

Devolving public employment services: Preliminary assessment of the Australian experiment

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The role of public employment services and the extent of their involvement in the labour market have varied considerably between countries and over time. Models have ranged from public monopoly of job-matching activities enforced by government regulation to free coexistence of public and private job placement agencies. Perhaps the fundamental reason for the continuing existence of public employment services has been to promote equity in the labour market by ensuring that the most disadvantaged or hard-to-place jobseekers have access to a guaranteed level of assistance in enhancing their employability. This has remained a public role because the incentives created by free markets in employment services tend to result in the relative exclusion of this group from assistance.

Throughout the OECD countries there has been a recent trend towards devolving the delivery of active assistance programmes for the unemployed and making employment services markets more competitive. Along with the presumed benefits of competition, the rationale for this shift is most commonly explained in terms of tapping into the expertise, innovation and area-specific knowledge that are more likely to be available through local or specialized agents than via a centralized and unresponsive government department. Australia's Commonwealth Government has, under a national model called the "Job Network", perhaps gone further along this path than any other, by contracting out almost all the services previously provided by the public employment service.

The Job Network challenges the fundamental argument for delivering employment services through public institutions rather than

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through competitive markets. With perfect information and zero transaction costs, private agencies could perform the role of a public agency, provided that the adverse effects of incentives are avoided by drawing up contracts that specify the work to be done. This would offer the efficiency gains thought to derive from the contracting-out of government services. Indeed, the stated aims of the Job Network include improved equity as well as efficiency outcomes, with a focus on the needs of the long-term unemployed and other special groups. However, given that many of the important characteristics of individual jobseekers and aspects of the quality of services provided to them are not easily observed, is it possible to enforce contracts that ensure that equity outcomes are achieved? Do the benefits of competition outweigh the added transaction and monitoring costs associated with such complex contractual arrangements? Critical issues for the evaluation of labour market interventions, such as selection bias on unobservables, further complicate the monitoring of performance in such an environment.

This article seeks to contribute to the international body of evidence on the effectiveness of different models of delivery of public employment services by providing an overview of the initial experience of Australia's radical experiment. Following a brief review of the relevant literature, the Job Network model and its implementation are described. This is followed by a discussion of the outcomes relating to cost effectiveness relative to the previous public employment service and the evidence on the incentive effects created by the funding model. A concluding section summarizes the lessons to be drawn from the Australian experience with respect to the contractual model and evaluation issues.

Public employment services and private employment agencies

Employment services consist of job-matching activities for employers and jobseekers, plus associated activities such as preparation for employment, gathering labour market information and administration of labour market adjustment programmes (see Thuy, Hansen and Price, 2001). The public sector is actively involved in the employment services market in all industrialized economies. This reflects an acceptance that the market for employment services is one that will not deliver socially optimal outcomes when left to free market forces. It also reflects the desire to use public institutions to deliver assistance to those disadvantaged in the labour market in order to achieve equity objectives. In countries with unemployment insurance or benefit schemes, the public employment service may also administer the scheme and apply "activity tests" to ensure that those in receipt of benefits are making sufficient efforts to find employment. Typically this will involve impos-

ing sanctions, such as the suspension of benefits, for failure to pass the activity test.

Efficiency

From an efficiency perspective, the rationale for a public role generally rests on market imperfections that can be expected to lead to an under-provision of employment services. These include the presence of social externalities, imperfect capital markets, asymmetric information or the existence of the conditions for a natural monopoly. From an equity perspective, the need for a public role in the job brokerage market is clear. As private brokerage firms are paid for each successful job-match, private providers will service those jobseekers who are easiest to place, that is, the most advantaged jobseekers. Disadvantaged jobseekers themselves will typically have low incomes and a lower capacity to purchase employment assistance. A private employment services market will therefore lead to the exclusion from assistance of the most disadvantaged jobseekers. The tendency for agencies to offer services to those jobseekers who already have the greatest chance of finding work is known as “creaming”. In labour market programmes, creaming contributes to greater deadweight loss (payments for outcomes that would have occurred anyway) and limits the amount of assistance directed to jobseekers most in need.

