsidies paid to those who accept a job paying a significantly lower wage than their previous job) are excluded. However, the reason does not appear to be the way in which they are funded (the confederation funds most of them) or any propensity on the part of the unemployed to refuse to take part in them. It is rather the ability (and sometimes the commitment) of the cantons and communes to implement them which is lacking. With the sudden rise in unemployment since 1991, the cantonal and communal labour offices have found it increasingly difficult to set up active programmes, being overburdened by the administrative tasks of monitoring the unemployed (registration, stamping, verification whether benefit recipients are "apt-for-placement").
13. Other problems with implementing active programmes in cantons and communes have also arisen:

- one of the features of "preventive measures" is that they are essentially untargeted. This absence of targeting may prove to be a shortcoming when it comes to helping smaller groups of unemployed persons with several types of disability, for whom more precisely targeted measures could well be more suitable;

- there is almost no evaluation available of active programmes. Consequently, front-line cantonal and local PES staff have great difficulty in deciding what type of action would be most effective;

- there are limits to the expansion of active programmes if "make-work" schemes are to be avoided. The extension of temporary employment programmes is curbed by the need to minimise competition with the private sector and any increase in work experience courses is inevitably limited in a country which has traditionally had a large number of apprentices.

14. All this helps to explain why the offer by PES staff in cantonal and local offices of one programme rather than another (or none at all) often depends on the existence of financial incentives provided by the confederation. Certain practices have tended to spread. Training courses are the most frequently proposed active programme because they are entirely funded by the federal unemployment insurance fund. Employment programmes are organised above all for benefit "exhaustees" so that they can recover their entitlement to federal unemployment benefits rather than claim cantonal or local benefits. However, the picture is not unremittingly gloomy. Cantons facing a deteriorating employment situation have also displayed considerable initiative, as the number of pilot schemes shows. Moreover, the recent reform of the unemployment insurance law has removed the differential financing of training and employment programmes and the possibility to re-establish benefit entitlements via participation in public employment programmes.

15. The gradual introduction of RPOs throughout the country which act as an interface between the communes and the cantons will help to strengthen the PES's priority objective, which is to improve its performance as regards placement. Improving placement is worthwhile in itself because the experience of other OECD countries shows that the potential of active programmes in the fight against unemployment should not be overestimated: the most effective active measures are those which intervene at a relatively early moment in the unemployment spell and are directly focused on job-search and placement.

*Unemployment insurance benefits*

16. The traditional hallmarks of Swiss unemployment insurance have been very generous income replacement levels but not excessively long entitlement periods. However, in response to the rise in unemployment, the duration of benefit entitlements has been successively prolonged so that by now Switzerland figures also in this regard among one of the most generous countries of the OECD. Moreover, the unemployment insurance system provides an array of related benefits: benefits which compensate for income losses when the unemployed accepts a lower paying or a part-time job, short-time working benefits, compensation paid for income losses due to weather-induced production cut-backs, or compensation paid to workers whose company goes bankrupt.

17. An unemployed person who has exhausted his/her entitlements to insurance benefits is eligible in the majority of cantons to means-tested (but still earnings-related) unemployment assistance benefits and, after exhaustion of these entitlements, to social assistance. The replacement rates for both forms of
assistance (for social assistance in relation to average incomes) are fairly high. Although Switzerland has no specific early retirement scheme, there are provisions in the unemployment insurance law which permit under certain circumstances the payment of unemployment benefits to persons who have been retired by their company "for economic reasons" before having reached the statutory retirement age. Finally, there is a certain risk that -- if high unemployment continues -- invalidity benefits may become a substitute for unemployment benefits for certain of the long-term unemployed.

18. This broad spectrum of relatively generous income-replacement schemes raises the obvious question: is Switzerland destined to undergo the same experience as so many other OECD countries, unintentionally creating a "benefit-dependency culture" and thereby making unemployment more persistent? This has not happened so far because of tight management and control. But will it be possible to control the situation in the future? This may become more and more difficult if work loads continue to increase in benefit, placement and social assistance offices. Changing social values and attitudes may also render the task of controlling entitlements more difficult. For instance, the subsidiary principle of family assistance in the case of social assistance will probably have to or has already become less strictly applied because of the changing nature and structure of the family.

