LABOUR MARKET POLICIES: NEW CHALLENGES

ENHANCING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET POLICIES:
A STREAMLINED PUBLIC EMPLOYMENT SERVICE

Meeting of the Employment, Labour and Social Affairs Committee at Ministerial Level held at the Château de la Muette, Paris, on Tuesday 14 and Wednesday 15 October 1997

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris

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Executive Summary

This paper follows up on the report "Enhancing the Effectiveness of Active Labour Market Policies" which was submitted to the May 1996 meeting of the OECD Council at Ministerial Level. It is mainly based on a series of reviews of labour market policies, comprising both "active" policies which aim at re-integrating the unemployed and "passive" measures which merely provide income support, and the Public Employment Service (PES) which have been carried out under the auspices of the Employment, Labour and Social Affairs Committee as well as on written material submitted by Member countries.

Against the background of increasing concerns about the effectiveness of active labour market policies (ALMPs), the paper explores some new avenues for increasing their effectiveness. As the PES is the principal agency for implementing labour market policies, many proposals for efficiency-enhancing measures centre on this institution. Four approaches are discussed where innovations have been introduced recently by individual Member countries: i) the functional integration of the core PES functions of job broking, unemployment benefit administration and referral to active labour market programmes; ii) policy interventions to reduce the length of the unemployment spell, such as the early identification of job-seekers at risk of becoming long-term unemployed, individual action plans, activity tests and benefit sanctions; iii) the use of internal performance indicators for the PES; and iv) the introduction of market signals into the operation of the public employment service.

The general conclusion to draw from these developments is that a new conception of the PES role seems to emerge. While computer-assisted information, vacancy display and matching functions will have to be maintained, the PES needs to focus its interventions better on preventing the drift of job-seekers into long-term unemployment and social exclusion. Its institutional effectiveness is usually monitored by internal performance indicators but more rigorous results might be achieved by creating a contestability environment in which the PES would have to compete with other public and private service providers.
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INTRODUCTION

One of the main messages from the 1992 meeting of Labour Ministers was the urgent need to shift public spending on labour market policies from passive to active measures. However, progress has been very slow: the share of active labour market policies (ALMPs) in total spending on labour market policies increased between 1985 and 1990 but fell again between 1990 and 1995/96 (see Chart 1). To some extent, the failure to meet this objective may be explained by the additional costs of active measures compared with passive income support and the often uncertain outcomes of many active policies, notably training and employment programmes. In addition, recent Secretariat work has shown that certain active measures, such as public sector job creation and training programmes, can also be transformed into "passive" measures when they are used either as "parking slots" for the unemployed pending a recovery or as vehicles to re-qualify jobless people for unemployment benefits.

Chart 1 Active and passive labour market measures

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1. In percent of GDP.
2. In percentage points.
3. Active measures in percent of total measures.
4. Excluding Czech Republic, Hungary and Poland.

Source: OECD Database on Active Labour Market Programmes.
In the current situation, it is more vital than ever for Governments to have at their disposal a set of effective ALMPs in order: i) to reduce the social costs of labour displacement caused by structural change, notably globalisation; and ii) to facilitate public acceptance of a broader package of labour and product market reforms, such as that proposed in the OECD Jobs Strategy, that can make substantial inroads into structural unemployment. Since the public employment service (PES) is the main agency involved in managing passive and active labour market policies in most OECD countries, the PES system -- covering the three basic functions of job broking, benefit administration and referral of clients to ALMPs -- must be at the centre of new policy approaches designed to enhance the efficiency and effectiveness of ALMPs.

A first synthesis of Secretariat findings and a set of policy proposals for enhancing the effectiveness of ALMPs were reported to the 1996 meeting of the OECD Ministerial Council (OECD, 1996a). This paper builds on this work and discusses further ways and means of achieving the efficiency objective of active labour market policies while continuing to meet their equity objective. In particular, it focuses on four promising avenues which some OECD countries have recently adopted for achieving these objectives: i) the integration of the core PES functions; ii) the design of a coherent strategy of policy interventions during the unemployment spell; iii) the use of performance indicators for enhancing the effectiveness of the PES; and iv) arrangements for achieving a certain degree of "contestability" of PES functions.

I. INTEGRATION OF THE CORE PES FUNCTIONS

One powerful institutional factor influencing the effectiveness of passive and active labour market policies is the degree of integration of the three core PES functions of i) job brokerage, ii) unemployment benefit administration, and iii) referral of the unemployed to ALMPs. Since the ultimate goal of all three PES functions should be to reintegrate the unemployed as rapidly as possible into gainful work, it is vital to take account of the various interactions between them:

- a close co-ordination between placement and benefit work is needed in order to apply work tests effectively and hence to fulfil one of the key preconditions for benefit entitlement;
- a close co-ordination between job broking and ALMPs is needed in order to ensure that the unemployed can acquire the attributes necessary to fill available job vacancies;
- a close co-operation between benefit administration and referral to ALMPs is needed in order to avoid long-term dependency on benefit receipt and programme participation for the sole purpose of renewing benefit entitlements.

The perception of a common objective for the three core functions is a deliberate departure from the view (previously shared by the OECD) that it is desirable to separate the coercive function of benefit control from the "positive", motivation-raising functions of counselling, job-search assistance and referral to ALMPs. This shift in perception is based on the experience of unemployment becoming a structural problem, especially in countries with generous income support, unless an appropriate balance between income support, benefit control and job-finding assistance is established and maintained over time. A full institutional integration of the core functions facilitates the co-operation between placement and benefit staff and strengthens the complementary nature of the two functions. But it does not guarantee it. Conversely, the institutional separation of the core PES functions does not prevent their functional integration. It could even be argued that institutional integration might increase the risk of passive spending crowding out active spending during recessions. Such a risk will be higher if active and passive
measures are financed by payroll taxes rather than by general taxes. For this reason, Germany currently considers switching to general-tax financing of ALMPs.

About half of the OECD countries reviewed so far have unemployment benefit agencies which are institutionally separate from the institutions in charge of the other two PES functions. In most cases the unemployment benefit agencies have a legally different status and are managed or supervised either by trade unions alone or by both social partners or -- on a tripartite basis -- by the social partners and the Government jointly. The weaker the role of the government, generally the less enthusiastic the benefit agency is in exercising control functions and imposing benefit sanctions. The control of the job-search requirement is hampered by the institutional separation between the benefit and placement offices and the fact that the placement officers, who are the best placed to judge the job-search behaviour of benefit recipients, are not directly responsible for enforcing this requirement. Frequently, a different office culture prevails in the two agencies: placement staff see themselves as providing a public service to those job-seekers who ask for, and are entitled to, it; benefit staff see themselves as serving clients who have legal claims flowing from an insurance contract.

Even if an institutional reform leading to a full integration of the three core functions and the setting up of "one-stop offices" is not possible, there is scope in many countries for improving co-ordination and co-operation between the agencies. Staff rotation between the two agencies is one possibility; this measure is practised to good effect by Japan. If such rotation is administratively difficult to achieve (in several countries the status of staff differs in the two agencies), a mutual exchange of staff officers on a temporary internship basis should be considered.

II. POLICY INTERVENTIONS DURING THE UNEMPLOYMENT SPELL

The ways in which benefit recipients are treated -- left on their own, assisted, controlled, encouraged, challenged -- during the various stages of their unemployment spells is another factor which affects the effectiveness of ALMPs. It is widely accepted that the nature of the policy intervention should be different at the beginning of an unemployment spell from what is required after many months of unemployment. For example, it would seem inefficient to require a well-qualified job-seeker out of work for only one to two weeks to attend a community work programme. Likewise, it would not be expected that, after 12 months of unemployment, a training course in résumé writing is likely to raise the employment chances of the person concerned. Similar duration-specific considerations appear relevant for many other aspects of labour market policy.

The PES reviews undertaken by the OECD in recent years have revealed significant differences between countries in how the unemployed are treated with regard to:

- the level of (and balance between) active reemployment assistance and passive income support to which the unemployed are entitled;
- the obligations which go hand-in-hand with these benefit entitlements and the degree to which they are enforced strictly (e.g. through benefit sanctions); and
- how these entitlements and obligations are applied and varied at different stages of the unemployment spell.

