Cost-Shifting in Multitiered Welfare States: Responding to Rising Welfare Caseloads in Germany and Switzerland

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In this article, we analyze if and how different levels of government off-load clients onto other welfare state programs that are not under their financial responsibility. We hypothesize that the extent to which cost-shifting takes place in a multitiered welfare state depends on the degree of fiscal centralization, and we expect cost-shifting to be more prevalent in federal countries where the constituent units have strong fiscal autonomy. In order to empirically examine this claim, we compare Germany and Switzerland, two federal countries that differ considerably in matters of fiscal centralization. Empirically, we find that in fact cost-shifting occurred irrespective of the degree of fiscal centralization. However, there are differences in how the two countries reacted to cost-shifting practices. Fiscally centralized Germany has been more successful in limiting cost-shifting practices than decentralized Switzerland. By connecting the literature on social policy and fiscal federalism, the article contributes to a broader understanding of the functioning of multi-tiered welfare states.

In recent years, a growing literature on federalism and social policy has identified a number of effects, sometimes unintended, that can develop when welfare states are organized according to a multitiered architecture. For example, much has been written on how subnational units can engage in a downward competition in levels of social protection to fend off welfare tourism or on how federalism slows down the expansion of national social policies. There is, however, one aspect which has not been studied to any significant depth: the issue of how different levels of government make decisions on how to share the burden of providing income security to the population. Yet in the current context of tight budgets and high levels of welfare caseloads, decisions regarding how to share the welfare state burden between levels of government are bound to be contentious.

In this article, we focus precisely on this issue and on how different levels of government try to redefine burden sharing arrangements inherited from the postwar years in the current context of austerity. To discuss this process, we refer

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to the notion of cost-shifting (Overbye et al. 2010). In multitiered welfare states, a given level of government, national, subnational or municipal, can take decisions regarding its own programs that result in the transfer of some welfare state clients onto other programs that fall under the responsibility of another jurisdiction. In such cases, clients (and cost) are shifted across levels of government. Cost-shifting can be the result of various types of decisions. Central governments, for instance, can restrict access to the social insurance programs for which they are responsible. The result will be a transfer of some of the cost to social assistance, which, in many European countries, is managed at the municipal level. Municipalities may in turn try to shift costs back upwards for example by providing time-limited contribution-paying employment to their clients or by helping them file applications for invalidity insurance.

While cost-shifting in multitiered welfare states has not been theorized, a number of empirical studies have pointed out the existence of these practices in federal countries like Germany (Hassel and Schiller 2010b) or Switzerland (Bonoli and Champion 2015). These studies suggest that cost-shifting practices do exist in federal countries. However, little is known with regard to how the cost-shifting game takes place, which actors engage most in it, or what factors promote or hinder the adoption of cost-shifting practices. Against this background, this article aims to improve our understanding of the implications that a multitiered structure has for a modern welfare state.

Our general hypothesis is that the extent to which cost-shifting takes place depends on the degree of fiscal centralization. Fiscal centralization is likely to shape the incentive structure faced by both municipalities and central governments. What matters, in particular, is the degree of responsibility the central government carries in relation to municipal finances. The less the central government is responsible for that, the more it will succumb to the temptation of off-loading clients onto municipally-run social assistance. In such situations, we would also expect the municipalities to be particularly active in finding ways to shift clients (back) onto national programs, because in the event of budget problems, they are on their own. Conversely, in a situation in which the central government bears some (direct or indirect) responsibility for municipal finances, these cost-shifting practices will be less diffuse or inexistent. Shifting clients from national to municipal programs will not leave the central government off the hook, as it will ultimately be responsible for bailing out the municipalities who run into financial troubles. On the other hand, the municipalities may not be under so much pressure to shift clients back to the central government, because they know that they will be bailed out if needed. In other words, if fiscal institutions are such that they enforce a kind of market discipline, then shifting welfare clients (and costs) to other levels of government becomes an attractive option.

In this article, we test the hypothesis that the extent of cost-shifting depends on the institutional features outlined above. In order to do that, we look at how two federal countries have responded to broadly similar rises in the number of welfare state clients of working age over the last twenty-five years: Germany and Switzerland. We chose these two countries because they share the multitiered character of their welfare states: the main social insurance programs are national, but social assistance has traditionally been provided at the municipal level. However, these two countries differ sharply on the independent variable that is of interest to us: the fiscal autonomy of the basic constituent units, the municipalities, is strong in Switzerland and rather weak in Germany. Since both countries are federal states, our selection takes into account that cost-shifting is a three level game in these countries, with the subnational level represented by the Länder/ Cantons.

Fiscal Federalism and Incentives for Cost-Shifting

Our argument is based on two strands of literature: dealing with federalism and social policy on one hand and regarding fiscal federalism on the other hand. The first strand of literature allows us to account for why the multitiered character of a welfare state contains incentives for cost-shifting. The literature on fiscal federalism, instead, helps understand why cost-shifting is likely to develop differently in different countries.

Federalism and Social Policy

As pointed out by Obinger et al. (2005: 29), given the variety of institutional arrangements that go under the rubric of federalism, one should not expect to find uniform effects of federalism on social policy across countries. This observation notwithstanding, a few findings emerge rather consistently from the literature. Above all, federalism has generally been considered mostly an obstacle to the development of welfare states. This view is partly supported by the observation that the most encompassing welfare states were developed in unitary states such as the Nordic countries or the Netherlands (Leibfried, Castles, and Obinger 2005; Pierson 1995). Second, federalism is considered to have promoted innovation in social policy. Subnational units have sometimes played the role of "laboratories." They have the room for maneuver to test new policies. These may then spill over to other units or even to the federal level (Leibfried, Castles, and Obinger 2005: 340; Obinger, Leibfried, and Castles 2005: 42; Pierson 1995: 470).

A different strand of political science research has focused on the incentives that a fragmented welfare state structure generates. Subnational units running their own social programs must be cautious not to avoid the status of "welfare magnets" i.e. places where benefits are more easily accessible or more generous. This encourages them to keep benefits low and access to them difficult for those coming from other jurisdictions. The result is a ‘‘race to the bottom’’ in levels of social protection as subnational units want to discourage ‘‘welfare tourism’’ (Peterson 1995; Peterson and Rom 1990). This trend is a constant in American history (Robertson 2012: 138), moderated only at exceptional times, such as during the New Deal (Hacker and Pierson 2002: 278–79).

