1. Introduction

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1 TRANSITIONAL LABOUR MARKETS AND THE ROLE OF ACTIVE LABOUR MARKET POLICY

Since the second half of the 1970s, European labour markets have been characterized by considerably higher levels of unemployment than in the period of remarkably low levels of unemployment after the Second World War. The official unemployment figures even underestimate the size of the problem as many people have withdrawn from the labour market, having hardly any chance of finding a job. Until recently, inactivity was, in some cases, even stimulated by governments in the form of subsidies for early retirement. Faced with these developments in the labour market, Schmid (1995) concluded that full employment in the traditional sense was no longer a realistic goal. Full employment was until then seen as a situation of low unemployment in which most people in the labour force were continuously employed, often in the same job, from the moment they left school until their pension age. As an alternative, normative perspective he developed the concept of transitional labour markets (TLM). In TLM, people are not employed permanently, at least not full-time, but alternate periods of employment with periods of non employment (or periods during which they work fewer hours), during which they spend more time on care activities, education and training, etc. In Schmid's concept, people are not permanently engaged in paid work and in this sense TLMs do not differ from today's actual labour markets. However, under TLMs, in their ideal form, there is no unemployment but only periods of 'useful inactivity'.

Transitional labour markets are, thus, not simply an attempt to make the best of a situation in which full employment in the traditional sense is no longer feasible. Important trends in society fit perfectly well into his concept. First, gender equality should be mentioned, which calls for an equal representation of women in the labour market. This is only possible if men also take their share of caring tasks at home, implying that they spend less time on paid work, at least during some periods of their working lives. So, this is an example of 'useful inactivity'. Secondly, Schmid argues

that the volatility of the labour market is increasing as the speed of change in technology and consumer preferences accelerates. Lifetime employment with the same company will become the exception rather than the rule. Workers will have to change jobs more often during their working lives and even change occupations. So to remain employable they will have to continue investing in their human capital during their working lives. One could draw the conclusion then, that in view of the developments in society, it is even desirable or necessary for people to make more transitions than before, provided that they make the 'right' transitions. Transition to unemployment, for example, should be avoided, but transition to a period of non work spent on training, to take another example, can be beneficial to both the individual and to society.

The supposedly increased volatility of the labour market is thus one, but not the only, line of reasoning underlying this normative perspective of TLMs. In a more empirical sense the latter concept implies that labour markets will show increasing mobility and shorter tenure. However, although this notion of the increased volatility of the labour market is appealing, it is only partly confirmed by the facts. The available evidence is mixed and offers only weak support for the hypothesis of an increased mobility (see Bergemann and Mertens (2002) for Germany, De Koning et al. (2003) for the Netherlands, Graversen (2003) for the Nordic countries, Macaulay (2003) for the United Kingdom (UK) and Steward (2002) for the United States (US)).

One could think of several reasons for the discrepancy between the quite common perception of increased mobility and the limited empirical support for it. An important reason might be that so far the negative employment effects of technological change and market changes have mainly affected the labour market position of specific groups such as the low skilled and the elderly.¹ Among these partly overlapping groups, unemployment and inactivity rates have increased considerably. For people with a secondary or a higher education the situation may not have changed so much, apart from the tendency to leave the labour market well before the official pension age. However, it seems reasonable to assume that in the future too, those with secondary and higher qualifications will become more vulnerable to international competition and technological change. To some extent this is already the case. The competitive pressure from the emerging economies in Asia, Eastern Europe and South America no longer solely applies to low-skilled activities, as it did in past decades. Some of these countries like India and China now have so many highly educated workers, who at the same time are cheap, that even relocation of research and development (R&D) activities to these countries becomes possible. Furthermore, the developments in information and communication

technology (ICT) imply that, contrary to the past, those with secondary and even higher qualifications are now increasingly affected by the impact of technological change. It is not so much that ICT reduces the total number of jobs for which at least a secondary education is required, but that it destroys jobs in some industries (like banking) while at the same time creating jobs for which other skills are required (sometimes even in the same industries). It thus adds to the increasing volatility of the labour market.

In fact, the competitive pressure from the emerging economies in Asia, Eastern Europe and South America, means that governments in the industrialized countries are trying to make their labour markets more flexible. In many countries we can observe social security reforms that imply a shift away from what one might call unconditional social security, in other words entitlement to a benefit without too many obligations to search for and accept jobs. Most countries are adapting their system to a situation where people have more incentives to avoid unemployment and, if they happen to become unemployed, to get out of it. At the same time countries are trying to keep social security provisions at a reasonable level, although countries do differ as to what they consider 'reasonable' in this respect. What is particularly valuable about the TLM concept is that it provides a theoretical framework for discussing alternative solutions for dealing with the need for flexibility on the one hand and the wish for security on the other. One of the big issues is which measures and (mix of) institutions might produce an optimal combination of flexibility and security (Schmid and Schömann (2004), Muffels and Luijkx (2004), De Lathouwer (2005) and Schmid (2006)).