19. The intensive debate on the reform of the unemployment insurance law in recent years has shown that the Swiss authorities and the public at large are well aware that a cross-roads has been reached: to continue to rely on unemployment and related benefits or to attempt to redress the situation by getting at the causes of unemployment persistence. The principal options available to redress the situation include:

- rolling back the generosity of levels and/or duration of benefit entitlements;
- tightening up the conditions which must be met for becoming entitled to benefits and improve management and control functions;
- changing the nature of benefits from passive income support to active job-finding assistance (the activation concept).

A decision based on a broad consensus has now been taken by the Parliamentary enactment of the reform package of June 1995. However, the first option, the politically most difficult one, was not chosen. Instead, the reform package relies heavily on the third option and goes some way in the direction of the second option.

*The activation concept*

20. The introduction of the activation concept in the unemployment insurance law is a revolutionary step; support for this step by the trade unions and employers demonstrates the effectiveness of the Swiss model of "social partnership". The gist of the new concept is that the payment of passive benefits is limited to about 7 months (150 days); thereafter, benefit receipt for a further 17 months is conditional on participation in active labour market programmes. Thus, for the individual the insurance contract is changed in that contributions paid when in employment generate only a relatively short period of income replacement benefits but a relatively long period of re-employment assistance. Moreover, the insurance principle is weakened because a unique minimum period of contribution payments (6 months) generates a unique period of entitlements (24 months).

21. The mandatory switch from passive to active measures after 7 months will not only affect the unemployed but create a major challenge for the public authorities responsible for active labour market
policies. As mentioned before, the policy infrastructure is not very developed and requires major new investments. These are currently pursued by the setting up of a network of regional placement offices.

22. A crucial element will also be the active involvement of the cantons and communes. Their resistance during the reform negotiations to provide training and employment programmes was mainly motivated by financing issues. The compromise solution limits their financial contribution considerably and is very much to their favour. It may well be that, when the reform is finally implemented, many slots in employment programmes will be offered by the local authorities. They have strong financial incentives to avoid the situation whereby the long-term unemployed exhaust their two-year entitlement period without having found a job because they would then become entitled to locally financed unemployment and social assistance benefits. International experience also suggests that, with little financial involvement of local authorities in employment programmes, there is a danger of "fiscal displacement", i.e., local authorities will use public employment programmes financed by central authorities in order to undertake work which, otherwise, they would have financed themselves.

23. Other problems which may arise when the activation concept is introduced include the following: dissatisfaction and low productivity may arise from obligatory placements of the unemployed in labour market programmes; the "mechanical" referral of unemployed persons to a programme will not help in building up their confidence and self-esteem; there is a risk that individual cases may be so varied that none of the programmes slots available may correspond to specific needs (e.g. unemployed female foreigners with language problems); programme participants may have less time to spend on job-search and not be immediately available for work; programme participation may be seen by some low-productivity workers as being as attractive as available work in the open market; and placement officers may become so used to referring job seekers to subsidised jobs and other labour market programmes that their efforts to place them in regular jobs may decline.

24. These critical comments are not meant to imply that possible difficulties of this nature could not be overcome. But this will in part depend on work loads and financial resources which in turn will be determined by the further evolution of the unemployment situation. The international experience with active labour market policies also suggests some caution in relying too heavily on their effectiveness. While supporting the activation concept, it is proposed, therefore, that the Swiss authorities should also persist in maintaining, and in some cases improving, the administrative effectiveness and the co-ordination of passive and active labour market policies. These issues are discussed in the remaining sections.

**Benefit administration**

25. The "stamping" obligation for benefit recipients is now once a week after having been reduced from twice a week. It is important to view this obligation not as a bureaucratic or policing device but as a means to maintain the contacts of the unemployed with the world of work. There is a danger that, with the installation of the regional placement offices, the stamping obligation in the local labour offices will be neglected or eliminated altogether. This would be a mistake. The local labour offices should be provided on a weekly basis with up-to-date vacancy lists and benefit recipients should be obliged, or at least encouraged, to read through this list before they fulfil the stamping obligation. If the local labour office is equipped for providing more intensive placement services, this would of course be even better.