The logic of competition and of a race to the bottom among the constituent units of a federation is less relevant for the European multitiered welfare state. In Europe, social rights are upheld by national law or even by constitutional provision. This means that subnational units have only limited room for maneuver in reducing the level of welfare entitlements and in limiting access to benefits. They must provide centrally defined benefit levels and allow access to all those who fulfill centrally defined criteria.

As a result, we claim, the jurisdictions that jointly run a multitiered welfare state have developed other ways to limit the burden of paying for welfare. Rather than trying to shift clients to a neighboring territorial unit, they sometimes try to move them to a different level of government. These client- (and cost-) shifting practices can take different forms and depend also on the level of government resorting to them. For the central government, which can write national legislation, cost-shifting will generally be the result of reforms of federal social programs that limit access to them or the amount of their benefits. Cost-shifting may occur indirectly. As federal benefits become less generous or less accessible, some of those who lose eligibility will turn to municipally run social assistance. For municipalities, cost-shifting is more difficult, since they cannot change the law. However, they can take actions that result in the shifting of clients (and costs) onto federal programs. This can be achieved by providing contribution-paying temporary employment to social assistance clients who are as a result able to claim federal unemployment insurance or by assisting them in filing an application for a disability pension.

We argue that multitiered welfare states provide strong incentives to policy-makers to play the cost-shifting game. Policy-makers, either at the central or at the subnational units level, are responsible for balancing their own budget, and not to minimize overall social expenditure. Since both financing and implementation are left almost entirely to different jurisdictions, one can expect the cost-shifting option to be particularly attractive. This is also the case because clients who have been out of the labor market for a prolonged period are generally not an easy-to-place group. In spite of a massive investment in welfare-to-work[1] services over the past two decades or so, levels of welfare caseloads have remained stable or increased in most of the European countries (Clasen and Clegg 2011), suggesting that a sizeable proportion of welfare state clients will never make it back into the labor market. To reduce the costs generated by this group, cost-shifting is sometimes the only option.

Fiscal Federalism and Fiscal Politics in Federal States

According to the fiscal federalism literature, fiscal federal institutions create fiscal opportunity structures, which will incentivize opportunistic fiscal action by governments at different levels, i.e. cost-shifting to other layers of government. Economists and political scientists have argued that subnational governments tend to run less public deficits, the larger the share in their revenues stems from own taxes. If revenues need to be created and accounted for in Member States of a federation or at the municipal level, politicians anticipate electoral costs of large consolidation programs, and avoid extensive fiscal profligacy, because they might be held accountable in elections (Buchanan and Wagner 1977; Oates 1985, 1972). To the contrary, if the revenues of subnational governments come mainly from transfers, or the central government is involved in setting tax base and rates at the subnational and the municipal level, these governments are less likely to behave in a fiscally responsible fashion, because they can shift the blame for overborrowing and overspending to the national government, and expect bailout measures (von Hagen and Eichengreen 1996). In other words, if the central government has not "credibly locked away its discretion" in the fiscal arena, subnational governments can expected to be bailed out more easily, unless the national government has the ability to hierarchically regulate them (Foremny 2014; Rodden and Eskeland 2003: 458). Research on opportunistic behavior of subnational governments in the context of the recent economic and financial crisis confirms this hypothesis and shows that type of fiscal federal institutions—decentralized fiscal regimes (e.g. Switzerland) or transfer regime (e.g. Germany) (Trein and Braun 2016)—affect opportunistic behavior, such as cost-shifting, in federal states (Braun and Trein 2014).

This literature is relevant to understand cost-shifting practices in federal states. As various levels of government assume greater responsibility for their own revenues, it become more attractive for them to shift costs, for example for social policies, to other levels of government because they could relieve their own budget. Contrariwise, if subnational governments depend highly on transfers from higher levels of government, they have less incentives for cost-shifting. If they suffer from fiscal problems, for example those induced by the down-shifting of clients in social policies, subnational governments are less likely to shift costs away because they can be certain that—sooner or later—higher levels of government will bail them out financially anyway.

Fiscal federalism arrangements are very different in the two countries we have analyzed (table 1). In Germany, municipalities have limited tax raising powers and most of their tax revenue depends on tax rates set in agreement with the national government. The in-between level, the *Länder*, is also very much tied to the central government in fiscal matters. In contrast, in Switzerland, municipalities enjoy a

Table 1 Fiscal independence and cost-shifting

Country/Level of government	Tax income[1]	Tax autonomy[2]	Options in case of financial imbalances	Expectations regarding cost-shifting
Germany—*Länder*	21.3	**Own taxes:** Full discretion on rates: **3.1%.** **Shared taxes:** rate set together with national government: **93.6%.**	• **cut costs;** • **agree on tax increases with the federal government.**	**Sub governments:** Incentives for cost-shifting are low, due to limited fiscal independence. **National government:** High incentives for cost-shifting in the short term. In the medium term, the problem is likely to come back due to shared responsibility for fiscal matters.
Germany—*Municipalities*	8.0	**Own taxes:** Full discretion on rates: **15.1%**; Restricted discretion on rates: **43.3%.** **Shared taxes:** rate set together with national government: **40.5%.**	• **cut costs;** • **agree on tax increases with the federal government.**	
Switzerland—*Cantons*	24.2	**Own taxes:** Full discretion on rates and reliefs: **100%.**	• **cut costs;** • **increase taxes.**	**Sub governments:** Incentives for cost-shifting are high, due to high fiscal independence of sub governments. **National government:** Incentives for cost-shifting are high, due to high fiscal independence of sub governments. If financial problems are shifted downwards to the municipalities, they are unlikely to come back up to the federal level, also because there is an intermediate level of government (the cantons), which protects the federal government.
Switzerland—*Municipalities*	15.2	**Own taxes:** Full discretion on rates and reliefs: **1.5%**; Restricted discretion on rates: **98.5%.**	• **cut costs;** • **increase taxes.**	

Note. (1) Percent of total tax revenue, 2011.

(2) Percent of own tax revenue, 2011. Regarding Germany a small amount of the tax revenue is not included, because we cannot classify it according to the indicator regarding tax autonomy developed by Blöchliger and King (2006; Blöchliger and Nettley 2015).

much higher level of fiscal autonomy. They have a large degree of discretion on tax rates and in the event of budget imbalances they are expected to increase tax rates or cut spending. Similarly, the Member States of the Swiss Federation, the cantons, have also high taxation autonomy. Consequently, if a municipality has unsolvable financial problems, responsibility for bailing it out rests primarily with the canton (subnational entity) and not with the federal state.