What could be the role of government policy in a labour market characterized by constant and even accelerating change? Equipping young people with sufficient skills is probably the most important thing to do. The economic literature on human capital shows that initial education yields high rates of return to both individuals and society. Most of this literature deals with the impact of education on wages (see Psacharopoulos (1994) for a review). However, there is also evidence of the considerable non-market gains of education, particularly in the health field (Haveman and Wolfe, 1984, 2001). The role of education is also apparent from the fact that the chance of unemployment tends to be lower the higher educated one is. However, the question is whether this pattern will remain the same in the 'new' labour market, in which, as we have argued, the higher educated will also be affected by technological change and international competition. At the same time it remains true that the more highly educated people are the more readily employable they are in the labour market. On average, higher educated individuals are more flexible and their education makes it easier for them to learn a new profession. So, even if more qualified labour

becomes subject to technological change and international competition, it is still advantageous to have a highly qualified population and labour force.

A more highly educated labour force will, *ceteris paribus*, suffer less from unemployment than a less educated one.² However, it is also likely that the higher educated will have to invest more in human capital than before. Life-long learning will be the standard for everyone.

It is thus very important that young people enter the labour market with a proper education. Often a secondary school diploma is seen as a minimum requirement. In view of the fact that people will have to change jobs and professions during their life course, they should be able to behave pro-actively. If they make the changes in time, they may avoid unemployment. The ability to learn, to gather and use information and to take the initiative can, to some degree, be taught in initial education. However, market imperfections may be a reason for the government to provide support in the field of career guidance and adult education and training as uncertainty and incomplete information may lead to underinvestment in this field on the part of workers and firms.

In view of the increasing age of the population and the workforce, which tends to lower the ratio between the active and inactive population, the labour force participation rate must be increased in order to safeguard our wealth. Initial education and further training are also important here. Although participation rates tend to be lower at older ages for all groups, the decrease is much stronger for the lower educated than for the higher educated. Hence, a higher skilled labour force will stay active longer than a lower skilled one. Human capital, however, is not the only factor affecting labour supply. Women more generally, and lone parents more specifically, face the problem that the burden of household duties falls mostly on their shoulders, which makes labour market participation difficult for them. Good and cheap childcare facilities can help to overcome this problem. However, more fundamentally, an equal division of household duties between women and men should form the basis of an equal position in the labour market. This calls for a broad range of measures that should not be restricted to the realm of labour, but also extend to education, culture and politics. Women belonging to minority groups should be given particular attention, as their labour market participation is sometimes extremely low. They often suffer from a combination of risk factors: low education, discrimination and their own culture opposing female participation.

Measures in the field of social security may also help in raising participation rates. Most countries, for example, are reducing the possibilities for early retirement (see de Koning and Gelderblom (2005) for a review of the policies in this field in a number of European Union (EU) countries). This brings us to a fourth way to prevent unemployment and enhance employment, namely

reforms of the social security system to make it more employment-friendly by providing incentives to workers and firms to keep resort to it to the minimum. In fact a lack of such incentives is often seen as a major cause for unemployment. This explains the tendency in many countries to make work pay again. This is done by limiting entitlement to benefits and reducing the level of benefits relative to wages. However, there is a social minimum for benefits below which one cannot go without causing tremendous social problems. Hence, it is difficult to avoid benefits at the minimum level being hardly much lower than wages. Increasing minimum wages would be an option to widen the gap between benefits and wages, but that would obviously have a negative effect on low-paid employment.

Therefore, earnings tax credit schemes have been introduced that increase net income for the people concerned, but do not affect the wage costs for the employer. Furthermore, bonuses in case of job finding are being used more and more.³

The discussion so far assumes implicitly that the shortest route to employment is the best one. This assumption may not always be right. It is important not only for the person involved but also for society at large that he or she finds a job that fits his or her skills and experience. Normally a person's productivity will be highest in such a job. So the unemployment insurance system should provide unemployed persons with the opportunity to look for an appropriate job. For a reasonable period of time, unemployed individuals, particularly those who worked prior to the unemployment period, should be given a relatively high benefit, enabling them to keep their old standard of living while searching for an appropriate job. When this search process is not successful, it seems to be reasonable to require that people should also consider jobs that do not exactly match their education and preferences. Lower benefits may help to induce them to accept such jobs.

The social security system could also provide incentives to employers. In the US the premiums employers pay for the unemployment insurance arrangement depend on the number of workers they have laid off in the past: the higher the number the higher the premium. This experience rating is meant to discourage them laying off their workers. In Europe, incentives for employers usually take the form of exemption for paying (part of the) social premiums for low-paid workers or for workers that they have hired from (long-term) unemployment.