The reviews have also revealed that the choice of "what treatment at what moment" is usually not the outcome of a conscious policy choice but instead is the result of a mixture of institutional specificities,
rules and practices inherited from the past and unintended side-effects of poorly co-ordinated microeconomic policies. In order to arrive at a more rational choice and sequencing of policy interventions during the unemployment spell, it is necessary, therefore, to establish some norms as to what should be, on the one hand, the entitlements and, on the other hand, the obligations of the unemployed, in particular the recipients of unemployment insurance benefits, at the various stages of their unemployment spell.

The two most robust findings from the evaluation literature on "what works among ALMPs" are: i) job-search assistance programmes show the best results; and ii) all other things being equal, targeting labour market programmes on the needs of small, homogenous groups of job-seekers is critical for getting good results. Combining these two findings suggests that offering job-search assistance to small, homogenous groups or, ideally, on an individual basis, would be the most effective treatment. Indeed, recent policy developments in Member countries go in this direction. However, job-search assistance is a typical intervention applied in the early phase of an unemployment spell. With large inflows into unemployment, it would be too costly to provide all entrants to unemployment with such assistance, especially on an individualised basis. Hence, it is important to select those most in need of assistance. For this reason, many countries use so-called "profiling" of job-seekers in order to identify those at risk of becoming long-term unemployed: some even go so far as to use formal, model-based methods to assist this process. Once the at-risk groups are identified by profiling, various forms of individualised treatment can then be put into place.

In the remainder of this section, country examples of "formal profiling techniques", "individualised treatment" and "benefit controls" are discussed before elements of a coherent "what and when" strategy are sketched out.

Profiling and early intervention

The first registration of a job-seeker with the public placement agency is a crucial moment in the history of an unemployment spell. In countries where the PES is viewed as a universal public service provider, as in France, Germany and Sweden, a broad range of training and job-search assistance measures are offered to all unemployed as soon as they register at the PES. They can avail themselves of these measures regardless of whether or not they are judged to be at high risk of becoming long-term unemployed. Only subsidised job-creation measures are restricted to the long-term unemployed or the "at-risk" groups. Other countries such as Australia, the United Kingdom and the United States are much more selective during the early period of an unemployment spell in offering access for job-seekers to training and job-search assistance. In the United Kingdom, for instance, training for unemployed adults is in principle only available after 6 months of unemployment.

Countries where early interventions are not a universal service have to decide which of the unemployed should be offered them and, secondly, whether such early interventions should be an entitlement, i.e. voluntary, or whether they should be imposed on members of the target groups. Two selection methods are normally applied. The selection can take place either on the basis of the unemployed person in question showing a particular characteristic, for instance language deficiencies, that is judged a priori to present a high risk of leading to long-term unemployment, or on the basis of a more sophisticated approach which seeks to take account of several risk factors via profiling techniques. Furthermore, profiling can be undertaken in a formal way based on statistical methods or it can be less formal on the basis of judgement by experienced PES staff or it can be a mixture of both. For example, Sweden relies
heavily on judgmental profiling, the United States on formal profiling methods and Australia on a mixture of both.

In a situation of high and persistent unemployment, it is difficult due to resource constraints to introduce or maintain a policy of early interventions on a broad scale. This holds for low-cost interventions like job-search assistance but even more so for costly interventions like training and wage subsidies. Hence, governments are confronted with a policy dilemma in that they have to choose between, on the one hand, fewer early interventions resulting in more problems of long-term unemployment and, on the other hand, more early interventions leading to higher PES budgets. Reliable profiling methods would mitigate this policy dilemma. It is important, therefore, to review the experience of countries which have pioneered in this area, in particular in developing and applying formal profiling methods.

**Worker Profiling in the United States.** In November 1993, Congress enacted legislation requiring each State to set up their own *Worker Profiling and Reemployment Services* (WPRS). WPRS consists of three basic steps:  

1. early identification of unemployment insurance (UI) claimants who are likely to exhaust their entitlement to benefits;  
2. provision of reemployment services to these claimants; and  
3. collection of information on outcomes in order to check continuing benefit eligibility and to facilitate evaluations.

All unemployed individuals who are permanently separated from their employer and who are entitled to UI benefits are profiled when they first register for benefit. Profiling is done on the basis of a statistical model which estimates the probability that a job-seeker will exhaust his/her UI entitlements. The model contains five variables: the level of education, job tenure, change in employment in previous occupation/industry, and the local unemployment rate. Other personal characteristics such as age, gender and ethnicity are not included in the model because of the prevailing civil rights legislation. The model may vary by State. However, the profiling outcome and the referral are based only on the results of the statistical model. There is no staff judgement involved. Job-seekers who are profiled in this way are obliged -- at the risk of losing their benefit entitlements -- to participate in job-search assistance programmes, but not in (more costly) training programmes. If training slots are available, profiled workers can voluntarily be referred to attend a training programme. Frequently, the available number of slots in job-search assistance programmes is insufficient to cater for all the unemployed profiled as being at risk.

**Job-seeker Classification in Australia.** In 1994, as part of the Working Nation initiative, an early intervention strategy for adult unemployment benefit recipients with the highest risk of becoming long-term unemployed was introduced. (For young people, a different procedure is applied). Formal profiling, which is based on a statistical model, is used to identify those job-seekers who have the highest risk of long-term unemployment. The profiling uses the following predictors of long-term unemployment: age, educational attainment, Aboriginal and Torres Strait Islander status, birth in a non English-speaking country, disability, English-speaking ability, and geographical location. This formal profiling procedure is complemented by a judgmental one. Using their own judgement PES staff can select job-seekers in their first 12 months of registration for further assessment on the basis of supplementary factors. The supplementary factors are poor motivation, low self esteem, poor numeracy and literacy skills, and substantial time out of the work force. In 1995, the screening instrument identified around the target 5 per cent of screened registrants. A further 10 per cent of registrants were identified on a judgmental basis. All those selected by the formal profiling or by PES officers using supplementary factors are interviewed and classified according to the likely level of difficulty of placement. They may have to wait for referral to case management if enough slots are not available. However, once offered, participation in case management is a precondition for continued benefit receipt.
The Service Outcome and Measurement System in Canada (SOMS). Canada does not have a formal profiling model to identify job-seekers at risk of becoming long-term unemployed, but instead is testing a system (SOMS) that relies on a combination of "characteristics screening" and judgement by counsellors. If this system is implemented workers would become eligible to participate in programmes to which they may be referred on the basis of a statistical model which assesses the best possible (in terms of labour market outcomes) and most cost-effective treatments. This model has been estimated by taking account of all labour market policy interventions which Canadians have received over the past 10 years and the effects which these interventions had on their employment and earnings history, as well as the costs of these interventions to the public purse. The underlying data file has been constructed by merging 20 existing data files ranging from unemployment benefit files, files of training interventions to tax records and census data. Hence, the local placement officer is provided with two new tools: i) a model prediction of what is likely to work best for the client he/she has to deal with including information on what treatment is predicted to be most cost-effective in terms of public resources; and ii) a wealth of information about the work, income and treatment history of the client. The officer would not be obliged to follow the model predictions since his/her judgement on the client's needs/circumstances could influence the final decision.

Country experiences to date with formal profiling techniques suggest the following conclusions. While it is easy to show that long-term unemployment is statistically associated with specific characteristics such as age, ethnicity and education, it can still be difficult to predict accurately on the basis of these characteristics whether an individual is likely to become long-term unemployed. There is a risk that some profiled workers, who would have found work anyway, are referred to ALMPs, while others who actually need these interventions miss out. Experience suggests, however, that alternative methods of allocating assistance, such as the judgement of PES officers or use of single criteria target groups, are not likely to do better. In the case of judgement, its use as the sole means of allocating assistance is prone to problems of consistency and control, and Australian experience has shown that even when used in combination with formal profiling it needs to be applied carefully.