We expect these differences in the setup of fiscal federalism, all else equal, to affect the extent to which cost-shifting is practiced. In Germany, incentives for cost-shifting are low for both the central government and for the municipalities. If costs are shifted downwards to the municipalities and produce fiscal imbalances at that level, the problem will quickly come back to the national level, with requests to increase the jointly determined municipal tax rate, or increase transfers to the lower levels of government (Braun and Trein 2014; Hueglin and Fenna 2015). Due to the high proportion of taxes, the central government shares with the municipalities and Länder, the national government is directly concerned with the finances of lower levels of government.

In contrast, incentives for shifting costs downwards are likely to be much higher in Switzerland. Once clients are under the responsibility of the municipalities, there are few expectations put on the federal government. In the event of budget imbalances at the municipal level, municipalities are supposed to increase tax rates. And if their financial situation becomes unsustainable (a very rare occurrence), it is above all the cantonal and not the federal government who has to step in first. The cantons, an intermediate level of government between the municipalities and the federal government, effectively protect the federal government from claims municipalities may have as a result of cost-shifting (Hueglin and Fenna 2015: 31–33; Trein and Braun 2016).

Germany and Switzerland have in common the multitiered structure of their welfare state, and particularly the division between federal programs (unemployment and invalidity insurance) and municipal social assistance. However, they differ sharply in the way fiscal federalism is organized. As a result, we expect a divergence in the extent to which cost-shifting develops, with Switzerland clearly being much more inclined to resort to these practices than Germany. Next, we examine if this was indeed the case over the last twenty years.

Social Security for Working Age People in Germany and Switzerland

There are many similarities between the German and the Swiss social security systems for working-age people. These were stronger before the German 2005 reform of the unemployment benefit system (known colloquially as the *Hartz IV* reform). In both countries, federal unemployment insurance covers unemployed persons who have paid the relevant contributions for a limited period of time (in most cases eighteen months in Switzerland and twelve months in Germany). In both countries, unemployment insurance is a federal program and its budget is under the responsibility of the federal government. One important difference lies in the fact that in Germany the federal agency is responsible also for the implementation, whereas in Switzerland the implementation is devolved to the cantons. In addition to unemployment insurance, Germany had, before the 2005 reform, a federal unemployment assistance scheme (*Arbeitslosenhilfe*), serving means-tested time-unlimited benefits which did not exist in Switzerland (the system adopted after the 2005 reform is presented below). Unemployment assistance provided means-tested benefits to unemployed persons who had previously been entitled to unemployment insurance but who had failed to reenter the labor market during the twelve-month period covered. The level of the benefit was lower than that of unemployment insurance, set at 53 percent of insured earnings instead of 60 percent (Dingeldey 2011).[2] An additional scheme, known as *Originäre Arbeitslosenhilfe*, provided the same benefits to individuals who had a limited contribution record, insufficient to entitle them to proper unemployment insurance (Bender and Haas 1997).

In addition, both countries have municipally run social assistance schemes, which provide last-resort cash benefits to anyone who does not have access to a given level of income. Access to social assistance is guaranteed by national law in Germany (*Sozialgesetzbuch XII*) and by the federal constitution in Switzerland (Article 115). In Germany, benefit levels and access conditions are set by national law. In Switzerland, cantons are free to implement the constitutional principle as they wish. However, a nonstate coordination body,[3] representing social assistance agencies, provides guidelines with regard to both benefit levels and access conditions which are generally closely followed by the cantons (Bonoli and Champion 2015;Champion 2011).

Given the existence of a time-unlimited unemployment assistance scheme in Germany, social assistance played a rather different role in the two countries. In Germany, it catered to people who had never worked or who had not worked long enough to be entitled to unemployment insurance. In Switzerland, social assistance provides income support also to those unemployed people who have exhausted their right to unemployment insurance benefit. Proportionally, Swiss social assistance caters for a larger group of claimants than its German counterpart.

Finally, both countries have a federal invalidity insurance scheme providing cash benefits to those who are unable to work because of medical reasons. Access to invalidity insurance, however, is regulated very differently in the two countries. In Germany, a medical-condition requirement has traditionally been enforced rather strictly, so that over the years the number of clients of invalidity insurance has remained more or less constant (Dingeldey 2011: 68). Things are different in the

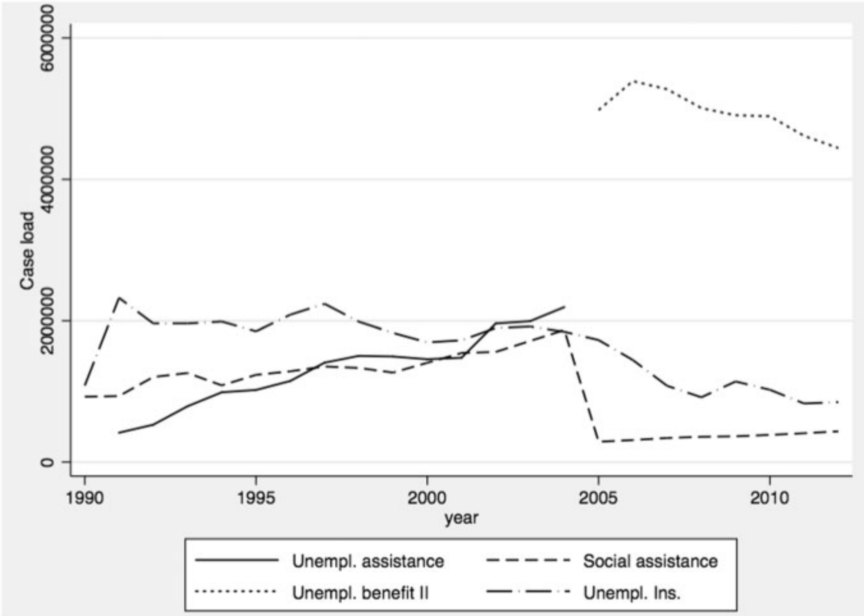

Figure 1 Recipients of the main social programs in Germany, 1991–2012.
Source: (Clasen and Clegg 2011; BA 2015, 2014).

Swiss case where the caseload of invalidity insurance increased substantially between 1990 and 2005, suggesting that this scheme is part of the cost-shifting game only in the latter country. This is why we focus on invalidity insurance only in the Swiss case.

Trends in Caseloads

Over the last two to three decades and like most other European countries, Germany and Switzerland have had to face an overall increase in the number welfare state clients (Clasen and Clegg 2011). These two countries followed somewhat similar trajectories throughout the 1990s, with caseloads rising throughout most of the period covered. In Germany, the upward trend continues until the mid-2000s (figure 1).