Public employment services evolved, for the most part, out of labour exchanges whose principal role was to improve the matching process of the labour market and to protect workers’ rights in markets in which employers possessed far greater bargaining power than the individual suppliers of labour (Biffl, 1993; Ricca, 1988). In 1948, the ILO adopted the Employment Service Convention (No. 88), providing that each Member of the ILO “shall maintain or ensure the maintenance of a free public employment service”. Today, the public sector’s involvement varies considerably between countries with respect to the extent and form of involvement, the degree of regulation and the use of the market sector. Walwei (1996) provides a typology of job placement systems ranging from “monopoly systems”, to “coexistence systems” and “market systems”. In strict monopolies, private agencies are either illegal or permitted to provide only very limited functions, and the primacy of the public employment service may be enshrined by legislation requiring employers to notify all vacancies to the public agency. Over the past two decades there has been a major shift throughout the OECD countries towards greater involvement of private providers (Thuy, Hansen and Price, 2001; De Koning, Denys and Walwei, 1999; OECD, 1999; Fay, 1997; Walwei, 1996; Ricca, 1988). This can be seen as part of a wider trend in public policy to open the public provision of services to competition through privatization or contracting out. This improves allocative efficiency, so the theory goes, since private

agencies and their employees have stronger performance incentives than employees in the public sector (Kübler, 1999, p. 86; Zweifel and Zaborowski, 1996, p. 137). Further, competition results in a greater range of approaches being tested, leading to innovation, a higher rate of improvement in service quality and cost effectiveness, and greater responsiveness to client needs. There has also been a trend to increase the role of the social partners in the design and implementation of assistance policy, and to tap into local knowledge and networks that often cannot be accommodated in a centralized, bureaucratic policy (OECD, 1999).

There is only a limited amount of empirical research pertaining to the relative merits of public versus private employment agencies, or of the optimal mix between the two sectors, to support the theory. Undoubtedly, the respective roles of the public and private sectors vary with the institutional labour market framework in each country. There is evidence to show that the public employment service generally does target assistance to disadvantaged job seekers, namely the low skilled and longer-term unemployed, while private agencies concentrate on more highly skilled and better educated workers (Thomas, 1997; Gregg and Wadsworth, 1996; Clark, 1988). The effectiveness of that assistance is another matter. A review of the performance of the public employment service in several countries (Fay, 1997) indicates that the brokerage function of the public employment service is effective in at least assisting the most disadvantaged. An evaluation by the Department of Employment, Education, Training and Youth Affairs (DEETYA) of Australia's previous experience with purchasing case-management services from private and non-profit providers found that the public and contracted case-managers achieved almost identical outcomes both in terms of the profile of clients served and placement rates (DEETYA, 1996). However, it took about a year for the success rate of contracted managers to match that of the public-sector managers, reflecting the conclusion that "initiatives to increase contestability, such as contracting out, will be subject to a learning curve before operating effectively" (Fay, 1997, p. 28). A number of empirical studies have found that using public employment services is actually detrimental to jobseekers' rate of exit from unemployment. However, more rigorous research designs and experimental evaluations, mainly from the United States, have tended to produce more favourable findings.

Gregg and Wadsworth (1996) model the impact of different job-search activities on the transition rate out of unemployment in the United Kingdom. Direct approaches to employers are found to be the most effective method. "Jobcentres" do have a significant positive impact, though less so than private employment agencies. Moreover, Gregg and Wadsworth find that the greatest beneficial effect of the use of "jobcentres" is experienced by the long-term unemployed, while pri-

vate agencies produce no beneficial effect for this group. Hence they find that the public employment service is not only effective, but is most effective in serving its traditional target group. Thomas (1997) argues that the failure of previous studies to allow for the timing of assistance has biased findings against the public employment service. If jobseekers turn to public employment services only after trying other search methods, having already spent some time in unemployment, then one would expect to find an association between use of public employment services and longer duration of unemployment. His analysis finds that jobseekers using the public employment service early in their spells of unemployment experience shorter durations of unemployment than those using alternative search methods. Those who eventually found work through the public employment service, but who did not use it early in their spell of unemployment, experienced a longer duration of unemployment than those using alternative methods. This result points to the likelihood of bias in studies that do not take account of the timing of interventions.