In the light of these uncertainties, the United Kingdom has deliberately abstained from profiling and offers intensified matching services through “active signing” as an early intervention to all job-seekers. In the United States, a similar universal service was initially considered but because of resource constraints a selection mechanism had to be found to serve preferentially those with the highest risk of becoming long-term unemployed within the limits of available resources. Obviously, the accuracy of profiling has more serious implications in the case of costly interventions like training and wage subsidies compared with less costly interventions like US-style job-search assistance. This is the main reason why Australia decided to complement its model-based profiling with supplementary factors applied by PES staff, as a way of identifying additional at-risk cases who may have been missed by the model. Australia also employs a final check during a Case Management Referral Interview in order to eliminate those who may have been incorrectly selected by either the model-based or judgmental process.

The bottom line of these observations is that job-search assistance, if supply-constrained, could effectively be implemented on the basis of formal profiling techniques. For more costly interventions like training and employment subsidies, the exclusive reliance on formal profiling models applied at the very beginning of the unemployment spell, does not appear to be sufficient. This may change, however, once the accuracy of the models to identify at-risk persons has become more reliable. Also, the predictive accuracy of the models may increase if unemployed workers are profiled when they have further advanced in the unemployment spell, say after 3 or 4 months. However, no research on this issue is available. Nor is there available evaluation research on the cost effects of early interventions for correctly profiled workers compared with later interventions for the same type of workers.
Individualised follow-up action

Individualised treatment becomes more important and urgent with the growing length of the unemployment spell. Unemployment duration can be viewed as a self-selection process which eventually renders profiling redundant: those who have labour market problems will drift into long-term unemployment while the others will exit from unemployment into a job. When that event occurs, it is important to establish a diagnosis of the actual employment problems which the long-term unemployed person is encountering and to make an assessment of his/her potential to become competitive in the labour market. This will have to be established by in-depth interviews, if necessary several of them, and the appropriate actions to take will have to be tailor-made to the needs and possibilities of the unemployed. Most countries confronted with long-term unemployment have resorted to the assessment and individualised treatment of the long-term unemployed. The following country approaches are typical examples of such actions.

Guidance plans in Belgium. Since 1993, the Belgian PES has administered a guidance plan for the unemployed (PAC, *plan d'accompagnement des chômeurs*) which targets unemployed persons under 46 years of age, without a complete secondary education and commencing their 10th month of unemployment. The plan aims to help these unemployed maintain contact with the labour market at a critical point of time in their unemployment spell. Unemployed persons belonging to the target group are required to report to the regional PES agencies in order that a specific action plan can be drawn up. They are obliged to participate in such a plan: refusal is liable to be sanctioned through benefit withdrawal. The guidance consists initially of establishing a diagnosis of the situation of the unemployed person and an assessment of his/her chances for reintegration into the labour market. This is followed, after a month, by the preparation of a concrete action plan based on age, social and professional competence, and other factors. The plan is drawn up in the form of a contract and lists proposed measures such as participation in job-search counselling, vocational training measures or subsidised employment; it also provides for continuous evaluation.

Individual action plans in Denmark. A central feature of the Danish labour market reform of 1994 consists of measures to re integrate the long-term unemployed via "individual action plans" (*individuel handlingsplan, IHP*) based on intensified counselling and job broking, with efforts graduated according to the length of the unemployment spell. IHPs are mandatory after 2 years (6 months for youth under age 25) when, as a rule, job-seekers are offered some type of "activation" measure, such as participation in subsidised employment or in a job-training programme. Usually, the IHP procedure starts with an interview in which advice on the availability of ALMPs is provided and the individual's employment problems are assessed, leading to an agreement on suitable measures to be taken. The action plans are established on the basis of mutual consent between the unemployed and the placement officer, but once agreement has been reached, they are binding on the unemployed and refusal to comply with the plan may lead to benefit sanctions being imposed. Guidelines state that a worker cannot be forced to sign an IHP with which he/she is not in agreement, but the PES is responsible for ensuring that the IHP is realistic and the worker must co-operate in trying to find a solution which is compatible with the prevailing labour market conditions.

Conversion agreements and a new range of services in France. An important tool of the French PES, the *Agence Nationale Pour l'Emploi* (ANPE) is the so-called "conversion agreement" (*convention de conversion*) originally instituted in 1986. Under this scheme firms are obliged to offer all redundant employees below the age of 57 with more than two years tenure the possibility of joining a conversion agreement, with the aim to help them get back to work by means of individualised measures. Workers who opt for this scheme forego their rights to severance benefits and regular unemployment benefits. Instead, they receive a special allowance which is higher than their UI benefit entitlements and they are not...
included in the job-seeker register. They are counselled by special technical units within the ANPE offices which are equipped with the necessary personnel to offer individualised guidance. On the basis of a detailed evaluation of their competences, workers are offered specific retraining modules or other redeployment aid for a period of 6 months. Financial support for employers who hire these workers is also available. The ANPE is currently in the process of introducing a "new range of services" (nouvelle gamme de service, NGS) which are expected to expand the in-depth treatment offered under the conversion agreement to other job-seekers who did not enter unemployment as a result of redundancy but have been profiled as at risk. The NGS is based on a policy to increase the client's autonomy in job search and establish a more contractual relationship between the ANPE and the job-seeker.

Regular programming and scheduling in the United Kingdom. The UK Employment Service, under its recently introduced Job-seeker Allowance scheme, has further reinforced a standardised pattern of regular interventions during the unemployment spell. During the initial interview at the PES, the job-seeker and the counsellor agree on a Back-to-Work plan setting out a number of actions which offer the best prospects for finding a job. The agreement on such a plan is conditional for receiving the Job-seeker Allowance. If clients remain unemployed after 13 weeks, the Back-to-Work plan can be reviewed and job-seekers become eligible for job-search seminars or job-review workshops in case they wish to consider alternative careers. Job-seekers who remain unemployed after 6 months are required to attend a first "Restart" interview, with further interviews scheduled every 6 months. At these interviews, job-search strategies are reviewed and employment and training opportunities, including Job Clubs and short "work trials" with private employers, are offered. In addition, once the unemployment spell exceeds two years, the long-term unemployed are required to attend a two-week Restart course. More intensive assistance, through repeated interviews and job-search activities, is offered to youth under age 25.

Activity tests and benefit sanctions

In addition to individualised treatment, pressures on the unemployed to search actively for, and to accept available, work are also likely to increase with the duration of the unemployment spell. The definition of "suitable work" which has to be accepted by benefit claimants often contains a duration-specific element. For instance, after a certain length of an unemployment spell, job offers which are not directly in line with previous work experience or qualifications or pay considerably less than previously held jobs, have to be accepted by the unemployed who otherwise run the risk of becoming subject to benefit sanctions.

The use of a work test to control job-seeker behaviour is often difficult when vacancies are scarce or when it is easy for the benefit claimant to solicit a refusal from the employer because many other candidates are applying for the same vacancy. The fact that the number of benefit sanctions tends to decline during downswings often reflects this diminishing opportunity for applying work tests rather than a more lenient treatment of beneficiaries. It is important therefore to supplement the offer of vacancies to benefit claimants with the offer of slots in active labour market programmes and, hence, to move from a "work test" to the broader notion of an "activity test". Sweden has gained a reputation of applying strict activity tests by putting considerable pressure on benefit recipients to attend labour market programmes and by being prepared to sanction those who do not co-operate.

Imposing benefit sanctions is a difficult and delicate administrative task in a situation of widespread labour market slack. Those who come into regular contact with the unemployed, i.e. placement officers, counsellors and benefit officers, tend to have little enthusiasm for sanctions especially when it is difficult to distinguish between cases of downright refusals and objective reasons for not accepting a particular job offer, such as housing or health problems. Yet, sanctions, especially if applied in conjunction with proactive measures to assist and motivate job-seekers, can play an important role in achieving the
reintegration objective. The demonstration of proof of active job search should rest as much as possible on well-defined objective criteria and as little as possible on the judgement of PES staff. To this end, Switzerland has introduced a cut-off point of 7 months of unemployment beyond which benefit receipt is only possible through participation in ALMPs. While this is a rather rigid and mechanical procedure (and only really feasible in cost terms when unemployment is relatively low), it has the advantage of removing the onus of proof for uncooperative behaviour from the PES officer. A more rigorous sanctions policy, especially if sanctions decisions are based on judgement, should be accompanied also by an appeals procedure so as to minimise the danger of administrative errors giving rise to serious hardship.