In Switzerland, welfare caseloads began to increase in the early 1990s. As a consequence of the recession, unemployment rose rapidly to unprecedented levels in the postwar history. Given the time limited quality of unemployment insurance benefit, however, the caseload of this program follows a cyclical trend. Things are different for the two other programs we are interested in: invalidity insurance and social assistance. These two programs provide time-unlimited benefits and their

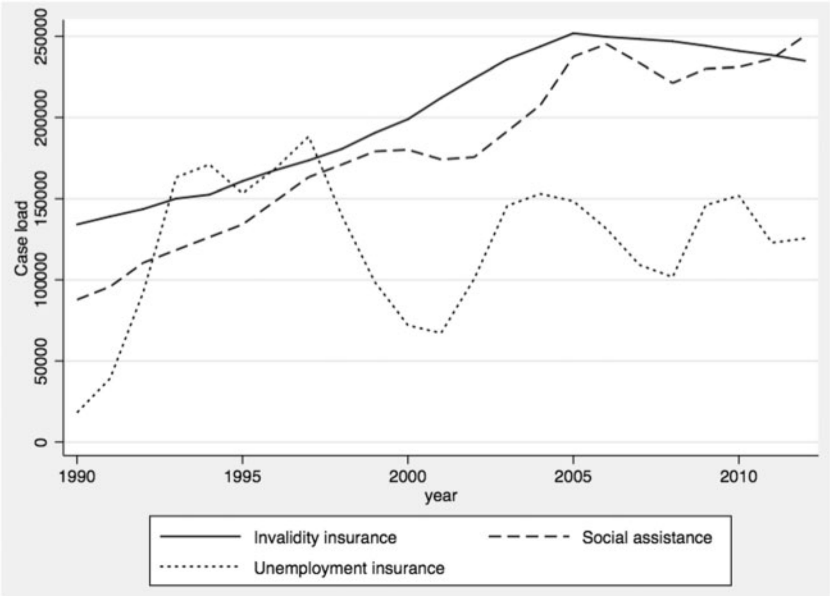

Figure 2 Recipients of the main social programs in Switzerland, 1991–2012.
Source: Invalidity M. Buri, OFAS (personal communication); social assistance: Swiss Federal Statistical Office; unemployment: SECO (State Secretariat for Economic Affairs).

caseloads increase more or less constantly during most of the period under consideration.

Evidence of Cost-Shifting

As argued above, caseload increases such as those visible in figures 1 and 2 are likely, in multitiered welfare states, to generate cost-shifting across levels of government. However, the cost-shifting practices we are investigating in this article are difficult to see. First, they are seldom done in an open and transparent way. Cost-shifting is not illegal, but it does not reflect a cooperative attitude between levels of government. Those who practice it expose themselves to the risk of being criticized, and as a result tend to prefer low visibility actions. Second, cost-shifting can be performed in direct ways or result indirectly from other decisions, for example eligibility restrictions. Such decisions may result in cost-shifting as those who lose eligibility to one program turn to a different one. However, the shift does not necessarily concern all the losers and there might be a time lag until a new benefit is obtained.

As a result, it is not a reasonable objective to aim to precisely quantify the extent to which costs have been shifted in the two countries we are studying. However, for either country, there is substantial evidence coming from different sources documenting the existence of these practices. In this section, we present a synthesis of the evidence we were able to collect that demonstrates the prevalence of these practices in the two countries covered.

We distinguish between two different types of cost-shifting. Downward cost-shifting refers to decisions taken by the central government which result in an increase in the costs of municipally run programs, essentially social assistance. In both countries, these decisions consist of restrictions in eligibility conditions to federal programs or in their generosity. For example, downward cost-shifting can take the shape of a stricter enforcement of a health-impairment condition for invalidity insurance or a longer contribution requirement to qualify for unemployment insurance. As a result of such decisions, individuals who had access to federal programs will now be excluded, and some of them will inevitably turn to municipal social assistance.

By upward cost-shifting, we refer to practices performed at the municipal level aiming at moving social assistance clients onto federal programs. Unlike the central government, municipalities cannot use eligibility restrictions to reduce their caseloads. Eligibility is defined by law and clients have legal rights to benefits. As a result, upward cost-shifting takes place at the implementation stage. It can consist of contribution paying employment programs which generate entitlement to federal unemployment insurance or assistance in filing an application for a federal disability pension.

Germany

Downward Cost-Shifting

In Germany, the number of social assistance recipients increased during the 1990s (figure 1). According to several commentators, this development was the consequence of cost-shifting practices between different levels of social insurances and levels of government (Hassel and Schiller 2010a: 71; Steffen 2015: 11). Due to German reunification and as a reaction to the strong recession in 1991–1992, the fiscal room for social policies became smaller, especially for costly welfare-to-work services (Trampusch 2002). In 1993, the national government passed a reform, which reduced benefits of the two existing pillars of the unemployment insurance, namely unemployment benefits (*Arbeitslosengeld*) as well as unemployment assistance (*Arbeitslosenhilfe*), which indicate increased downward cost-shifting.

- The 1993 reform limited the rates of unemployment benefits and unemployment assistance (Steffen 2015: 15) and reduced full eligibility for insurance benefits to one year. These reforms shifted costs to municipal governments, because they pushed people faster from national programs into municipally financed social assistance, resulting in a dramatic increase of claimants (figure 1). Furthermore,

the reduction of federal expenditure on unemployment insurance and assistance led to an increasing number of double claimants (Hassel and Schiller 2010b: 108). These are individuals who receive social assistance benefits, because benefits from other programs, such as unemployment insurance or assistance, are insufficient. For example, in 2001, approximately one fourth of the group of social assistance recipients who were able to work, received social assistance payments to supplement other social benefits (Hassel and Schiller 2010a: 175).
- What is more, the 1993 reform further increased costs for municipalities because they had to partially pay for nationally administered welfare-to-work programs for social assistance recipients (Hassel and Schiller 2010b: 103–5).[4]

The federal government discovered direct downward cost-shifting to municipal governments as a discrete way of getting rid of cost, at least temporarily, because according to the German constitution municipalities have to turn first to the *Länder* if they needed financial help (Nullmeier 1992: 157). According to the literature, the downshifting of cost to the municipal governments is a "passive fiscal equalization" at the expense of the municipal governments (Hassel and Schiller 2010a: 174; Treutner 1998: 194). Within, and, in addition to the unemployment insurance reform of 1993, the following events indicate downward cost-shifting practices.