This last point leads us to active labour market policy (ALMP). Exempting employers from social premiums if they hire an unemployed person is in fact an active labour market measure very similar to a specific wage subsidy. Actually, one could argue that some of the previously mentioned incentives in the social security and tax system like earnings tax

credits also belong to the realm of ALMP. These measures may be specifically effective for dealing with two problems: (1) the unemployment trap (the situation where individuals are not inclined to accept a job because the wage level is not high enough compared with the level of the benefit), and (2) the productivity trap (the situation in which unemployed people are not hired because their productivity is too low compared to the minimum wage). However, although these problems are important causes of (persisting) unemployment, they are certainly not the only ones. Lack of transparency of the labour market, regional imbalances, skills mismatch and prejudice against specific groups all play a role. Even though a combination of a well-educated labour force, government support in career counselling and continuous training, and an employment-friendly tax and social security system may lead to lower unemployment rates, it is unlikely that this will solve the unemployment problem completely. Countries that have implemented such measures still suffer from unemployment and from a concentration of unemployment among specific groups. In some countries (like the US) this is less visible as many of those with poor job chances withdraw from the labour market and are officially not counted as unemployed (ie homeless people, imprisoned people). This means that there is still a need for other active measures aimed at (re-)employing the jobless, namely: the provision of job information, job mediation, job search monitoring and assistance, training, placement subsidies and subsidized labour. Together with some of the previously mentioned incentive measures in the field of social security these measures constitute what in this volume is understood by active labour market policy.

Are there no other alternatives to active policies? In Chapter 2, de Koning discusses a number of such alternatives, but although some of them may be of use, they do not look too promising as substitutes for active measures. Take for example legal arrangements that make it obligatory for employers to hire a certain percentage of their staff from a specific disadvantaged group. Obviously, such a rigid measure may not be advantageous to the employment level.

Admittedly, as well, experiences with active labour market policies have not been invariably positive. Although a review of some 130 international evaluation studies by de Koning in this volume indicates that for some active measures the evidence is in favour of a positive effect on job entry chances, the effects tend to be relatively small. It is unclear whether they are big enough to compensate for the costs. So we are in the situation where (1) there is a need for measures to help the unemployed make the transition from unemployment to employment, (2) there are no obvious alternatives to active measures that can do the job, and (3) the latter, or some of them, do show positive effects but the effects are not terribly big. In this situation

a strategy to look for ways to improve ALMP seems to make sense.⁴ In this book we consider three ways of improving active labour market policy: (1) improving the measures, (2) improving the delivery process by involving the private sector in it, and (3) improving the visibility of performance by using benchmarking methods. The contributions in this book are divided into three parts, each one corresponding to one of the options.

2 IMPROVING ACTIVE LABOUR MARKET POLICY: FINDINGS FROM THE CONTRIBUTIONS

Improving the Measures

The first chapter by de Koning discusses the effectiveness of the different types of active measures by making an inventory of the international evaluation literature. It appears that for some measures (job counselling, job monitoring and counselling and placement subsidies for regular jobs) the evidence clearly points to positive net effects on job entry chances, while the evidence is much less strong for training, and negative for subsidized labour. He also finds that particularly in the Anglo-Saxon countries there is a shift away from the use of training and subsidized labour in favour of the other measures, which is in line with the findings on net effects in the literature. However, many countries still spend a large portion of their budget on measures that do not seem highly effective. Consequently, the overall effectiveness of ALMP could be improved by changing the policy mix.

In Chapter 3, Verbist, De Lathouwer and Roggeman evaluate an earnings tax credit measure that was introduced in Belgium in 2002. This is the type of measure that fits perfectly into the tendency to enhance the incentives for non-working people to find a job. The measure is targeted towards the low-paid, which seems to be logical given the Belgium context in which unemployment and inactivity are particularly high among those who have to rely on low-paid jobs. It is this group that has been caught by the poverty trap. However, making paid work more attractive is only one goal of the measure. The second goal is to increase the incomes of the working poor. Yet, in spite of the good intentions the measure appears to have little impact in practice, which stands in contrast to the more positive experience with earnings tax credits (ETC) in countries like the UK and the US. Verbist, De Lathouwer and Roggeman explain the poor results of the Belgium variant on the grounds that it is individualized. As a result, people are eligible who are part of households with relatively high incomes. For those people the financial incentive is small, even if the bonus is relatively high compared to their personal wage.

Improvements may also be possible by means of innovations in traditional active labour market policy. In Chapter 4, Delander, Månsson and Nyberg evaluate a fairly traditional active programme for the long-term unemployed, which differs in one important aspect from the type of measure commonly used: involvement of the unemployed in the counsellor's role. Involving the unemployed as counsellors made up for the increasing workload of the official counsellors resulting from increasing unemployment. The unemployed involved might thus enhance their skills and positively affect their job chances (although initially the activity may reduce the intensity of their job search). Furthermore, it is conceivable that unemployed individuals can help other unemployed people more effectively because they know the problems the latter face in searching for jobs from their own experience. The programme aims initially at intensified job search, but the additional provision of training and other instruments seem to be necessary during the job search process.