A coherent "what and when" strategy

For illustrative purposes, a classification of job-seekers into three groups (based on some profiling technique) might be considered: i) those job-ready and not at risk of becoming long-term unemployed; ii) those at risk but judged to be job-ready; and iii) those at risk and judged to be not job-ready. Group (i) might be left to fend for themselves except for normal placement services. Group (ii) should be assisted immediately with job-search assistance measures such as résumé writing, provision of telephone and fax facilities, job clubs etc. Such action could be justified even if some assisted workers might have found a job anyway because of the relatively low costs involved and the strong positive effects of these measures revealed by evaluation research. Only group (iii) might be considered for immediate referral to training and employment programmes. However, the degree of accuracy at present in predicting the risk of long-term unemployment at the beginning of an unemployment spell does not appear to be sufficiently high and, given the costliness of training and employment programmes as well as their uncertain outcomes, it seems more prudent to wait until it is well-established that the potential participants in these programmes are clearly at risk of having serious reemployment problems.

At what stage (immediately, after 3 months, after 6 months) should a first in-depth interview be scheduled for those in groups (i) and (ii)? This is partly a question of available staff resources relative to the size of inflows into unemployment as well as the stock of existing unemployment, especially long-term unemployment. If staff resources are stretched, the appropriate action might be to have a first in-depth interview only after 3 months on the assumption that most of the easy-to-place job-seekers will have left the unemployment rolls by then.

With the lengthening of the unemployment spell (6 months appears to be an important benchmark in many countries), the intensity of PES pressures on the unemployed to accept jobs below their expectation threshold and/or to participate in training programmes should rise. This would be the appropriate moment to introduce back-to-work plans and to apply "suitable work" criteria more rigorously. Making benefit entitlements conditional on participation in training programmes could also be considered as an option.

After a 12-month duration of unemployment, all three groups will have merged into one. Reassessment of employability and the updating of back-to-work plans will become necessary. Benefit entitlements should become conditional on participation in any labour market programme. While public sector employment programmes should definitely be reserved for the long-term unemployed, the same probably holds for most hiring subsidies to the private sector. Participation in training and public sector job creation programmes should not simply serve to requalify participants for UI benefits.
III. THE USE OF INTERNAL PERFORMANCE INDICATORS BY THE PUBLIC EMPLOYMENT SERVICE

The monitoring of internal performance targets is a standard procedure to raise effectiveness in public administrations where external benchmarks such as profitability or market shares are normally not available. Many administrative data are generated by PES activities at various levels. By using such information on a comparative basis, some internal measurement of the effectiveness of PES operations can be made. While performance indicators can simply be used as ex-post information, the more policy-relevant application is to move from ex-post indicators to ex-ante targets. By measuring performance against such targets, management tools to raise efficiency can be applied ranging from disciplinary pressures to discretionary budget allocations, up to more formal reward/penalty arrangements. In several countries, the use of performance targets became more prominent pari passu with the devolution of decision-making power and decentralisation within the PES network (Table 1 shows the current distribution of staff resources between local, intermediate and central level). A typical approach is for the central government to formulate or negotiate national performance targets with the PES agency and for the central PES agency to "translate" these targets for its regional and/or local offices, often on the basis of an agreement between the various levels. A number of national examples of the use of internal performance targets are briefly outlined.

Multi-year programme agreements in France. The government signed a first Progress Agreement (contrat de progrès) with the ANPE for the years 1990 to 1994, followed by a second agreement covering the period 1994 to 1998. The ultimate objective of both agreements was to transform the ANPE into a modern, client-oriented service provider, thereby enhancing its effectiveness. The current agreement contains a number of qualitative targets such as "widening the range of services", "fighting against social exclusion", "modernising the computer equipment" and "decentralising budget management". In addition, the following quantitative targets are specified:

- Increasing the ANPE market share to 40 per cent of notified vacancies in total vacancies in the economy by 1998.

- Tripling the number of notified vacancies for executive staff (cadres).

- Reducing the incidence of very long-term unemployment (two years and more) by one percentage point each year starting from 12 per cent of total unemployment in 1993.
Table 1. Employment office networks and staff numbers

<table>
<thead>
<tr>
<th>Number of local office districts</th>
<th>Fully integrated PES¹</th>
<th>Partially integrated PES³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>96</td>
<td>123</td>
</tr>
<tr>
<td>Germany</td>
<td>184</td>
<td>97</td>
</tr>
<tr>
<td>Italy</td>
<td>516</td>
<td>163</td>
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<tr>
<td>Japan</td>
<td>479</td>
<td>800</td>
</tr>
<tr>
<td>Norway</td>
<td>486</td>
<td>800</td>
</tr>
<tr>
<td>Spain</td>
<td>688</td>
<td>111</td>
</tr>
<tr>
<td>Belgium</td>
<td>983</td>
<td>1 986</td>
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<tr>
<td>Denmark</td>
<td>788</td>
<td>1 986</td>
</tr>
<tr>
<td>Finland</td>
<td>1 965</td>
<td>697</td>
</tr>
<tr>
<td>France</td>
<td>1 168</td>
<td>479</td>
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<tr>
<td>Netherlands</td>
<td>753</td>
<td>168</td>
</tr>
<tr>
<td>Sweden</td>
<td>240</td>
<td>1 251</td>
</tr>
<tr>
<td>Switzerland</td>
<td>290</td>
<td>1 251</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>380</td>
<td>219</td>
</tr>
<tr>
<td>Number of local staff per district</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>1 944</td>
<td>1 251</td>
</tr>
<tr>
<td>Germany</td>
<td>503</td>
<td>1 251</td>
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<tr>
<td>Italy</td>
<td>788</td>
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<td>Netherlands</td>
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<td>Sweden</td>
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<td>Switzerland</td>
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<td>479</td>
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<tr>
<td>United Kingdom</td>
<td>380</td>
<td>479</td>
</tr>
<tr>
<td>Average Km² per local office district</td>
<td></td>
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</tr>
<tr>
<td>Austria</td>
<td>881</td>
<td>881</td>
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<tr>
<td>Germany</td>
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<td>1 949</td>
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<tr>
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<td>Switzerland</td>
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<td>380</td>
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<tr>
<td>United Kingdom</td>
<td>380</td>
<td>380</td>
</tr>
<tr>
<td>PES total staff ² ³ ⁷</td>
<td>4 260</td>
<td>10 000</td>
</tr>
<tr>
<td>Local offices</td>
<td>3 260</td>
<td>8 800</td>
</tr>
<tr>
<td>Intermediate-level offices</td>
<td>810</td>
<td>9 000</td>
</tr>
<tr>
<td>National headquarters</td>
<td>210</td>
<td>1 450</td>
</tr>
<tr>
<td>Percentage distribution of staff numbers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local offices</td>
<td>76</td>
<td>71</td>
</tr>
<tr>
<td>Intermediate-level offices</td>
<td>19</td>
<td>11</td>
</tr>
<tr>
<td>National headquarters</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

¹ Data refer to 1994, except for Belgium and France (1995), and Switzerland (1993).
² The three basic PES functions are integrated in the local labour offices: brokerage, unemployment insurance (UI) benefit administration and referral of the unemployed to active labour market programmes (ALMPs).
³ Brokerage and referrals to ALMPs in all countries except the United Kingdom, which has integrated brokerage and unemployment benefit administration.
⁴ All data for PES offices and staff exclude Sicily.
⁵ Figures in brackets refer to Flanders only.
⁶ Staff from ANPE (Agence Nationale pour l'Emploi) only, including temporary staff and employees on subsidised contracts.
⁷ Excluding the staff in occupational training centres run by the PES.