- Limitation (1994) and abolition (2000) of parts of the unemployment assistance (*Originäre Arbeitslosenhilfe*).
- Reduction of payments from unemployment benefits (*Arbeitslosengeld*) and unemployment assistance (*Arbeitslosenhilfe*) (1983 and 1993), as well as the annual benefit reduction of the unemployment assistance by 3 percent as of 1996, increased the number of double claimants.
- Nevertheless, the federal government passed a number of reforms to relieve municipal finances. For example, it reduced cash payments to asylum seekers (1993) and created a national long-term care insurance (1995). But at the same time, other reforms, for example the introduction of legal right to a childcare provision created new costs for municipalities (Treutner 1998: 193).
- Overall, the above-mentioned reforms increased expenses for municipal finances for social assistance—from less than 17 billion in 1990 to almost 27 billion Euro, in 2004 (Hassel and Schiller 2010a: 73).[5] Consequently, the cumulated deficit of municipal finances increased, from –5 billion Euro in 1981, –8.2 billion Euro in 1992, to –8.4 billion Euro in 2003 (Hassel and Schiller 2010a: 176), notably because policies at higher levels of government had an effect of shifting costs to the municipalities. Furthermore, between 1990 and 1995, municipal income from business taxes deteriorated from approximately 17 billion Euro to almost 15 billion Euro. Until 2000, tax income of municipalities increased again to almost

20 billion Euro but declined again to around 15 billion, in 2004 (Hassel and Schiller 2010a: 182).

Upward Cost-Shifting

Cost-shifting from above, i.e. from the federal government to the municipalities, posed considerable financial problems for German municipal governments. To deal with these challenges, municipalities tried to strike back by shifting costs for social policies away from their own budgets and back to federal programs.

- Some cities, such as Düsseldorf, Frankfurt, Leipzig or Lübeck, founded public job companies (*Beschäftigungsgesellschaften*). These enterprises offered every social assistance recipient a one-year contract job that was subject to social insurance contributions. After one year, recipients were again eligible for unemployment benefits and, thereafter, unemployment assistance. This way, municipalities shifted costs from social assistance to the nationally financed unemployment insurance (Hassel and Schiller 2010a: 174). If social assistant recipients refused to take up these jobs, the municipalities reduced, and even withdrew their social assistance benefits (Feist and Schöb 1999). There are no statistics available that show the evolution of temporary jobs over time. The association of Germany municipalities estimates that, in 2002, approximately 220,000 jobs existed that aimed at placing municipal social assistance recipients in national schemes (Hassel and Schiller 2010a: 70).
- The capacities to reduce costs by using job creation companies were however limited, because 50 percent of the financing for the mentioned public job companies came from the federal and the *Länder* governments, as well as from the EU (AGKommFin 2003: 3). Throughout the 1990s, higher levels of government reduced their payments to public job companies, which reduced the possibility for upward cost-shifting by the municipalities (Hassel and Schiller 2010a: 174). For example, in the city of Düsseldorf, the *Land* North Rhine-Westphalia (the most populous of the *Länder*) reduced the special funding for municipal employment programs from 2 million DM (*Deutsche Mark*, approximately 1 million Euro), in 1996, to 450,000 DM, in 1997. Between 1991 and 1995, the federal employment agency reduced its subsidies to the local employment office of the city of Düsseldorf from 500,000 DM to 288,000 DM (Treutner 1998: 194; Hassel and Schiller 2010a: 174, 2010b: 106–7).
- Another option to reduce the costs for social assistance offices, especially in big cities with many recipients, would have been through fiscal equalization payments between cities. However, the grants within the fiscal equalization schemes designated for social assistance purposes were insufficient to cover the rising costs for municipalities caused by the reforms of the unemployment insurance (Reissert 1998).

At the beginning of the 2000s, the finances of (West)German municipalities were clearly getting out of control, in the sense that expenditures, for example for social assistance, increased. As a consequence, municipalities could not deal alone with the mounting pressure on budgets. As they depend highly on transfers from higher levels of government, German municipal governments lacked the capacity to respond to downward cost-shifting by upper levels of government adequately.

Switzerland

Downward Cost-Shifting

As seen above (figure 2), the 1990s and the 2000s were two decades of substantial expansion in the caseload of both federal and municipal social programs. This development prompted policy-makers at the federal government to reform the schemes for which it bears responsibility. In relation to invalidity insurance, two reforms were particularly important with regard to the impact they had on the sharing of costs between the Federal government and the municipalities.

- 2004 reform of invalidity insurance (4th revision). Introduction of new "Regional medical assessment services" resulting in a stricter application of the permanent health impairment requirement needed to obtain an invalidity pension (Bohny 2000).
- 2008 reform of invalidity insurance (5th revision): Stricter surveillance and adoption of audit procedures of the implementation in the cantons; access to an invalidity pension possible only after the failure or reintegration interventions.

These reforms are considered as the key factors explaining the reduction in the number of invalidity benefit recipients that starts in 2006 (figure 2). The 2004 reform resulted in a stricter assessment of health condition. It is also thought that the implementation of the law became stricter in anticipation of the 2008 reform, which would explain why the reduction in the number of claimants starts in 2006 while the reform enters in force in 2008. According to an official working for the federal ministry of social affairs "Cantonal invalidity insurance agencies *have become stricter in granting invalidity pensions* [. . .] this also visible in the statistics: the number of new invalidity pension is down by 35% in comparison to 2003" (emphasis ours, Wayland-Bigler 2009: 34).

As a result of the reforms adopted by the Federal government, access to invalidity insurance has become more difficult, with about a third fewer claimants receiving a pension. This development, however, does not necessarily amount to cost-shifting. In order to conclude that downward cost-shifting is taking place, one would need to show that the individuals whose claims are now rejected are turning to social assistance. According to the available evidence, this is partly the case. A study commissioned by the Federal Office of Social Insurance, concluded that between 2004 and 2006 about 30 percent of those whose claim for an invalidity pension was rejected ended up receiving social assistance (about 10,000 individuals out of 35,000; Fluder et al. 2009: 105). Over the same period of time (2004–2006), some 100,000 individuals entered into social assistance (Fluder et al. 2009: 109). Rejections of claims for invalidity insurance account for a small proportion of social assistance costs. However, in a context of tight budget constraints and objective difficulties in bringing clients back into the labor market, even a cost-shift of this limited magnitude can be seen as problematic by the municipalities.