The results turned out quite positive. The measure has a direct positive effect on the probability of finding a temporary job. However, as temporary employment is often a first step towards permanent employment, one might expect positive long-term effects on permanent employment opportunities too. Furthermore, many of those not placed in temporary employment were able to participate in specific active measures, which consequently increased their job entry chances. Delander, Månsson and Nyberg argue that by involving the unemployed as counsellors the costs of the programme are relatively low and conclude that the programme is cost-effective. In their view the most important conclusion to be drawn from the programme is that intensified counselling for the long-term unemployed leads to intensified job search, which ultimately results in higher outflow rates to employment. Hence, the case for the long-term unemployed is by no means hopeless.

In the evaluation literature on active policies most attention is given to measures for the unemployed. However, many people who would like to have a job do not actively search for one, because they stand no chance whatsoever of finding one. These people are not officially counted as unemployed. Disabled people and lone parents are important subgroups within the total inactive group. This is at least the case in countries like the Netherlands and the UK. Furthermore, recently considerable effort has been put in both countries into activating these groups. However, in his review of the international evaluation literature, which includes some 130 studies covering the Netherlands, the UK as well as other countries, de Koning finds only a few examples of studies dealing with the effectiveness of reintegration measures for the disabled and not a single example for lone parents. Meager's contribution, in Chapter 5, evaluating the UK

reintegration policies for the work-limiting disabled and for lone parents is therefore a highly important one.

As far as the work-limiting disabled are concerned, Meager's conclusions coincide with the conclusions drawn by de Koning, namely that so far reintegration policies for this group have not been particularly effective. The UK policies for lone parents, however, seem to be effective. Meager argues that this difference is due to the fact that UK policies have become solely directed towards the supply side of the labour market. The underlying philosophy is that if wages are sufficiently flexible, removing supply constraints will lead to equilibrium in the labour market (we already came across this point in note 2). When it comes to lone parents it is logical that such an approach works – as an important reason why lone parents do not participate is that they have to care for their children.⁵ If, for example, arrangements for childcare are created which they can afford, this will probably take away most of the bottlenecks for labour market participation. However, for disabled persons the main reason why they do not find a job is that their productivity is too low compared to the wage level in the labour market. So to improve their job entry chances, policies should also address the demand side. Wage subsidies are a possible solution. However, even then in some regions the labour market is likely to be 'thin' with an insufficient employment level to absorb the regional labour supply. In that situation groups with a weak profile in the labour market will be particularly vulnerable.

For lone parents and work-limiting disabled people the main causes for their difficulty finding a job are clear and can be dealt with by specific measures. For other groups this is more difficult, as they are confronted with a range of problems that are only partly related to the labour market. These groups are often referred to as the socially excluded. Being out of work for a long time is a common feature, but in addition they may be characterized by homelessness, a criminal past, serious health problems, etc. Chapter 6 by Nicaise is highly relevant as it evaluates new forms of sheltered employment in Belgium which explicitly aim at the placement of these groups in the regular labour market. What is also interesting about this approach is that it does not fit into the fashionable 'make work pay' approach, but emphasizes the necessity of investing in people, not only in their productive knowledge, but also in their social and cultural capital. Different types of social companies exist, varying as to their emphasis on investment in the people concerned and on the temporary character of the placement in these companies. The most successful are the social companies that combine investment in the disabled with the explicit aim of ultimately placing them in the labour market.

Involving Private Agencies in the Delivery Process

Before 1990, in most countries, active labour market policy was largely implemented by the Public Employment Service (PES). In many countries job brokering by private agencies was even forbidden. Today, the ban on private job brokering has been lifted in most countries. In some countries like Belgium and the Netherlands job brokering on a private basis is mostly done by temporary work agencies. In addition to using it to deal with output fluctuations, many employers use temporary work as a hiring device. The temporary work then serves as a probation period. On a smaller scale job brokering on a commercial basis exists in specific submarkets (ie for artists and high-level officials).

For several reasons the private market for employment services is limited. Many unemployed job seekers, for example, lack the financial resources to buy mediation and training services. Companies are in a better position to finance the services, but are reluctant to pay for the hiring and training of unemployed persons who do not meet the required productivity standards. So, particularly for groups with a weak position in the labour market, public employment services are needed.