26. The "apt-for-placement" conditions for benefit receipt are quite strict by international standards and have been further tightened by the recent labour market reform. Among the most important tightening-up measures is the obligation on an unemployed person to accept a job which pays at least
70 per cent of previous earnings (hitherto a "suitable" job offer would at least have had to pay the equivalent of the benefit entitlement, i.e., 80 per cent of previous earnings for a person with children).

27. Another powerful control instrument is the requirement on the unemployed to demonstrate on a regular, monthly basis that they have undertaken active job-search. In order to satisfy this requirement, it is not sufficient for the unemployed to simply consult the vacancy information available in the labour offices or to apply for jobs to which they have been referred by the placement office. The latter, i.e., administrative referrals to certain vacancies, are a check on "apt-for-placement" which is to be distinguished from initiatives taken by the jobless themselves to look for work. Thus, "apt-for-placement" and "active job-search" are two separate criteria which must both be fulfilled in order to qualify for benefits. With high and rising unemployment, controlling both criteria becomes increasingly difficult. If no, or few, job vacancies are notified to the labour offices, the "apt-for-placement" criterion is difficult to check. Active job-search also becomes more difficult to verify especially since employers become reluctant to receive candidates or to confirm applications either because they have no jobs to offer or they have the feeling that the unemployed simply want to comply with the rules for receiving benefits but are not seriously interested in finding work.

28. It would, however, be counterproductive if the control of the job-search requirement become more and more lax. Currently, the practice of requiring 10 documented job-search initiatives per month seems to have been relaxed and the counter-signature (or stamp) of the employer is in most cases no longer provided. One way in which to maintain the control functions would be to insist that the job seeker indicates the name of the enterprise, the person contacted, address, telephone number, etc. This information is asked for at the moment but is often not provided. It would be easy for the labour market authorities to insist on this information being provided and then undertake occasional check-ups with employers. Regardless of the number of check-ups actually carried out, it is likely that there would be a positive "announcement effect" on individual behaviour.

29. There are several other possible reasons for benefit sanctions. In Switzerland, the highest proportion of sanctions is for insufficient job-search which is in contrast with the situation in most other countries (where voluntary job leaving is the most frequent case). This suggests that Switzerland does enforce the crucial but difficult to control requirement of active job-search in a more rigorous way than other countries. On the other hand, as in other countries, the share of sanctioned beneficiaries has fallen with rising unemployment, suggesting time and resource constraints on maintaining rigorous controls.

Compensation of part-time work and intermittent pay

30. Compensation for unemployed workers who accept a part-time job or who accept a full-time job at reduced pay (intermittent pay) can be a powerful instrument to accelerate the re-insertion of the jobless into employment. However, if not tightly monitored and controlled, such wage subsidies can become a serious distortion in the labour market.

31. In order to avoid abuse, workers benefiting from such wage subsidies have to be treated, at least on paper, like the fully unemployed in terms of stamping controls, job-search efforts and availability for full-time or full-pay work. It is not easy to judge the actual practices of the labour offices and the unemployment benefit offices with regard to part-time or intermittent workers. But it is difficult to imagine that the controls are as strict as for the full-time unemployed notably in periods of heavy workload when priorities for office work must be established and treatment presumably focuses on the fully unemployed. It seems very unlikely that the private benefit funds which have close professional or
ideological links with their customers are particularly severe in controlling an arrangement which tends to satisfy both employers and employees.

32. In response to such wage subsidies, employers may seek to redesign and reorganise production and working patterns so that less full-time or high-pay jobs would be needed but more part-time or low-pay jobs. By substituting subsidised workers for non-subsidised workers, the subsidy would be shifted backwards to the employer in the form of lower wage costs. This type of abuse is made difficult by the law which stipulates that intermittent pay must correspond to the "usual local and occupational" rates for the job. But given the very diversified and sometimes even individualised pay arrangements between employers and workers in Switzerland, this may not be a very effective safeguard.