The data presented in figure 2 show that the caseload of unemployment insurance is more cyclical, but there is probably an upward trend visible since the early 2000s. Notwithstanding, the Federal government adopted a series of reforms which reduced access to benefits over the period under consideration.

- 1996: reform of federal unemployment insurance (2th revision). Time limit of two years on the duration of unemployment benefit. Under the previous system, benefits could be extended indefinitely by participation in some labor market programs (Giriens and Stauffer 1999).
- 2003: reform of federal unemployment insurance (3rd revision). Minimum contribution requirement to access benefit increased from 6 to 12 months.
- 2011: reform of federal unemployment insurance (4th revision). Restriction in access conditions and benefit duration for various groups. For example, for young people (<25) maximum duration is reduced from 400 to 200 days; a twelve-month contribution record entitles to a benefit duration of twelve months (previously eighteen months).

Like in the case of social assistance, it is plausible to assume that some of the individuals who were excluded from unemployment insurance because of these reforms had to turn to social assistance. No estimate of the impact is available for the first two reforms. However, for the 2011 reform, which was considered by many to constitute a big exercise in downward cost-shifting, a study was commissioned by a group of fifteen large municipalities. It concluded that in these fifteen cities, the 2011 reform was responsible for increases in caseloads ranging between 5 percent and 15 percent (Salzgeber 2012: 64). The available evidence for Switzerland suggests that we are talking about a sizeable minority of social assistance clients who would, in the absence of the recent reforms, be catered for by federal programs.

Upward Cost-Shifting

Upward cost-shifting in Switzerland was performed in two ways: by assisting and supporting social assistance clients in filing a claim for invalidity insurance, and by offering them time-limited contribution paying jobs so that they would regain entitlement to federal unemployment insurance. While it is difficult to quantify the extent of these practices and their results in terms of cost-shifting, there is extensive evidence that both practices were and in some cases still are widespread.

- Until 2009 the Canton of Geneva ran a job-guarantee scheme for unemployed people unable to reenter the labor market during the eighteen-month duration of unemployment insurance benefit. The duration of the job was twelve months, i.e. the required contribution period for obtaining federal unemployment benefit. The guarantee was applied to all those who reached the end of the eighteen-month period (Flückiger, de Coulon, and Vasil?ev 2002). This scheme was a source of constant tension between Geneva and the federal government, the latter requesting its abolition, but having no real power to enforce that decision.[6]
- Other Cantons ran similar but generally less visible schemes. Neuchâtel, for example, developed a means-tested job guarantee scheme where jobs were limited to six month—but renewable once—rather than guaranteeing a twelve-month employment spell (Bonoli, Champion and Schlanser 2013). A similar approach was followed by the Canton of Fribourg, while the canton of Vaud provided jobs lasting twelve months to unemployed social assistance clients aged over fifty years. Though there is no systematic overview of the extent of these practices, it is a certainty that many other cantons and municipalities used the cost-shifting strategy in order to avoid financial responsibility for the long-term unemployed.

Like in the case of downwards cost-shifting, it is difficult to estimate the consequences of these practices on the overall system. In 2008, the federal government estimated their cost for the unemployment insurance scheme at 90 million Swiss francs per year, or 2.2 percent of spending on unemployment cash benefits (CF 2008: 7046).

There are no estimates of the extent of cost-shifting performed by assisting social assistance clients in obtaining an invalidity pension, and we can only rely on anecdotal evidence. This comes from different and independent sources. Until early the 2000s, the social assistance office in Geneva employed a lawyer whose job was to prepare appeals against rejected claims for invalidity insurance.[7] In the Canton of Fribourg, it is not uncommon for local social assistance agencies to assist clients filing appeals against a negative decision by the invalidity insurance scheme. On occasions, it is the social assistance agency that directly contracts a lawyer. Similar practices have been observed also in the neighboring Canton of Vaud.[8]

How widespread are these practices and what is their impact in terms of caseload? A study published in 2013 looked at the path followed by new recipients of invalidity pensions in the 2005–2010 period. The majority of them, about 54 percent where unknown to the social security system. A small minority received unemployment benefit (15 percent) while a larger group was on social assistance just prior to receiving invalidity benefit, about 22 percent (Fluder, Salzgeber, and

Fritsch 2013). This latter figure gives us an idea of the possible extent of cost-shifting through this channel.

As mentioned above, it is not possible to provide precise evidence on the extent of cost-shifting because of the very nature of this type of practice. The available evidence presented in this section on Germany and Switzerland, however, shows that cost-shifting has been widespread in the German system and to some extent remains widespread in the Swiss social security system. When we have figures, these refer to relatively small minorities. However, given the context of thigh budgets and the fact that these groups are objectively hard-to-place, it is understandable that the cost-shifting option may be attractive for actors throughout the system.

Containing Cost-Shifting Practices

From the point of view of individual programs, cost-shifting is an attractive option, but from the point of view of the general interest it is obviously not. Time and energy that could be used to help clients back into the labor market are wasted in an effort to avoid financial responsibility for them. In addition, uncertainty with regard to who is responsible for a given client, is likely to slow down their return to the labor market and possibly to make it less likely. For these reasons, in both countries, cost-shifting was quickly recognized as a suboptimal way of dealing with the rise in program caseload. In both countries we see attempts to limit and stamp out these practices.

Germany

The initial response to cost-shifting practices in Germany was a pilot program meant to promote the collaboration of the various agencies. However, a consensus quickly developed that collaboration was insufficient to properly deal with the substantial coordination problems highlighted by cost-shifting. As a result, in a second stage, a more profound reform (Hartz IV) is adopted.

Promoting Collaboration among Agencies

In the context of rising unemployment and social assistance recipiency, in 2000 the red–green Coalition government adopted a law forcing municipalities and the federal employment agency to collaborate in helping social assistance clients back into the labor market. An initial step in implementing this law was the launch of a large-scale pilot project on interagency collaboration known as the MoZArT pilot.[9] The pilot ran between 2001 and 2003, with thirty local projects based on the collaboration between municipalities and federal employment agency. The goal was to improve the provision of welfare-to-work services to long-term unemployed people and social assistance clients (Champion 2013: 141; Hassel and Schiller 2010a: 192). According to some commentators, however, few believed that promoting collaboration would suffice to solve the profound structural problems that plagued the German welfare state at the time, and the MoZArT pilot was seen as an expedient to save time until after the next election, when a more fundamental reform would be possible (Fleckenstein 2011: 123).