However, instead of having a public organisation providing employment services to job seekers and employers for free, it is also possible to subsidize the services but have them implemented by private (or at least non-government) agencies. This idea is not completely new. Even with the 'old' PES some activities like training were (partly) outsourced. However, some countries have gone much further and have outsourced a considerable part of the PES. Australia took the lead in this area and the Netherlands followed suit a number of years ago. By letting private agencies compete for the contracts, one expects higher quality services and lower costs. Furthermore, by having private companies implement service provision, the government can more easily vary the amount of money spent on active policies. It is usually very difficult to reduce the staff size of public agencies.

A number of contributions in this book deal with this development. For Bruttel (in Chapter 7), the arrangements in Australia or the Netherlands can be described as privatization in the sense of contracting-out. Governments, social insurance bodies or local authorities contract private companies to implement active policies and give them a maximum amount of freedom to deliver their services. Here, competition between the agencies involved leads to a situation that comes close to a true market: providers who perform below average lose their contracts, while the best performers are able to increase their market shares. Consequently, the average performance of the whole system will dynamically improve from contract to contract. Bruttel, however, recognizes that this requires a significant amount of information

on employment outcomes for the individual participant. If this information is available and the performance management system is well designed, the use of private agencies will, in his view, lead to better results. Although empirical evidence on the performance of the market model compared to the old PES model is still limited, the available information to some extent underpins his judgement empirically.

Struyven, on the other hand, (in Chapter 8) stresses the fact that we can speak at best of a quasi-market. In his view we can interpret this process as outsourcing to private agencies. Basically the government, or a public organization acting on behalf of the government, referred to as the principal in contract theory, remains fully responsible for public employment services. In practice, this means that the actions of the private agencies being contracted for the implementation are highly regulated by the principal. Unemployment is a politically sensitive issue and so are policies like active measures that aim at reducing unemployment. As soon as these policies fail to produce the expected results, the government is usually supposed to solve the problems. This leads to a tendency for the government to monitor the results achieved by the agencies and to regulate many aspects of the agencies' work processes (acceptance of clients, quality of services, placement results, etc). In the country with the longest experience of contracting out public employment services to non-public agencies, Australia, Struyven observes a tendency to reduce the role of prices in the competition between the agencies and to enhance the quality aspect. However, highly regulated competition on the basis of quality between firms that are contracted by the government is not too different from the type of yardstick competition treated by Hilbert (in Chapter 13) in this book. In practice, the main difference may not lie in the outcomes, but in the fact that outsourcing leads to more budget flexibility for the principal.

De Koning, (in Chapter 9) discusses the Dutch system in some detail. In the Netherlands the system evolved gradually from the traditional model with a strongly centralized PES implementing the whole of active labour policy to a highly decentralized system where implementation is largely outsourced to private agencies. A PES still exists but concentrates almost completely on labour-extensive, ICT-supported matching services that are primarily aimed at increasing the transparency of the labour market. In the new system the responsibility for reintegration services has been delegated to the benefit-paying authorities, that is the municipalities and the implementation organization for social security *Uitvoeringsorganisatie Werknemersverzekeringen* (UWV). These authorities have their own budgets for reintegration and hire private companies to implement the services. As there are many municipalities and many reintegration firms one could argue that there are many buyers and suppliers, which seems to be in line with Bruttel's view that the situation

pretty well resembles a normal market. From a viewpoint of market efficiency the only drawback is that a single buyer, UWV, holds a substantial part of the total budget for reintegration.⁶

Initially the government tended not to interfere in this market. However, it soon became clear that, contrary to expectations, the market was simply not doing its job. The placement results were disappointing. In reaction to this situation the government enhanced its monitoring and co-ordinating role. Municipalities are no longer obliged to outsource implementation to private providers. The budget allocated from the central government to municipalities for paying social benefits is a fixed budget depending on the municipalities' characteristics in terms of population and employment structure. If they spend less on benefits than they get from the central government they can keep the difference, but if they spend more they have to pay it from their own resources. This gives them an incentive to reduce the number of benefit claimants. The system slightly resembles the principles set out in the Swiss reform dealt with by Hilbert (in Chapter 13), where the central government delegates responsibilities to the regional level and at the same time tries to control the performance of the regional agencies. All in all the system is far from being a simple market.

Outsourcing to private agencies is no guarantee for improved results as is shown in the second contribution by Delander, Månsson and Nyberg in Chapter 10, in which they evaluate a project in 2000 in response to the contention aired in the Swedish debate that private temporary employment agencies engaging in placement services could succeed better than the PES in job placement for immigrant job seekers. Many of the latter belong to the category of the hard-to-place unemployed. In the project after tendering, funds were placed at the disposal of a temporary employment agency to be used for placement activities for the unemployed with an immigrant background. To make an effect evaluation possible, a public employment office received staff reinforcement at a cost corresponding to the amount earmarked for the private agency. The reinforcement was used for intensified placement services for a group of unemployed immigrants – one of the comparison groups in the evaluation. Another comparison group was selected among unemployed immigrants in a local labour market where the employment service did not receive additional resources. Thus the members of the second comparison group received customary placement services.