33. There is a certain risk, therefore, that in line with the experience of other OECD countries (e.g. Belgium and Norway) part-time work and intermittent pay provisions are gradually becoming a general and costly subsidy to the creation of part-time, low-pay and precarious jobs. This would not only unduly burden the unemployment fund but it also creates a distortion in the labour market. Such a risk would be reduced if the provisions were only made available to the disadvantaged among the unemployed. In this case the scheme would become very similar to a targeted wage or employment subsidy, which is widely used in other OECD countries as an instrument of active labour market policy.

The management of other income-replacement benefits

34. There is a great variety between the cantons in the way they organise unemployment assistance and an even more bewildering diversity between communes in the way they provide social assistance. In general, unemployment assistance is relatively short (on average the duration of entitlements is 6 months) but social assistance is indefinite. With rising average duration of unemployment spells and the exhaustion of unemployment benefits, the number of people depending upon social assistance is on the rise, putting the existing infrastructure under considerable strain. Should unemployment persist it will no longer be possible to maintain previously observed principles, for instance, that nobody should stay longer than 2 to 3 years in assistance. In that event, new approaches, such as the organisation of public employment programmes tailored to the needs of assistance recipients, would have to be developed.

35. While short-time working can act as a buffer to cyclical demand shocks, there is a risk that it will be used by firms to retard structural change and eventually worsen its negative employment effects. Careful design and close management are crucial to prevent these negative side-effects. The 1993 extension of entitlements for short-time working from 12 to 24 months and the lack of on-site inspections give rise to concern about the way the scheme is currently operating in Switzerland. It is to be welcomed, therefore, that the 1993 extension has been repealed in the reform package of June 1995. In addition to short-time working benefits, Switzerland has a benefit scheme which compensates income losses arising from bad-weather conditions, mostly production short-falls during the winter in the construction industry. There is no convincing justification for this scheme especially since it is not experience-rated and it should be abolished.

Institutional co-ordination

36. In order to enhance the effectiveness of active labour market policies, the OECD (1995a) has been calling for the integration of active and passive labour market policies in front-line placement offices. This could be achieved by assigning to such offices responsibility for the three basic PES functions:
– brokerage (filling vacancies/ placing job seekers);

– the administration of unemployment benefits;

– the referral of unemployed job seekers to active labour market programmes.

Switzerland has already integrated the brokerage function and the active labour market function. It intends to strengthen this integration in the new regional placement offices. But the crucial function of managing unemployment benefits is assigned to a separate office network. Even within the fairly wide-ranging reform currently underway, such an integration is not foreseen.

37. This raises the question: Why is Switzerland, which is so committed to developing the most rational and effective infrastructure of labour market policies, not attempting to integrate passive and active labour market policies in the same front-line offices ("one-stop shops")? Part of the answer seems to lie in the tradition of having both public and private unemployment benefit offices. Another reason seems to be a strong confidence on the part of the Swiss authorities that the missing institutional integration of benefit and placement work can be overcome by close co-operation between the placement and benefit offices. However, experience in other countries has shown that rules, regulations and good intentions are one thing but that the actual degree of co-operation between the two networks on a day-to-day basis is another. De facto problems are likely to increase with rising unemployment because work tests and benefit sanctions become more difficult to apply if job opportunities are not available.

38. Casual observation does not suggest that Switzerland currently has a serious problem in this regard. However, some caution for the future may be in order. A first danger would be to let the officials of the unemployment benefit offices cultivate the perception that their task is basically a legal one confined to assessing and verifying benefit entitlements, but that they are not committed to ensure the earliest possible re-integration of the benefit recipients into gainful work. A second danger is that, in the context of the current introduction of the regional placement offices, the authorities may get "carried away" with developing placement services according to the most modern and sophisticated standards while neglecting the more traditional tasks of applying work tests, keeping regular contacts with the unemployed and focusing on the protracted and complex problems of the long-term unemployed. In order to avoid the development of separate institutional cultures, it would be important to ensure that the staff of the two office networks is mutually and regularly informed of the nature and specific problems of their work (information seminars, work experience programmes, training courses).