Within the framework of these national targets, a series of operational indicators are established on an annual basis at decentralised level. As long as target indicators conform broadly to the national objectives agreed with the government in the Progress Agreement, the ANPE has considerable leeway in varying targets from year to year. PES offices in each region, department and local district participate in the annual negotiation process in which detailed performance targets are set including a number of quantitative indicators such as "vacancies filled", "vacancies filled with the active involvement of the agency", "time required for vacancy filling", "number of counselling interviews, especially for the long-term unemployed", and "exits from the unemployment register". In addition, a number of productivity targets are calculated: various output indicators such as vacancies registered, vacancies filled, employers visited and clients interviewed are divided by input indicators such as the number of local office employees and working days. Once these targets have been agreed, their implementation is followed up by regular meetings and monthly and quarterly reports (tableaux de bord) at the national and regional levels. Financial incentives are offered to offices that meet their targets, but there are no sanctions for those who fail to do so.

Annual Performance Agreements in Great Britain.⁵ Various formulae have been used in recent years. The annual agreement between the government and the Employment Service covering the fiscal year 1996-97 lists a number of quantitative targets including:

- Number of placements to be achieved; ceilings on costs per placement; the share of placements which must be filled by priority groups, such as the long-term unemployed.
- Number of referrals to training programmes to be achieved.
- Share of new benefit claims to be refused.
- The amount of money to be saved by efficiency improvements.
As in France, each local office must fulfil a certain share of the national targets. But there is less emphasis on negotiations between the different administrative levels. Instead, the PES in the United Kingdom has maintained a relatively centralised organisational model, with a strong tendency to apply uniform principles across the whole country. This practice must be seen in the context of very extensive research and development work prior to the introduction of new PES provisions. Specific features such as the distribution of tasks among PES staff or the nature and timing of interventions in relation to specific client groups have usually been tested and evaluated in pilot projects before being adopted as national standards.

**Performance targets in favour of workers "at a distance from the labour market" in the Netherlands.** After a recent reform, the Dutch PES is run by a Board in which government officials are no longer represented. In allocating an annual budget to the PES, the government distinguishes between a basic budget for normal job-broking services and a performance budget. For the latter, a new type of performance measurement has been introduced. The key performance indicator is "distance from the labour market" which can best be translated by "employability". The unemployed are profiled according to four categories of employability. Two of these categories refer to job-seekers who it is judged will only become employable after either a short or a long intervention (called "reintegration plans") by the PES. Performance targets are then expressed as numbers of reintegration plans put in place as well as the share of persons who profited from a reintegration plan and actually found a job. In addition to these new performance target groups of youth, women and ethnic minorities, will continue to be monitored.

**Management by objectives in Austria, Finland and Sweden.** Relatively advanced performance monitoring and "management-by-objective" systems have been introduced in several countries. These reforms have been driven in large part by a policy objective of decentralising PES services and bringing decisions closer to the clients. An additional reason in Finland was to improve the allocation of scarce PES resources during a sudden and steep rise in unemployment. The performance indicators used in these three countries are traditional placement and target group goals. PES offices are no longer bound by rigid budget lines, staffing regulations and other formal constraints; instead, they operate under general guidelines and "management by objectives". An annual budget envelope is allocated to the PES covering all service expenditures including ALMPs, and it is left to the PES how to distribute these funds between regions; regional offices then decide about the local distribution. With regard to active labour market measures, guidelines specify the policy goals that should determine the choice between different programmes, especially by listing the priority groups of clients. This is done in very general terms at the national level, but in more detail at the regional and local levels.

These examples show the considerable efforts made by member countries in recent years to improve the effectiveness of PES operations. Compared with a couple of decades ago when the PES was mostly a labour exchange, this task has become more important with the rise in unemployment and the associated growth in public spending on ALMPs. In order to respond better to local labour market needs and individual job-seeker characteristics, active labour market policies should be implemented at decentralised levels, giving as much leeway as possible to the decision-making power of the front-line PES officer who has to deal with the unemployed and the local employers. The dilemma, however, is that this tendency to decentralise may run counter to the equally important need to keep the spending of central government funds under strict control and to ensure that broad national policy orientations are followed. Performance indicators are often perceived as a means to reconcile these objectives.

Unfortunately, there are many problems with using internal performance indicators. By their very nature they are dependent on administrative data which are generated by the implementation process. They do not show the actual impact of a particular PES service or active labour market programme. Hence, meeting a target share of long-term unemployed job-seekers in total placements does not say very much about the success of a local PES office in reducing long-term unemployment in the community in which it
operates. A PES office in a neighbouring community which fails to achieve its performance target may in reality have helped more long-term unemployed to find a "real" job in the regular labour market. Secondly, meeting a specific target may imply the neglect of other urgent policy needs which may emerge in the short term, especially in a local labour market. For instance, a plant shut-down in a mono-industrial community may require outplacement and reconversion programmes for workers who are threatened by unemployment rather than a focus on the placement of long-term unemployed. Thirdly, there will always be means for PES staff of "adjusting" to targets; for instance, encouraging employers to offer more part-time or temporary jobs will permit them to place more job-seekers in the target group. In response, management may introduce new targets or change their mix. Hence, a vicious circle may be created of "behaviour adjusting to targets" and "adjusting targets to behaviour". This danger is likely to be increased if rewards/sanctions for PES staff are tied to measured performance in terms of meeting the targets.

Against this background and as shown in the above country examples, performance indicators and performance targets are generally applied on the basis of negotiations, mutual agreements, regular follow-up meetings, etc. rather than in the form of rigid administrative procedures. If nothing else, performance targets generate discussion and analysis of prevailing labour market problems and the potential of policy measures to deal with them. Nevertheless, the basic short-coming of using internal performance targets to raise PES efficiency is -- as in most other areas of public sector management -- the absence of external benchmarks against which performance can objectively be measured. This has prompted some countries to look for alternative solutions. One is to introduce market signals into the operations of the PES.

IV. INTRODUCING MARKET SIGNALS INTO THE OPERATION OF THE PUBLIC EMPLOYMENT SERVICE

Governments and their agencies tend to provide public services under monopoly conditions, which carries the risk of leading to their inefficient provision. As part of moves to improve public sector efficiency and effectiveness, therefore, many OECD countries have recently moved in the direction of trying to increase competition in areas that, so far, have been dominated by public monopolies. The PES has not been immune from these changes. Indeed, many OECD countries have introduced market signals to make some of the PES activities contestable in order to encourage the PES to improve the efficiency and effectiveness of its services. This has been accomplished through the use of market-type mechanisms (MTMs) such as contracting-out, and organisational reforms, such as separating purchasers from providers of public services. Another way to increase contestability has been through the liberalisation of rules and regulations governing private employment agencies to allow them to compete in the placement market with the PES.

Contestability and purchaser/provider arrangements

Contestability of public sector activities means that they can be challenged ("contested") by other providers who may be able to offer the same services at lower costs or better quality. This will only be possible, however, if there is a "level-playing field", i.e. a market where public and private providers operate under the same conditions. In order to put public and private providers on the same footing, a first essential step is to separate the role of the government as a purchaser of public services from its role as a provider of such services. Typically, governments have performed both roles, but while a government may decide which public service should be provided and how much of it, it need not be the body to provide it.
A typical example of a purchaser/provider split is training for the unemployed. Such training can be provided by the PES itself or it can be bought by the PES from other (public or private) providers or it can be partly provided by the PES and partly by other providers. In the first case, the PES is both a purchaser and a provider and thus there is no objective criterion against which to judge whether it purchases the best available training or not. In the second case, the PES is only a purchaser of training services. It will enter the training market and search for the best training available in terms of reintegrating the unemployed and thus allocate public funds in the most cost-effective way. In the third case, the PES is again both a provider and a purchaser. However, there will be a certain degree of contestability because the training costs of the PES will become comparable with the training costs of other providers. If PES training turns out to be more expensive, there will be pressures to increase its efficiency. Nevertheless, the conditions of a "level-playing field" will not be fulfilled as long as the PES can decide -- and hence select -- those of the unemployed who should be trained by its own services and those for whom services should be bought on the external training market. If the PES decides to keep cases with particular training needs for itself, for instance, it will always be possible to justify the fact that its own training costs are above those of other training providers. Only if job-seekers would be free to choose the training provider, for instance through a training voucher, would this hybrid case of the PES providing some of the training for the unemployed itself come close to a level-playing field. However, the allocation of the vouchers to job-seekers may itself raise new problems of selection bias. The most appropriate and "clean" solution, therefore, would be one whereby the PES operates exclusively as a training purchaser and does not provide training services itself.