Cost effectiveness

In terms of cost effectiveness or “process efficiency”, comparisons between public and private agencies are frustrated by the need to standardize output quality. Private agencies tend to specialize in higher yielding market sectors based on a particular set of skills, while public agencies service a greater proportion of unskilled or low-skilled clients. Clark (1988) compared the total placement costs for private and public employment agencies in the United States. Contrary to the normal approach which would predict lower costs in the private sector, he explores the hypothesis that, when the attributes of output are not easily observed, public agencies will put fewer resources into providing services since, unlike private agencies, they do not face the market rigours of customer satisfaction. Consistent with this view, public agencies are found to have lower placement costs. Placements are broken down into three categories by wage to allow for the different market sectors in which private and public agencies concentrate. Comparisons between public and private agencies must always be tempered by the fact that the objective of the public employment service to assist the least employable jobseekers directly conflicts with its role of providing an efficient matching function and there is often a stigma attached to the public service, which employers perceive as providing inferior referrals.¹

¹ Bishop found that private and public employment agencies fared equally badly with respect to employers' perceptions of the quality of recruits, leading him to suggest: “Apparently the problems of the Employment Service cannot be solved by contracting out the function to private employment agencies” (1992, p. 11).

Kübler (1999) models the implications of the coexistence of public and private agencies, rather than attempting to establish the superiority of one over the other. The private agency is assumed to match workers of a given quality more efficiently than the public agency, but to charge a positive amount for doing so. Information on the productivity of workers is distributed asymmetrically, such that the workers know their own particular productivity while the employer knows only the productivity distribution across workers. The notable outcome is that the inefficiencies associated with assumptions of information asymmetry and the slowness of the public services are not reinforcing in the presence of private agencies. This is because of a sorting process in which “good” workers use private agencies in preference to the public agencies, where “bad” workers receive an information rent. Kübler concludes that the cost of policies to improve the efficiency of the exchange needs to be weighed against the beneficial sorting effect where a range of institutions of varying efficiency in matching exist.

To summarize, the evidence is reasonably convincing that public employment services provide direct assistance to disadvantaged clients and that this has at least a small positive effect on clients’ labour market outcomes. It is clear that private agencies target the upper end of the market, but evidence to support the proposition that private agencies operate more efficiently than public agencies, after controlling for their respective clientele, is weaker. Of course, studies relating to the performance of private versus public agencies are undertaken while the public employment service coexists as a provider of last resort. Even if the superior performance of private agencies could be established in an environment of coexistence, it would not necessarily follow that full privatization would be socially optimal. The ILO’s Private Employment Agencies Convention, 1997 (No. 181) provided a timely reflection on the state of the debate. Adopted as the Australian reforms were being formulated, the Convention recognizes the contribution private employment agencies may make in a well-functioning labour market, while also setting out the parameters to ensure the protection of workers or jobseekers using their services.

Australia and the introduction of the Job Network

Until 1998, the Commonwealth Employment Service (CES) was the principal public institution in the Australian employment services market. At that time it operated in a relatively open market by world standards. Private job-placement agencies were active and the Government made considerable use of contracted private and community organizations in the delivery of labour market programmes (Webster and Harding, 2000). There was no obligation on employers to use the CES in recruiting, but jobseekers had to register with the CES in order

to claim unemployment benefits and were subject to various degrees of activity testing. In 1998, the CES was abolished and replaced by the Job Network, in which practically all public employment services were contracted out to private or community organizations. At the time, there were almost 300 CES offices around Australia, administering a large number and wide variety of programmes. In 1995-96 and 1996-97, programme expenditure was in excess of A\$2 billion.

To make way for the competitive employment services market, the public employment service's roles of registration, eligibility assessment and provision of jobseeker services were amalgamated with the social security department's role of administering income support, to form a single agency, Centrelink. A national vacancy database was established which could be accessed by jobseekers through Centrelink offices, and by service providers and employers. The funding previously provided for labour market programmes was "cashed out" to fund the new market, with the exception of a small number of labour market programmes which were retained under the Job Network (DEETYA, 1998, p. 2).