39. Chapter 4 noted that the "apt-for-placement" criterion is currently checked by the placement offices whereas the individual job-search initiatives are checked by the benefit offices. It was also noted that this double check is a useful device but still begs the question: does the institutional separation of these two control functions make sense? There are arguments on both sides. If one takes the view that the benefit offices should confine themselves strictly to calculating entitlements and paying benefits and that placement offices should be the exclusive point of contact of the unemployed with the job market, it would be appropriate to assign the control of both criteria to the placement offices. However, a sharp institutional separation of benefit and placement work is potentially dangerous in that it carries the risk of destroying the critical link between benefit receipt and job-search efforts. From the latter point of view it would be preferable to leave things as they are because the present arrangement obliges the benefit offices to take an interest -- e.g. by consulting the placement offices -- in the state of the labour market against which the search efforts of the beneficiaries have to be judged. However, once the RPO’s are set up, such a practice may no longer be very efficient and transparent, especially in view of the coexistence of public and private benefit offices.
40. Whereas the non-integration of placement and benefit work in the front-line offices is a feature which exists in many other OECD countries, the coexistence of private and public unemployment benefit offices is uncommon elsewhere. The private offices in Switzerland are not operating as private insurers but are simply paying out benefits which come from the central unemployment benefit fund. Thus, in spite of the name there is no element of contestability of public activities by the private sector. These private offices obviously have to check the entitlements of the beneficiaries and OFIAMT exercises strict controls over their activities. However, it remains a curious approach if one considers that the private offices are serving a clientele which represent special interests (be they professional, regional, religious, or based on trade union affiliation) while using funds which have been levied on the income generated by the economy as a whole. Concerns about the raison d'être of these private offices are even greater when it comes to those benefits which create strong risks of collusive behaviour between employers and workers concerning short-time working and bad-weather benefits. It would seem that the time has come for a public debate and, possibly, tripartite negotiations, on the phasing out of these private unemployment benefit offices.

41. The fairly pronounced distinction between the three levels of Government (federal, cantonal and communal) creates another challenge to the effective pursuit of active and passive labour market policies. Insurance benefits and (a very large part of) active labour market programmes, as well as the cost of setting up and running the new regional placement offices, are all financed from the federal unemployment insurance fund. This fund is financed by a levy on payrolls and contributions from the federation whereas the cantons have only agreed to provide loans in periods of severe unemployment. They have refused categorically to make non-repayable grants to the unemployment fund in periods of severe labour market slack. The attitude of the cantons seems to be that unemployment is a national disaster caused by external factors and therefore the exclusive responsibility of the federal government. With such an attitude it is easy to understand the successive extension of benefit duration. In order to avoid the exhaustion of insurance benefits and thus rising cantonal costs of unemployment and social assistance, there have been strong political pressures to extend insurance benefits. Extending benefit entitlements in turn carries the risk of rising benefit dependency and persistent unemployment.

42. It will be difficult to break out of this vicious circle so long as the cantons and the communes do not accept a significant part of the responsibility for fighting unemployment at the level of the local economy. Some of the expenditure on active labour market programmes, and in particular on setting up the new regional placement offices, can be viewed as infrastructure investments (similar to schools, roads and bridges) which will generate long-term returns for the local economy. A stronger financial responsibility on the part of the cantons and communes would also be justified if one considers that, among 19 OECD countries for which data are available, Switzerland has the highest share of total government tax revenues attributed to the cantons and communes (see OECD 1994b, Table 8.8).

43. Since both active and passive labour market measures are currently financed from the same fund, there is a risk that, with rising unemployment and automatically growing outlets for (entitlement-based) income support, the discretionary expenditures for active labour market policies will be crowded out. A stronger commitment on the part of the cantons to finance active labour market programmes during periods of rising unemployment would prevent this from happening.
BIBLIOGRAPHY


NOTES

1 There is also some similarity between part-time and intermittent work compensation and in-work benefits such as the Earned Income Tax Credit in the United States and Family Credit in the United Kingdom. All these schemes provide incentives for the unemployed to take up work. However, the Swiss provisions are related to individual earnings and form part of an insurance scheme. Thus, they are not confined to low-income households and do not have an anti-poverty objective.