Market-type mechanisms

Market signals have been introduced into the PES operations in many countries through the use of market-type mechanisms (MTMs). The MTMs most often used in the PES context are contracting out (for ALMPs), vouchers (for training), and user charges (for placement). These MTMs are discussed in turn.

Contracting out

Contracting out refers to the use of a competitive bidding process to help decide who should have the right to produce or deliver goods and services (Rimmer, 1994). In the decision to contract out, a number of factors must be borne in mind. For example, it is important during the contracting-out process to keep staff (and their representatives) informed, to ensure that valid comparisons are made between in-house and external bids, to specify contract requirements in terms of outcomes and not inputs, to monitor performance, to develop the necessary skills for contract management, and most importantly, to foster competitive markets for the provision of the service (OECD, 1996c).

The PES provides services that differ from many of those that are usually contracted out by governments. In particular, they usually require a large number of specialised staff, and in this case, the market may be small and a bidding process through competitive tendering and contracting out may not lead to prices being close to marginal cost (Borland, 1994). An important question is to what extent specific human capital also becomes a barrier to entry. The barrier could exist as a result of licensing requirements to carry out certain occupations such as teaching, or the time required to acquire the necessary human capital. These barriers, however, must be viewed in the context of providing "quality" services. Another relevant concern is economies of scale, for example, it may be difficult for private training providers to compete against huge public institutions in the education sector.

Contracting out has in fact been used extensively in the provision of training. For example, the Swedish PES is under instruction to purchase courses from both the public-based labour market training centres
(the AMU) and private providers. This has resulted in both a drop in the market share of the AMU by
almost 50 per cent since 1990 and a drop in the unit cost of training by about 20 per cent. The drop has
resulted from both competition in the provision of training and an increase in the procurement skills of the
PES (OECD, 1996b).

Contracting-out arrangements can be very complex, as testified by the case of the Training and Enterprise
Councils (TECs) in the United Kingdom. TECs have responsibility for labour market training and some
employment programmes and are expected to fulfill their contractual obligations with the government by
contracting out to service providers (Mosley and Degen, 1994). For example, they first contract out to
"Training Agents" whose job is to determine the training needs of the job-seekers who have been referred
to them by the PES. Training Agents in turn contract out to Training Managers who develop training
programmes. Training Managers may in turn provide training themselves or contract it out. In some
cases, TECs have contracted out to the PES to be the Training Agents. Contracts are primarily awarded on
a competitive basis, but are usually with organisations that have a history of involvement with government
programmes.

Although it may lower net costs to the public purse, contracting out can be complicated -- as in the case of
the TECs -- and entail significant transactions costs. The available evaluation evidence which shows
significant cost savings resulting from contracting out (OECD, 1993, Table 18) does not cover PES
functions where the provision of the service requires relatively high levels of skill. Furthermore, there is
no evaluation evidence on whether contracting out has improved outcomes for the unemployed. In
considering the savings to be made by contracting out, it is also important to bear in mind the effects on
the society at large. Contracting out may result in efficiency gains in the public sector as employees focus
better on more clearly identified tasks, or if private providers lead to more efficient provision of services.
But if such efficiency gains do not occur, no net benefits to society will result from the transfer of
functions between the public and the private sector.

Vouchers

Vouchers have received a lot of publicity as a means of making suppliers provide services more relevant to
the needs of the purchaser. For example, recipients of vouchers can "shop around", thereby introducing a
competitive element into areas where provision is only public. In order to involve the voucher holder in
the process, it is common to require a financial participation on his/her part. In France, for instance,
executives unemployed for less than 6 months can receive a voucher with which they can buy an
assessment of their competences (chéquier bilan de compétence cadre). The nominal value of this
voucher is FF 5 500, of which FF 500 has to be paid by the holder.

However, there is little conclusive evidence on the impact of vouchers, and several unanswered questions
remain. For example, with respect to labour market programmes, important considerations include:

- Access to information on choices open to the voucher holder, and the degree to which such
  choices are feasible.

- Motivation of job-seekers to use vouchers, which may be a particular problem with the long-
  term unemployed (although they may be offered simply as a work test).

- Unless the voucher holder has a real choice among providers, vouchers will do little to
  stimulate competition. Indeed, where the PES controls access to training or provides its own,
  it may have little incentive to provide all relevant information to the voucher holder. But
where the PES does offer training or other programmes that are also offered in the private sector, the use of a voucher could force the PES to improve the quality of such programmes.

**User charges**

User charges have been used in many public sector areas, for example, in pollution control, water supply, road and air transport and, to some extent, in the health area. However, they have not been used widely in the labour market field for a number of reasons, one being Convention 96 of the ILO which prohibits the charging of user fees for PES services with the view to making a profit. It also reflects the obvious point that most unemployed people have limited resources. While loans may be possible in principle, banks are likely to discriminate against the unemployed because they cannot borrow against future earnings, particularly when participating in a programme is not a guarantee for obtaining and maintaining a job in the future.

Nevertheless, user charges exist in some countries, mainly for the employed who wish to avail themselves of public placement or training services. In addition, user charges are becoming increasingly common for firms which use resource-intensive PES services. This is the case for instance in some parts of Belgium where employers have to pay the PES for intensive screening of job candidates and for outplacement services.

**The role of private employment agencies**

There has been considerable debate in OECD countries about the role of private employment agencies (PEAs). While competition from PEAs may enhance the efficiency of PES operations, the counter argument holds that without a monopoly position the PES would not be able to fulfil its role of providing universal and cost-free services for all, including the hard-to-place unemployed. Some OECD countries, therefore, continue to restrict the market access of PEAs although the dominant trend is in the direction of a liberalisation (Walwei, 1996) and was further boosted by the Private Employment Agency Convention recently adopted by the ILO.

Several different situations currently exist in OECD countries:

- Private-for-profit placement agencies are banned (although in most cases not temporary work agencies) in a few OECD countries but this is likely to change after this year's adoption of the ILO convention.

- Private sector firms are allowed to compete with the PES. This is the situation in most other OECD countries, although there is a tendency for market segmentation because government regulations limit private sector activities in certain areas or because private suppliers tend to restrict their activities to certain profitable markets, e.g. high-skilled jobs and temporary work placements.

- Government funds private firms, community organisations and the PES to place job-seekers to stimulate competition. This is the case in Australia, described below.

- The PES works in partnership with private firms and community organisations with placement functions (and perhaps temporary employment agencies). This is the case in the Netherlands and Switzerland.
In the past, OECD countries have typically assumed that the PES must take on the placement role for the most disadvantaged job-seekers because there is no private-sector interest in seeking to place them into jobs, and that this can best be achieved by cost-free placement services available for all job-seekers so that the long-term unemployed have a reasonable chance at competing for job vacancies. This argument has been extended to justify an obligation to notify vacancies to the PES in some countries. Nevertheless, these arguments can be challenged. The government could, for example, seek to stimulate competition through payment of fees to private employment agencies to place disadvantaged job-seekers as opposed to solely funding the PES to place them. In the Netherlands, for example, the PES has paid a subsidy to temporary work agencies which take the long-term unemployed on their payrolls. It may therefore be possible for governments to achieve both equity and efficiency goals without having a monopoly on either the design or delivery of placement services or indeed labour market programmes more generally, as the example of Australia shows.

**Competition between public and private providers of the full range of PES services.**

**Recent trends**

So far this note has only discussed the introduction of market mechanisms in limited areas of PES operations: the provision of training for the unemployed, the placement of job-seekers without particular employment handicaps and the filling of temporary jobs. The obvious question is whether one should not go further and expose the full range of PES services, or the PES as an institution, to contestability conditions. Several countries have started to take tentative steps in this direction by giving far-reaching autonomy to the PES and by making annual agreements about the achievement of a number of performance targets. The UK PES, for instance, was given the status of an Executive Agency in 1990 which implies that, subject to policy targets agreed upon with the Government, it is free to decide how it manages its activities (the Annual Performance Agreements have been discussed above). This, of course, is not contestability because there is no institution against which the PES performance could be measured and hence no price tag can be attached to its achievements. However, the underlying idea is similar: by measuring *ex-post* performance against *ex-ante* targets, as fixed by contract, and sanctioning breach of contract the Government is seeking to raise "value for money".