Levels of service

Three levels of service² were identified for contracting out:

1. Basic job-matching activities — collecting and lodging vacancies on the national vacancy database and matching registered jobseekers to vacancies notified.
2. Job-search training — this includes training in job-search skills and enhancing jobseeker motivation. The intended target group for this level of assistance comprises those who have been unemployed for six months or more. The provider is required to draw up a written job-search skills development plan in consultation with the jobseeker, and training is to be offered over 15 consecutive working days to help clients adapt to a working routine.
3. Intensive assistance — for jobseekers who are disadvantaged, long-term unemployed or identified as being at risk of becoming long-term unemployed. Providers can offer this assistance in a variety of forms, including personal development, skills training, literacy training, work experience or even payment of wage subsidies negotiated with employers. Thus intensive assistance potentially encompasses all of the active labour market programmes previously delivered by the public employment service. Within intensive assistance services, jobseekers are categorized

² In the terminology of the initial tender round, these were called FLEX1, FLEX2 and FLEX3 (for flexible labour exchange services).

into a further three levels of disadvantage, each attracting a different level of payment. Jobseekers may remain on the service provider's caseload for up to two years.

The country was divided into 29 labour market regions and the competitive market was established by calling for tenders from private, community and government organizations on a regional basis. Providers were selected with a view to striking a balance between competitiveness and financial viability. A corporate government agency, Employment National, was established to provide services, on the same terms and conditions as other providers, in areas where alternative providers could not be successfully secured. A community support programme was also established for persons who were unlikely to benefit from employment services under the Job Network, such as those with serious psychological problems or substance dependency.

Successful tenderers were granted an allocation of Centrelink referrals over the contract period. The eligibility of jobseekers for each level of assistance — and to attract the associated payment for a successful outcome — is determined by Centrelink through a survey known as the Jobseeker Classification Instrument. The first tender period covered services to be provided between May 1998 and February 2000. In June 1999, the Department³ put out a request for tender for services to be provided from February 2000 to March 2003.

Payment structure

Competition is generated both through the tender process and because jobseekers generally have a choice of provider. The linking of payments to outcomes is intended to generate positive incentives for performance. For job-matching services, providers receive a payment at their contracted rate for placing an eligible jobseeker in a vacancy notified on the national vacancy database. Eligible jobseekers can use several providers at once, while all jobseekers have access to self-service facilities at Centrelink offices. The Department reports that the average fee paid for a successful match at the beginning of the first round of contracts was A\$200, with bonus payments available for placing long-term unemployed jobseekers (DEWRSB, 2000, p. 47). For job-search training, a payable outcome simply relates to process and means signing an eligible jobseeker onto the job-search plan. But the performance of providers — and, hence, their chance of success in later tender rounds — is measured by the sustainable employment outcomes achieved.

³ Following a restructuring, the department with responsibility for the former public employment service and subsequently for the Job Network changed from the Department of Employment, Education, Training and Youth Affairs (DEETYA) to the Department of Employment, Workplace Relations and Small Business (DEWRSB).

The payment structure is more complicated for intensive assistance. As the provider is expected to make a significant investment in improving jobseekers' employability before an outcome would be achieved, a combination of up-front, interim and final payments applies. The up-front portion is made to the provider on referral; an interim payment is made if the jobseeker significantly reduces drawings on social security; and a final payment is made if benefit cessation or reduction continues over a further 13 consecutive weeks. In the first contract period, the Government set the payments for intensive assistance according to a prescribed schedule (panel (a), table 1). For the second contract period, the three levels of disadvantage within intensive assistance were replaced by a two-tier classification, level A and level B, in which level B referrals consist of jobseekers classified as facing the greatest barriers to employment. The fixed schedule of fees payable has also been dropped in favour of fees determined by the tender bids, subject to a prescribed minimum (panel (b), table 1).

Initially, the intensive assistance payment structure was almost completely unrelated to process. The up-front fee was conditional on the jobseeker reporting once referred, but the interim and final payments depended only upon outcomes. In contrast to job-search training, providers of intensive assistance had complete discretion over how they assisted the jobseeker. In designing the contractual arrangements, a trade-off had to be made between promoting innovation in the methods used by providers and specifying the process to enable monitoring of whether or not the services are being provided as desired. As is discussed below, the Government shifted in favour of closer monitoring of the processes in the latter contract period.