The pilot ran between April 2001 and December 2003. Policymakers, however, did not wait until its end (and evaluation) to embark on a more substantial reform. In the summer of 2002, the government announced its intention to merge unemployment and social assistance and to create new joint agencies between the municipalities and the federal employment agency (Champion 2013: 145).

Hartz IV—A Fundamental Reform

Soon after the October 2002 general election, parliament started working on a fundamental reform, along the lines announced by the government a few months back. In a way, this reform is a large shift of costs from the municipalities back to the national government because the national government assumed more direct responsibility for municipal finances.

The entire package of measures, colloquially known as *Hartz IV*,—named after the head of the reform commission *Peter Hartz*—consisted of four laws and was passed in the German parliament between 2002 and 2004 (Knuth 2006: 160). Essentially, the reform entailed a limitation of unemployment benefits and the merger of the former unemployment assistance with social assistance for those capable of working into a new scheme known as *Arbeitslosengeld II* (*ALG II*)—unemployment benefit II in figure 1. Consequently, those receiving unemployment assistance prior to the reform found themselves now in the same category with social assistance recipients (Schmidt 2010: 730–31).

This new institutional set up had positive consequences for municipal finances, as the federal government took over the costs for the vast majority of social assistance recipients, but under the umbrella of the new ALG II scheme, except for parts of the accommodation costs and ambulatory social services (for social assistance recipients) (Hassel and Schiller 2010b: 112). The reform entailed also a shift of the tax relief burden (business tax) to the federal government, which eased the financial situation of the municipalities even further (Döring and Feld 2005: 211–12). Accounting only for the social assistance bit, the reform relieved municipal finances by 2.5 billion Euros (Hassel and Schiller 2010a: 287).

Overall, the reform substantially limited the scope for cost-shifting practices from the national to the municipal level, namely between unemployment insurance, and tax-financed minimum income provision (ALGII) (Schmidt 2010: 731; Hassel and Schiller 2010b: 114). At the same time, it put into place a tighter performance control mechanism, which includes target agreements between local Jobcenters and the Federal Employment Agency. However, the reform did not entirely abolish undesirable practices such as cost-shifting. As a recent paper reports, these management systems allow for manipulation and creaming practices by municipal governments, but with less cost-shifting between different levels of government (Jantz, Christensen, and Laegreid 2015).

As seen above, the federal government responded to the rise in welfare caseloads by limiting access to the benefits it had responsibility for. This resulted in a major cost-shifting movement toward the municipalities, which, in turn, found themselves in financial troubles. After 1991, the reunification, the economic stagnation, and the resulting austerity policies worsened the effects of cost-shifting practices for municipal governments even further, because they did not have enough own taxes to compensate reductions of federal transfers. These dynamics led to a budgetary crisis of municipal governments, which the national government solved by merging social assistance and unemployment assistance. Consequently, costs moved back to the national level, but municipal governments participate now in the implementation of welfare-to-work policies under the supervision of the national government. In other words, in Germany cost-shifting went too far and left the municipalities in an unsustainable fiscal position. Eventually, the federal government had to step in and find a solution to a problem it had contributed to creating.

Switzerland[10]

The cost-shifting practices described above were the initial reaction to the rise in welfare state caseloads in the 1990s. Even though widespread, these practices were quickly recognized as inefficient and suboptimal by a majority of actors. Various problems were identified. First, social assistance clearly lacked the capability to provide good quality welfare-to-work services. Social assistance staff are social workers who are a trained to deal with complex social problems, not to help jobseekers back into the labor market. Second, a sizeable number of clients with multiple problems was shuffled around across agencies, with little clarity with regard to which agency had to take responsibility. Like in Germany, the first reaction to the spread of cost-shifting, was to promote collaboration. Unlike in Germany, however, Switzerland never went farther than that.

Interagency Collaboration

After a few years of rising caseloads in all social programs, cost-shifting began to be seen as an inefficient solution by virtually all relevant actors. As a result, in the early 2000s, we see the emergence of a debate on interagency collaboration, which at one stage came to be seen as the solution to the problem of rising caseloads. Interagency collaboration, however, turned out to be less effective than expected. A large-scale pilot known by the acronym of MAMAC[11] was evaluated and it turned out that it did not lead to higher employment rates nor did it reduce welfare expenditure. Moreover, from an administrative point of view, the evaluation concluded that collaboration procedures were too complex (Egger, Merckx, and Wüthrich 2010). Surprisingly, despite these disappointing outcomes, the federal government decided to pursue the road of interagency cooperation and further develop it (Champion 2013).

However, while officially both the federal government and the cantons continued to support interagency collaboration, those in charge of social assistance in the cantons were becoming increasingly dissatisfied with the overall strategy. They felt that the federal government pursued an ambiguous strategy. On the one hand, it promoted collaboration; on the other hand, it adopted reforms that restricted access to federal programs and thereby continued to play the cost-shifting game in spite of emphasis on collaboration (Darioli 2006). In addition, the federal government was active in trying to limit the scope for upward cost-shifting. For example, the 2011 reform, which is considered to have contributed significantly to downward cost-shifting (see above, section "Evidence of cost-shifting"), also introduced provision whereby cantonal and municipal labor market programe cannot be considered as employment in terms of generating rights to unemployment insurance (Salzgeber 2012).

A Bigger Reform

While the cantonal and the federal government were experimenting with different responses to the rise in social assistance caseloads, actors at both levels voiced their concern with the high level of fragmentation of the Swiss welfare state, and initiated a debate on a more far-reaching reform that would have increased federal involvement in social assistance. In a way, this is what had happened in Germany, where the federal government, after several years of rising social assistance caseloads, de facto took over the task of providing welfare-to-work services to able bodied social assistance clients. Could something similar happen in Switzerland?

The first attempt at increasing federal involvement in social assistance consisted in the proposal of a new a federal framework law on social assistance. This proposal was debated in parliament, but was eventually abandoned in 2006 following a majority decision taken in the relevant Parliamentary Commission. Interestingly, one argument put forward to justify this choice, was the fact that interagency collaboration was being developed and that federal level interference in this process would be inappropriate (Bonoli and Champion 2015).

In parallel, some left-wing members of parliament filed a parliamentary initiative requesting a major overhaul of the social security system which had to be reorganized into four broad schemes: old age, health care, loss of income and integration, and family. This initiative was rejected by the relevant parliamentary commission in 2008. It nonetheless generated a debate on the pros and cons of the current highly fragmented system. The reasons provided to reject the initiative did not question its overall validity. What was seen as more problematic was the capacity of the Swiss political system to produce a reform that would institute the kind of rational and streamlined social security system envisioned by the proponents of the initiative (Bonoli and Champion 2015; Champion 2013).