The result of the evaluation was that the private supplier of placement services was less successful as regards job placements than the public employment office that received increased resources. There was no statistically significant difference between the results for the group handled by the private agency and the group in the local labour market where the PES

received no extra resources. Thus the project did not support the view expressed in the public discussion that mediation services for the project's target group provided by a private supplier are superior to similar services provided by public employment offices. One might argue that one important element was missing in the experiment: competition between many providers. However, as the contribution by Hilbert shows (in Chapter 13), such competition is not necessarily tied to privatization; one could also organize it in a public model.

Benchmarking

In most countries the implementation of employment services and ALMP is to some extent decentralized. That means that on the regional level public organizations are responsible for implementation and have some room for a different policy mix or implementation strategy. If these regional agencies outsource implementation to private agencies, this probably adds to the diversity. Questions that naturally stem from such a situation are: (a) how does the performance of the different implementing agencies compare, (b) which implementation strategies are most effective, and (c) how can the results of the poor performers be improved? These questions are equally relevant for a publicly oriented model as for a market oriented model. When comparing the performance of different agencies it is of course essential to control for factors that are out of the hands of these agencies, such as the regional economic situation. Methods that try to produce such corrected performance measures are called benchmarking methods.

In Chapter 11, Mosley and Müller apply a benchmarking method to compare German employment offices' placement results with regard to specific measures like training. Using a linear regression model they seek to explain the variation in the reintegration rates in terms of contextual conditions of the labour market. On the whole, they are able to explain the variance to a very satisfactory degree. In other words, a considerable proportion of the differences are attributable to factors that the public employment agencies themselves cannot control.

Then they use the regression results to calculate adjusted values that can be used as indicators for the relative performance of local training and direct job creation measures, controlled for contextual factors. The values which vary from the expected value by approximately 20 per cent, reflect considerable differences in performance across the agencies. They also find little relation between the adjusted and the unadjusted reintegration rates. So keeping contextual factors in mind is crucial when comparing performance; reintegration rates that have not been controlled for such influences are misleading.

Using panel-econometric methods Mosley and Müller extended the analysis to include data for multiple years. Whereas the determinants of the reintegration rates remain robust, the derived performance indicators fluctuate between different years. Thus the authors warn potential users not simply to take the outcomes for granted as the method used has several drawbacks, some of which are not easily solved. The statistical results should therefore be checked against experience in order to improve the regression equation and to identify special circumstances of individual PES agencies. The use of regression-adjusted values as a performance indicator is a useful management tool, but not, as the authors emphasize, a substitute for a dialogue with local actors.

The contribution by van Donk and de Koning in Chapter 12 is pretty much in the same spirit as the previous one. They compare the performance of Dutch employment offices. Since Dutch employment offices (or Centres for Work and Income as they are called nowadays) mainly provide information and mediation services for the short-term unemployed, they concentrate on the impact of the services provided by these offices on this group. The two questions answered in this chapter are: (1) what is the average impact of the services provided on the placement rate, and (2) to what extent does the performance of employment offices in terms of placing the short-term unemployed differ?

Similar to the approach followed by Mosley and Müller, a regression model is used to account for the influence of contextual factors. The main difference is that van Donk and de Koning include a variable indicating the caseload of counsellors, which at least partly accounts for the variation in placement results among the offices. This variable is significant and has the expected sign, suggesting that an increase in the staff-client ratio leads to an increase in the placement rate. Van Donk and de Koning use a fixed effects panel data method for estimating their models. If the dummy variables for the offices are assumed to represent the relative effectiveness of the individual offices, then this relative effectiveness can be computed from the regression results, which is something they actually do. The results indicate that of almost 85 per cent of the centres, performance is at most 30 per cent higher and less than 30 per cent lower than that of the average performer. Van Donk and de Koning also state that the model as it stands should be used with caution and add a number of recommendations for improving the method. The use of individual data to measure the relative performance and improvement of the input indicators are the most important ones mentioned.

Neither in Germany nor in the Netherlands have such benchmarking methods actually been used to assess regional employment offices.⁷ In Chapter 13, Hilbert discusses the Swiss case in which such an assessment is actually made on the basis of a benchmarking model. Here, too, regression

analysis forms the basis of the method. Originally the Swiss plan was to make the allocation of funding to regional offices dependent on the measured relative performance. However, this part of the plan was not realized because of discussions concentrating on the question of whether all the relevant contextual factors were included in the model. One might expect that regions whose budget declines as a result of budget allocation on the basis of the model will tend to argue that relevant factors for their region are not included. As models are never perfect, there are always some missing factors to point to. However, using a model that is not perfect may still be better than allocation on the basis of a simple rule (such as the number of unemployed), particularly if the rule favours the poor performers. Perhaps, it would have been better to take more time for the implementation process, making it possible to further improve the model and giving the regional actors more time to get used to the system. However, given the power of the regional authorities (the cantons) it is still questionable whether any implementation strategy could have been successful.