The Netherlands has moved in the same direction. After giving far-reaching autonomy to the PES under tripartite supervision and management in 1991, a further important step was taken in 1997 in that the Government is no longer represented on the supervisory and management board of the PES. The notion of a "purchasing relationship" was introduced in that the unemployment benefit institutions (which do not form part of the PES in the Netherlands) and the social assistance offices of 25 cities can "buy" readjustment or reintegration programmes for the unemployed from the PES. Benefits claimants are chosen by the service purchasers on the basis of their reintegration needs and the price and outcome is agreed upon with the service provider in a "purchasing contract". For the time being, the benefit funds and municipalities are obliged to buy such services exclusively from the PES and the funds which are available for this purpose are rather limited. However, if this experiment turns out to be successful, the Government intends to move ahead with introducing further steps to free the purchases or readjustment and reintegration services. The budget allocations which the benefit institutions can use for this purpose will also be increased. These two changes would lay the foundations for contestability because it is likely that they would incite the entry of private and other public providers into the market in order to bid for readjustment and reintegration contracts.
The separation of the unemployment benefit institution from the other PES functions in the Netherlands permits assignment of the purchaser role to the benefit agency and the provider role to the PES. This raises the question whether there would be a conflict between the idea of integrating the benefit function with the brokerage and referral functions, as proposed above in Section I, and the idea of creating a contestability environment where a purchaser/provider split is required. Leaving aside the Dutch model where the benefit funds are the purchasers, the question also arises if the Government is the purchaser and the PES the provider of labour market services. While the Government would remain responsible for the control of benefit entitlements, the public (and private) providers would have to apply the activity test. Nevertheless, Australia has moved ahead with a comprehensive approach which intends to reconcile the integration and the contestability objectives.

Case management in Australia

Widescale reform of the delivery of labour-market assistance has been underway in Australia since 1994 with the goal of focusing effort more closely on the needs of job-seekers, particularly the long-term unemployed (and those at risk to it). Among other steps, this has involved the introduction of so-called "case management", i.e. individualised treatment of members of the target groups. A unique aspect of case management in Australia is that case managers are drawn from both the private and community sectors through a contracting-out process and compete with case managers in the public sector.

The introduction of case management required a number of administrative innovations. First, a regulatory framework had to be set up to govern case management, and in particular, to set out codes of conduct for case managers in the private sector. Furthermore, their legal obligations had to be laid down, and this included their role in enforcing the "activity" test associated with the payment of unemployment benefits. Case managers were expected to enforce the activity test as part of their contract. This was to be based on the steps agreed upon between the job-seeker and the case manager to get back to work. But case managers could only recommend to the Commonwealth Employment Service that a job-seeker be sanctioned for lack of compliance. Only the Service could actually impose a benefit sanction. Second, a tender-and-accreditation process to contract out to private and community sector organisations had to be put in place. This included the determination of the fee to be paid to case managers in the private and community sectors -- and the basis on which it should be paid -- along with a schedule showing how the fee should vary among different types of job-seekers, in particular to avoid so-called "creaming" of job-seekers by providers. Third, case management required changes in information technology, methods of evaluation and staff training, along with consultations with the unions on the responsibilities of public case managers. And finally, a profiling mechanism had to be created to assess and classify job-seekers prior to referral to case management (see Section II).

A key component of the new competitive framework was a change in purchaser/provider arrangements. In particular, two new bodies were created, the Employment Services Regulatory Authority (ESRA) and Employment Assistance Australia (EAA), the former to overview private case management and the latter to operate public case management. Previously, the Department of Employment, Education, Training and Youth Affairs (DEETYA), was responsible, through the Commonwealth Employment Service (CES), for the placement of all long-term unemployed. Under the new system, the private and public sector case managers became the providers, while DEETYA remained the purchaser of case management, funding both ESRA and the EAA. For example, public case management was provided by the EAA and private case management was contracted out by ESRA to various providers in the private and community sectors. Job-seekers were given some choice whether to use public or private sector case managers. It was hoped...
that, through this choice, pressure would be put on the public sector to improve its placement activities, although this was not the primary goal of the legislation.\footnote{Fixing the fees to be paid to case managers in the private and community sectors was difficult because there was no obvious reference price to use as a guideline. A number of problems had to be addressed. First, because the long-term unemployed are seldom placed by the PES without prior reemployment measures, it was unclear how much it would cost in total to place them in jobs, i.e. including the cost of any preparation such as training. Second, since the PES is typically left to place the long-term unemployed, it was unclear how much the private sector providers would demand to place them. Finally, some way had to be developed to vary the fees over time. DEETYA and ESRA, therefore, had to set a start-up price more or less arbitrarily. However, they consulted first with various private and community sector bodies to determine what size of fee might encourage them to participate in case management. Given that such bodies might have an interest in inflating the prices through such consultations, it was apparent that only over time would the true "marginal" cost of placement become evident.}

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The payments were set up to minimise so-called "creaming" in three ways. First, the bulk of the fee was dependent upon a successful outcome and such outcomes had to be recognised by ESRA. Second, case loads were limited.\footnote{Finally, case managers had to accept all clients referred to them (although they could opt to specialise in assisting certain types of clients). Clients were grouped into four different categories reflecting different degrees of disadvantage, and the fee varied among the different categories.} Finally, case managers had to accept all clients referred to them (although they could opt to specialise in assisting certain types of clients). Clients were grouped into four different categories reflecting different degrees of disadvantage, and the fee varied among the different categories.

The initial Australian attempt at introducing competition for case management, while noteworthy, suffered from a number of failings. In particular, although modifications were made to the purchaser/provider arrangements that had been in place, they did not go far enough to ensure that a level-playing field existed between case managers in the public and private sectors (Golightly et al., 1996). Although providers and purchasers were split, the regulatory authority, ESRA, operated within a broad policy framework set by DEETYA and DEETYA managed the day-to-day operations of EEA. In addition, it was not clear whether the EAA had an advantage over the private case managers in access to information about labour market programmes which might benefit their clients.

The current Australian government has therefore decided to change the framework substantially. With a view to streamlining services to income support recipients, including the unemployed, the Government is now establishing a new Commonwealth Services Delivery Agency (CSDA). The CSDA will operate within the Social Security portfolio and will be responsible to the Minister for Social Security. The CSDA will integrate the four main functions of registering job-seekers, administering unemployment allowances, providing job-seekers with self-help access to a National Vacancy Data Base and referring eligible job-seekers to employment services.

Private, community and public sector organisations, including a corporatised public provider, will be contracted to provide employment services under the new employment services market. The employment services market due to commence 1 May 1998 will comprise: flexible labour exchange services; Entry Level Training Support Services; and the New Enterprise Incentive Scheme to help the unemployed set up a business. FLEX has three linked servicing streams all of which offer labour exchange services to eligible job-seekers. Under the first option, FLEX 1, providers canvass employers for jobs and place people in those jobs. Contracted FLEX providers may also provide additional assistance to disadvantaged job-seekers who cannot be matched immediately to available jobs. This may involve the provision of job search skill training (FLEX 2) or intensive, individualised job preparation and support (FLEX 3) to eligible job-seekers depending on their level of need.
Organisations may choose to tender for specific employment services (through all FLEX providers must provide some labour exchange services) or to specialise in assisting specific client groups or they may choose to tender to provide the range of employment services to eligible job-seekers. In the first round of tenders, services providers other than FLEX 3 providers will be paid fees set through a competitive tender process. FLEX 3 providers will be paid fixed price incentives (in addition to their competitively set labour exchange fee) for providing intensive job preparation and support to the most disadvantaged job-seekers. Most incentives will be paid only after these job-seekers have retained in ongoing employment. In the second round of tenders, expected after December 1999, all fees will be set through a competitive tender process.