The Job Network contains a number of safeguards against creaming. Most obviously, providers cannot refuse a jobseeker referred to them.⁴ They can, however, limit the level of assistance that is directed towards jobseekers where they consider that such assistance is unlikely to result in an outcome payment. Second, the payment structure makes successful outcomes for disadvantaged jobseekers more lucrative, and thus there is some incentive to target assistance to the most disadvantaged. Finally, performance in placing certain target groups, such as indigenous Australians, may stand providers in good stead for securing further contracts.

This overview of the framework necessarily glosses over a vast number of contractual details and complexities. Indeed, the Job Network had a less than auspicious start, with problems encountered by many providers and clients, and negative media coverage. Most of the

⁴ Providers can appeal against a jobseeker's classification if they consider the client should have been made eligible for a higher payment level.

Table 1. Fees for intensive assistance outcomes under the Job Network

	No outcome (up-front fee) (A\$)	Secondary outcome (A\$)	Primary outcome (A\$)
(a) First contract period — fixed fees			
Level 3.1	1 500	2 500	4 200
Level 3.2	2 250	3 250	6 700
Level 3.3	3 000	4 000	9 200
(b) Second contract period — minimum fees			
Level A	1 069	2 133	4 628
Level B	2 107	3 171	9 150

Source: DEETYA/DEWRSB Employment Services Tender documentation.

problems could be described as teething troubles or attributable to the immaturity of the market rather than fundamental flaws in the system (Dockery, 1999). The major difficulties related to the unprofitability of providers who were awarded only lower-yielding job-matching contracts when they had also tendered to provide intensive assistance services, highly successful providers effectively having to shut-up shop once they had fulfilled their allocations, and costs imposed on providers who felt obliged to service jobseekers who were not eligible for payments (CLMR, 1999). The problems were deep-rooted enough for the Government to introduce a substantial reform package in January 1999, including financial incentives to buy struggling providers out of the system. With this and the further refinements made for the second contract period, the contractual framework now appears to be operating smoothly.

Outcomes of the Job Network

A number of papers have assessed the likely outcomes of the Job Network based on its contractual arrangements and the early indicators of its performance (Alford and Gullo, 2000; Webster, 1999; Dockery, 1999; CLMR, 1999; Harding, 1998). These are far from conclusive because of the short period during which the Job Network has been in operation, the absence of valid performance data, an exogenous improvement in labour market conditions, and limited prior evidence on the effectiveness of labour market interventions in Australia. In February 2000, the Government released its stage 1 evaluation of the Job Network (DEWRSB, 2000), representing the most comprehensive assessment of the competitive employment service market to date. Although not rigorous, the stage 1 evaluation draws upon administrative data, and evidence from consultations and surveys of providers and jobseekers, not available to other researchers.

A system such as the Job Network necessarily comprises many operational parameters. In reviewing the available evidence on the Job Network, this section concentrates on three aspects considered here to be the most important: the efficiency of the competitive market, the effectiveness of the assistance provided, and the ability of the contractual arrangements to limit creaming and ensure that services are provided as intended. A review of more detailed operational issues, such as the application of the Jobseeker Classification Instrument, can be found in OECD (2001).

Cost effectiveness and employment rates

The forward estimates from the Commonwealth budget suggest that the Government did not use the introduction of the Job Network to cut the aggregate level of support for the unemployed (Dockery, 1999, pp. 141-142). However, significant savings do appear to have been made in the cost of providing individual forms of assistance. The principal indicators of the cost effectiveness of assistance measures prior to the introduction of the Job Network come from the Department's 1996 evaluation and are reproduced in table 2. The Job Clubs previously provided by the public employment service correspond, in terms of mode of assistance and client target group, to current job-search training under the Job Network. The wage subsidy programme, JobStart, and the brokered employment programmes, JobSkills and New Work Opportunities, which previously provided combined employment and training placements, serviced a client group similar to that which would now be referred for intensive assistance. The wage subsidy programme, JobStart, was generally acknowledged as the most successful at assisting disadvantaged jobseekers, although JobSkills and New Work Opportunities were targeted at the hardest-to-place jobseekers.