As the data on which the Swiss model was based were not available to Hilbert, he investigates the reliability of such a model on the basis of German data. Given the fact that the German data situation seems to be reasonably typical for other countries, this exercise gives an indication of the feasibility of the approach to other countries besides Switzerland. What appears to be a weak feature of the Swiss approach is that the performance indicator, on the basis of which labour offices are judged, is a composite indicator. It is a weighted average of four indicators. The problem is that the composite indicator is highly sensitive for the weightings used. Furthermore, there is no intuitively appealing method to determine the weightings. So even though Hilbert finds reasonable regression models for the individual indicators, the overall results on the basis of the composite indicator are quite subjective. There seem to be two ways out of this problem. The first solution is to use one indicator, the regional unemployment rate for example. Alternatively, one could use multicriteria analysis, which is an evaluation method that was specifically designed to deal with qualitative variables.

As previously mentioned, benchmarking methods easily provoke the criticism that not all the factors affecting performance have been accounted for. Particularly if the outcomes have implications for the budget allocation or other reward mechanisms, those suffering from the outcomes will be inclined to criticize the results. Therefore it is of crucial importance to account for as many relevant factors as possible. Månsson's contribution in Chapter 14 is highly important in this respect. The results from the earlier contributions may suffer from omitted variables and from the fact that the chosen linear form is not an adequate representation of reality. His chapter deals with both

these points. First, he emphasizes that employment services are not a standardized, mass product. Quality plays, or should play, an important role in employment services. Hence, he includes indicators for quality in his model and the results indicate that adding quality factors affects the results considerably, suggesting that quality really does matter in employment services. Secondly, he uses a more elaborate method than linear regression, namely the so-called distance function approach, which enables him to specify the technology used by employment offices in a fairly general way. This adds to the reliability of the method.

3 POLICY RECOMMENDATIONS AND FURTHER RESEARCH

A review of the evaluation literature shows that ALMPs as such cannot be simply discarded as ineffective. Certainly not everything works, but it is equally untrue to suggest that nothing works. We can also observe that many countries try to adjust their policy mix for an ALMP on the basis of the experience. This had led to a trend away from measures that have not proved too successful to measures that seem to perform better. However, a lot of questions still remain to be answered. Do the positive effects of the measures outweigh their costs? Is the variation in outcomes due to variation in design and implementation strategies, which could provide the basis for improvement? Do the relatively poor evaluation results for some measures such as training, and particularly subsidized labour, truly reflect the performance of these measures or is this also due to limitations of the evaluation methodology used and the (relatively short) time span of the evaluations? Or are measures sometimes simply applied to the wrong groups? Further research into these questions is needed.

It is worthwhile looking for ways to improve ALMP. Many people need help in finding a job and are unable to succeed on their own. Furthermore, it is not at all obvious which alternatives could replace the more traditional ALMPs like counselling and training. Completely replacing traditional measures like training and subsidized labour by incentive-based schemes such as tax earnings credits is not the answer. Some of the chapters in this volume also indicate the limits of the make work pay approach and highlight the need to invest in people. Some chapters demonstrate that promising results can be achieved for even the most disadvantaged groups. However, on the whole the results of ALMP are still unsatisfactory, and this calls for more innovation.

Looking at national and EU programmes, one could argue that a lot of innovation is already going on. The EQUAL programme of the European

Commission (the Commission) can be mentioned as an example. This programme subsidizes innovative projects in a number of fields including ALMP. Each country can devise its own programme with its own priorities. The funds are partly provided by the Commission and must for the other part be paid for by the country. The total budget amounts to billions of euros. The idea is that small-scale projects develop new instruments, which are then incorporated into mainstream policy and applied on a wider scale. Mainstreaming is mainly occurring within the country in which the new approach was developed. Transferring good practices between countries is the objective of the so-called peer reviews that are being organized by the Commission. In a peer review a specific policy that has been developed and applied in one of the member states is discussed with government officials and experts from a number of other countries that consider taking over the policy.

However, a serious weakness of both EQUAL and the peer reviews is that new instruments and policies are hardly ever seriously evaluated. In the EQUAL programme, for example, we do not know of any example where a control group approach or an alternative viable evaluation method was used to measure the added value of the new measure or policy compared to existing measures and policies. This is a serious drawback. Many interesting projects have been carried out that have produced promising results, but we do not know whether they really constitute an improvement over existing measures and policies. Evidently, this uncertainty has a negative effect on the willingness to use the results in mainstream policy.

The EQUAL programme will not be continued but experiments will probably still be possible under the future European Social Fund (ESF) programme. To be of real use, it is essential that evaluation becomes an integrated part of these experiments. In this respect a lot can be learned from the US experience.