The corporatised public provider will operate under the same conditions as other service providers. It will also serve as a "last resort" provider of services to unemployed job-seekers in regions where no other service providers will operate.

The changes provide a new role for DEETYA. It will become the purchaser of employment services, on behalf of job-seekers. It will also regulate and manage the tendering and contracting process and maintain its policy development and evaluation roles. Under this new structure, Australia has introduced an institutional structure where the Government is responsible for both the referral of eligible unemployed to employment services and the administration of unemployment benefits while ensuring that the delivery of employment services to the unemployed is subject to contestability by public, private and community providers.

Through these changes, Australia has introduced a major conceptual innovation which may change the role of the PES in the future and may boost the effectiveness of active labour market programmes. There now appears to be in place a framework that will generate genuine competition not only in the market for easy-to-place job-seekers, but also in the treatment of the long-term unemployed. It is too early to judge whether this competitive framework will lead to better labour market outcomes for the unemployed but it will be very important to monitor closely the results of this major innovation.

V. CONCLUSIONS

Following up on a set of earlier proposals to enhance the effectiveness of active labour market policies (OECD, 1996a), this paper explores four approaches which, in the light of recent experience in some OECD countries, appear promising to raise institutional and programme effectiveness:

- integrating the core PES functions;
- the scheduling of policy interventions during the unemployment spell;
- the use of internal performance indicators by the PES;
- making the delivery of PES services "contestable".

The first approach stresses the complementarity of the three basic PES functions and the need for the front-line officers in direct contact with the unemployed to perceive these functions as complementary and interdependent. The second approach focuses on the optimal mix of passive and active labour market policies, as pursued by the PES, and how this mix should change during the unemployment spell. The third approach addresses the need for internal performance monitoring, especially when the delivery of PES services becomes more decentralised. The fourth approach deals with the possibility of making the
provision of various PES services contestable in a market environment. In all four areas, individual OECD countries have introduced innovations and are currently in a phase of "trial and error". This paper attempts to synthesise the current state of play and proposes a few directions for future reform and policy. It focuses on the PES as the principal institution in charge of passive and active labour market policies.

The secular rise of long-term unemployment in most OECD countries has had a significant impact on the operations of the PES. The priority task of serving long-term unemployment will have to continue in the future, but more emphasis needs to be placed on effective strategies to prevent the drift of job-seekers into long-term unemployment.

How can a strong focus on the early identification and treatment of the long-term unemployed be reconciled with the policy effort -- recently stressed in several OECD countries -- to intensify co-operation with employers and to devote significant staff resources to canvassing them in order to help place job-seekers? It is rightly argued that, in order to gain the trust and appreciation of employers, the PES must demonstrate its capacity to fill vacancies expeditiously with qualified candidates. The better it succeeds in this task the more employers will entrust their vacancies to the PES and the easier it will be, from time to time, to place job-seekers with employment handicaps, notably the long-term unemployed (the so-called "slip-stream effect"). If the PES neglects up-market transactions and retreats to serving the long-term unemployed, it may lose out on the slip-stream effect. However, the argument should also be considered from the opposite end. If the PES becomes too involved in servicing employers and if qualified and job-ready candidates are abundantly available -- which is the case during a prolonged recession -- the attention and the available resources to raise the employability of the long-term unemployed, and hence the chances to profit from any slip-stream effect, are likely to fall short of what is needed. Thus, the public authorities are confronted with a policy dilemma. Short of raising PES resources significantly, an option which does not appear on the cards in many countries, a balance has to be struck between the two opposing goals.

This balance will partly depend on the available PES resources relative to the size of prevailing unemployment, especially the incidence of long-term unemployment. As a guiding principle, the vacancies notified to the PES should be viewed in the first place as a tool to place the unemployed, preferably the long-term unemployed. This implies a strong emphasis in PES work to raise the number of notified vacancies. If enterprises request intensive screening of candidates, consideration should be given to charging them for this service. Examples from countries where such fees are applied show that they do not prevent private firms from using these services. Setting priorities in this way would also clarify the role of the PES as a public service provider in the current socio-economic environment. Universal public services in the sense of their availability to everybody might be confined to two areas: (i) transparency of the market for job-seekers and vacancies (which, in a slack labour market, would include PES efforts to increase vacancies flows); and (ii) brokerage services for persons who are job-ready and for enterprises which do not need extensive screening of candidates.

Beyond these basic information and matching functions, the PES would need to become more selective in the future and focus its resources on the at-risk groups. This process will be helped by the extension of self-service facilities and the increasing application of information technologies, in particular the Internet. The potential of the Internet could go well beyond the listing of vacancies and job-seekers and hence improving information flows in that appropriate software for searching, matching and screening could be provided free of charge by the PES to anybody wanting to use these facilities. This will further reduce costs in the provision of basic information and matching services and free valuable staff time for in-depth work on identifying at-risk individuals and providing them with early treatment.
Pulling together the various elements discussed in this report, a new perception of the PES role emerges which stresses the following points:

- the three basic functions of job broking, benefit administration and referral of job-seekers to active labour market programmes should be viewed as elements of a holistic policy concept;

- there is a premium on active policy interventions which occur early in the unemployment spell, notably job-search assistance and for all policy interventions to be tailored to individual needs and capacities;

- since both early interventions and individualised treatment are resource-intensive, the PES should become less involved at the front-end of the unemployment spell by resorting to profiling techniques, self-service facilities for job broking and exploiting fully the new information technologies.

- to the extent feasible, the PES or some of its functions could be exposed to competitive bids from private (and/or other public) providers, including for the reintegration of job-seekers with employment handicaps, and the long-term unemployed.

At this stage, not all OECD countries share this perception and may wish to subscribe to a new model of the PES, elements of which have been or are being pioneered in a few of them. It nevertheless provides a platform for testing new ideas and approaches in raising the effectiveness of active labour market policies which all OECD countries, no doubt, will wish to follow with the utmost interest.
NOTES

1. However, the United Kingdom does provide individualised treatment in the form of "active signing" every fortnight. On these occasions, the steps taken by benefit recipients to get back to work are reviewed and, if necessary, intensified job search is recommended or imposed. "Active signing" is obligatory for all job-seekers from the beginning of the unemployment spell.

2. However, prior research has shown that the exclusion of these variables does not significantly alter the results due to their relationship with the five included variables.

3. However, staff can use their own judgement to refer workers to job-search assistant programmes independently of the profiling mechanism.

4. Econometric evidence from the Netherlands shows that benefit sanctions do speed up the transition from unemployment to employment. (Abbring et al., 1996).

5. These policies do not concern Northern Ireland.

6. In the first round of tenders, it was anticipated that the EAA would maintain 80 per cent of the placement market, with its share declining over time to 50 per cent. Therefore, when slots available in private and community sector case management organisations were "full", the job-seeker would have no choice but the EAA.

7. The government decided to proceed initially with a non-price tender, i.e., private and community sector organisations would indicate their interest in placing job-seekers based on the possibility of receiving a fixed fee. This fee would be determined by two elements: i) an ex-ante assessment of the expected difficulty in placing the job-seeker in a job; and ii) the ex-post outcome achieved by the case manager. A price-based tender was not used initially because it was unlikely that possible providers would accurately know the cost of placement. More importantly, in such a situation, the quality of case management services offered might not be high. Bids were therefore evaluated with respect to service ethics and standards, standards of premises and facilities, advertising, financial and resources management etc. The contracted case managers were then free to bid on the type of clients that they wanted to help. For example, some organisations might wish to work with the most disadvantaged job-seekers while others might wish to work with those who face fewer barriers to employment. Some might wish to work with a range of job-seekers.

8. A full fee was only paid to a contracted case manager after the job-seeker had spent 13 weeks in continuous employment or training, with a higher fee paid for placement in subsidised over unsubsidised work.

9. It is also recalled that the PES, in focusing on raising the employability of the long-term unemployed, normally compensates any remaining productivity short-fall by a temporary employment subsidy. This, in principle, should reduce the need to rely on the slip-stream effect.