In Switzerland, cost-shifting was practiced on a large scale in the 1990s and early 2000s. Even though the practice was generally recognized as inefficient, most attempts to discourage it were of limited impact only. Promoting collaboration among the different agencies turned out to be particularly difficult, because to collaborate went against the incentives created by the system's architecture. More ambitious plans to redesign the overall architecture of the whole system did not go very far. As we expected, of our two-country sample, Switzerland seems to be the one where containing cost-shifting has proven most difficult.

Discussion and Conclusion

In this article, we have focused on the issue of how multitiered welfare states react to a persistent increase in caseloads in the main social programs. We have hypothesized that the multitiered nature of these welfare states will generate powerful incentives to shift clients (and costs) to schemes that are under the responsibility of other jurisdictions. We have further hypothesized that cost-shifting will be more prevalent in countries where different jurisdictions enjoy high levels of fiscal autonomy.

The country case studies presented above lend only partial support to our hypothesis. The most striking finding is that cost-shifting proved an equally attractive policy option in both countries. Even in the more fiscally centralized country of our sample, Germany, both the federal government and the municipalities played the cost-shifting game for several years. Cost-shifting was very clearly also practiced in Switzerland. Our conclusion is that cost-shifting, at least in the short run, is an attractive policy option for all the jurisdictions involved in a multitiered welfare state, regardless of the extent of fiscal autonomy they enjoy.

However, the two countries differ in the way they reacted to the emergence of cost-shifting practices, and in a way that reflects our initial expectations. In Germany, cost-shifting went very far, up to a point where municipal finances became unsustainable. Then a major reform was adopted that de facto ruled out most opportunities for shifting cost. The German government could not escape accountability for municipal finances. Fiscal federalism and the presence of three levels of government led to a reform lag until problem pressure had mounted to an extent that a major reform was necessary.

In Switzerland, cost-shifting practices went quite far too. Some measures were then taken especially to prevent municipalities to "send" social assistance clients back onto federal unemployment insurance. However, restrictions in access conditions to federal programs continued throughout the period under scrutiny, generating a shift of costs toward the municipalities. Unlike in Germany, this development has not resulted in a major reform. Municipalities are responsible for their budget, and can raise additional funds by controlling tax rates. The federal government, as a result, is not really held accountable for fiscal problems at the municipal level.

But why are fiscal centralization and shared responsibility not an effective disincentive to cost-shifting? After all, in a country like Germany, cost-shifting is evidently an ineffective way for the central government to deal the problem of rising welfare caseloads. Given the setup of the fiscal federalism arrangement, it is obvious that if the problem is pushed down to the municipalities, it will come back. One possible explanation refers to politicians' myopia, or the fact that decisions are taken with a limited time-horizon that corresponds to the electoral cycle (Jacobs 2016). Cost-shifting allows the central government to reduce budget expenditure in the short run, and it will take a while before the problem comes back in the shape of a crisis of municipal finances.

A multitiered welfare state set up plus politicians' myopia explains why cost-shifting proved attractive in both countries, regardless of the fiscal federalism arrangements in place. The true ''cost'' of cost-shifting is considered only when it comes back to the federal level, in the shape of a major crisis of municipal finances. As a result, our independent variable is more successful at explaining the response that governments adopted against the emergence of cost-shifting practices than its emergence in the first place. In Switzerland, the high degree of fiscal autonomy of the municipalities and the role played by the intermediate level (the Cantons) effectively shielded the federal government from the consequences of the cost-shifting game. In Germany this did not happen because of shared responsibility.

Are alternative hypotheses able to explain the trajectories observed in these two countries? We can think of two different alternative hypotheses. First, in both countries, attempts to limit or stamp out cost-shifting came at the initiative of centre-left political forces. The difference then, is that in Switzerland such forces never had enough political power to convert their ideas into reform. Second, problem pressure was not comparable in the two countries. In Germany, problem pressure was arguably stronger, with unemployment and long-term unemployment rates twice as high as in Switzerland. Both these alternative hypotheses are plausible and cannot be ruled out. The evidence presented, however, suggest that if they matter to explain the observed trajectory, they do so in conjunction with our hypothesis based on differences in fiscal federal structure between the two countries.

Future research should examine whether the mechanisms we highlighted in this article also exist in other multitiered welfare states, in particularly those found in unitary countries. This is the case of the Nordic countries, which are fairly centralized polities but share with Switzerland and Germany a multitiered welfare state design. In Sweden, for example, the municipalities are entirely responsible for financing social assistance. However, the unitary character of the country means a higher degree of direct control over municipal policy than in federal countries. This, together with the implicit responsibility borne by the central government for municipal finances, may create a different set of incentives from the one observed in federal countries, and produce different outcomes.

Notes

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1 By "welfare-to-work" we mean all sorts of interventions that are aimed to facilitate entry into the labor market for jobseekers received some form of state help. The term is used here as a synonym of "activation" or "active labor market policies."
2 Claimants with children received higher rates.
3 Swiss Conference of Social assistance institutions (SKOS-CSIAS), see Bonoli and Champion (2015).
4 Specifically, social assistance benefit claimants had access to "Fortbildungs-und Umschulungsmassnahmen (FuU) (Training for new jobs)" and "Arbeitsbeschaffungsmassnahmen" (ABM) (Employment creation measures). The costs for these measures had to be paid for by the social assistance offices.
5 During the same period, expenses for the means tested and federally paid unemployment assistance increased from 4 billion Euro to over 18 billion Euro.
6 The scheme was abandoned in 2009. Previous attempts to get rid of it at failed because of political resistance by the trade unions and the left.
7 Personal communication, senior official of the invalidity insurance agency, canton of Geneva.
8 Personal communication, senior official of a social assistance agency, canton of Fribourg.
9 Pilot project to improve coordination of employment offices and social assistance providers, in German: *Modellvorhaben zur Verbesserung der Zusammenarbeit von Arbeitsämtern und Trägern der Sozialhilfe.*
10 This section draws on Bonoli and Champion (2015).
11 Under MAMAC, complex cases were assessed jointly by the different agencies and that a biding action plan would be drafted.
12 Percent of total tax revenue, 2011.
13 Percent of own tax revenue, 2011. Regarding Germany a small amount of the tax revenue is not included, because we cannot classify it according to the indicator

regarding tax autonomy developed by Blöchliger and King (Blöchliger and King 2006, Blöchliger and Nettley 2015).

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