The lack of good evaluations does not only apply to the European programmes, but applies to the member states as well, although some countries are more active in this field than others. What is generally missing is a framework to learn from different experiences. In many countries we see a tendency to delegate the responsibility for active policies to regional and local bodies. This is also apparent from a number of contributions to this volume. This decentralization leads to or adds to existing variation in design and implementation strategies. Such variation is not bad as long as a mechanism exists to learn from it. By comparing the results of the regional implementing agencies it is possible, at least in principle, to determine what is bad and what is good. Then the overall national results can be improved by abandoning the less successful strategies and designs and adopting the ones that have proved successful. A number of contributions in this book

discuss and apply benchmarking methods that can be used for this purpose. It would be important for the organizations that are responsible for ALMP to make use of these methods.

There has been a somewhat naive idea that outsourcing implementation to the private market and having the companies involved compete for the contracts would more or less automatically lead to effective and efficient public employment services. One could simply leave things to 'the market', so it was believed. The contributions in Part II of the book, however, clearly show that this is not the case. Perhaps the key problem is that in this 'market' service quality is very difficult to measure. What active policies attempt to achieve is an improvement in the labour market situation of jobless people. Hence, the service provision aims at reaching a net effect, which is basically an unobserved quantity for all the actors involved (the authority, the agency and the client). What complicates matters even more is that positive net effects achieved for individual clients do not necessarily imply positive net effects on the aggregate level. This does not mean that it is impossible to create a situation where the competition between private firms leads to improved net outcomes, but it does imply a high level of regulation. The process has to be organized in such a way that one can be reasonably sure that there is pressure towards reaching maximum net effects, or at least maximum gross effects given the characteristics of the clients. So in a (quasi-)market situation as well the relative performance of the implementing agencies should be measured using benchmarking methods. In that sense, there is no basic difference with the situation in which public agencies do the implementation and are compared on the basis of their performance.

NOTES

1. Another reason could be that structural changes in tenure and mobility are not detected because of the type of data used. For a reliable measurement one would need career data which allow individuals to be followed over a long period. Most studies, however, are based on data with respect to transitions from one period to the next one. Furthermore, structural changes in tenure and mobility in specific sub-markets of the labour market may not be reflected in macro data or only partly.
2. One might argue that if more people in the labour market are more highly educated, it only leads to more displacement of less well educated people, without changing macro unemployment. However, this is based on the assumption that the macro level of employment is a given. There is, however, convincing evidence that if the labour market is sufficiently flexible, the wage mechanism can bring this market closer to an equilibrium (Layard et al., 2004). Both in terms of level and skills structure employment will then tend to adjust to labour supply. However, we agree with Meager (see his contribution in this volume) that labour market flexibility and supply side measures alone are not enough to reduce unemployment and involuntary inactivity to acceptable levels.

3. There are other ways to encourage people to avoid using unemployment benefits. One could think of arrangements, for example, where people get a refund for their premiums if they have worked more than a certain number of years. Also possible is saving for one's own benefit with the possibility of using the savings at the end of one's working life. Such options have been discussed within the framework of the reforms of the Dutch unemployment insurance system, but they will probably not be included. As simulations by de Koning, Kroes and Van der Steen (2006, forthcoming) show, a system based on individual saving would lead to a situation where many people who become unemployed fail to save enough to finance their own benefit (or the part of the benefit that is individualized).
4. Active measures can also be used to reduce moral hazard by testing the willingness to work of unemployed beneficiaries. Work first initiatives are based on this idea. They often imply that the unemployed have to 'earn' their benefit by doing simple work which is often below their qualification level. Participation in active measures is not, however, by definition unattractive to the unemployed. A well-known problem with subsidized labour schemes for the long-term unemployed is that many among the latter tend to prefer staying in them and are not motivated to look for a regular job.
5. The improvements in the UK labour market since the introduction of the New Deal can indeed be seen as supporting the proposition that under the right conditions supply side measures affect employment positively.
6. Increasingly UWV gives beneficiaries the opportunity to choose the firm that is going to provide the reintegration services. With many beneficiaries demanding reintegration services and many firms offering these services market forces are enhanced. However, budgets and therefore prices are still determined by UWV, which also monitors output.
7. In the Netherlands such an approach exists with respect to the allocation of the budget for social assistance benefits to municipalities. The latter receive a budget based on their objective budgets need, which is determined by a regression model. In the model, social assistance expenditure per household is attributed to a number of factors indicating the structure of the municipal population and the local and regional employment situation. If municipalities spend less than the budget they can keep the difference, but if they spend more they have to pay the difference from their own resources. This is supposed to provide an incentive to reduce the number of beneficiaries (benefit entitlement criteria and the level of the benefit are still determined by central government).

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