The figures in table 2 are somewhat misleading, because jobseekers who were still being assisted were not taken into account in calculating the proportion in unsubsidized employment. The latter, calculated in such a way, is a poor measure of a programme's effectiveness, because being in a further assistance programme is surely a negative outcome. The Government's stage 1 evaluation reports outcomes for participants from May 1998 to September 1999, the first 16 months of the Job Network, using the more conventional outcome measure of the proportion of persons in unsubsidized employment to total number of participants. It also reports the outcomes for the previous Job Club programme on the same basis. These are shown in table 3.

The contracted providers achieved both significantly higher placement rates and lower unit costs. Taken together, these imply around a 50 per cent lower cost per unsubsidized employment outcome achieved by Job Network providers relative to the previous Job Club programme. In terms of the outcomes, the most prominent difference is

Table 2. Costs per employment outcome, major labour market programmes (1996-97)

	Net unit cost ¹ (A\$)	Proportion in unsubsidized employment ² (%)	Cost per unsubsidized employment outcome (A\$)
JobStart (wage subsidy)	1 263	50	2 520
Job Clubs (job-search assistance)	625	36	1 730
SkillsShare	970	30	3 230
JobTrain	1 173	31	3 780
JobSkills	7 105	30	23 680
New Work Opportunities	10 009	21	47 660

¹Account for the average reduction in income support payments that result from programme participation. ²At three months after completion of the programme, as determined by post-programme surveys of participants.
Source: DEETYA, 1997, table 4.1.1, p. 15.

that 31.7 per cent of Job Club participants were “in further assistance” three months after leaving the programme, compared to just 4.7 per cent for those assisted by the contracted providers. It should be noted, however, that the participants in job-search training under the Job Network had considerably shorter durations of prior unemployment, and hence possessed more favourable characteristics. In part, this was a result of relaxing the standard eligibility requirement from six to three months of prior unemployment, the number of jobseekers commencing their assistance (commencements) having fallen 25 per cent short of contracted levels. Nevertheless, this cannot fully explain the Job Network’s superior performance, as the higher outcome rate applies across all categories of unemployment duration. Rather, the tighter labour market conditions may have contributed to the superior employment outcomes, as well as to a commencement rate of only 40 per cent of referrals.⁵ Consistent with this, a rapid increase in the number of referrals after the relaxation of the eligibility criterion had no impact on commencements, and thus a rapid further fall in the commencement rate ensued (DEWRSB, 2000, pp. 59-70).

It is more difficult to compare the relative cost and effectiveness of intensive assistance services under the Job Network with the equivalent assistance previously provided by the public employment service. As intensive assistance placements can range from 12 to 18 months, many of those who commenced assistance under the Job Network will still have been active on the caseloads of service providers at the time the

⁵ This means that 60 per cent of the jobseekers referred to employment service providers did not turn up to commence their assistance. Such an action may attract sanctions as a failure to meet the requirements of the activity test.

Table 3. Costs and employment outcomes for job-search training under the Job Network and through the former Job Clubs

	Net unit cost (A\$)	Proportion in unsubsidized employment (%)	Cost per unsubsidized employment outcome (A\$)
Job-search training (Job Network)	418	37.4	1 118
Job Clubs (pre-1998 programme)	625	24.9	2 510

Source: DEWRSB, 2000, pp. 65-67.

performance data were released in the stage 1 evaluation. This problem is compounded by the Department’s practice of measuring outcomes at a given time from the end of assistance rather than from the time of commencement (Dockery and Stromback, 2000).

Dockery (1999) infers from the fee structure for intensive assistance that the Government was expecting a major improvement in the cost effectiveness of assistance, relative to those programmes previously targeting the hardest-to-place jobseekers. In the first contract period, Job Network providers received just over A\$9,000 for successfully placing a jobseeker from the hardest-to-place category in paid employment, and less for others qualifying for intensive assistance. A similar amount is payable as the minimum fee during the second contract period (see table 1). If Job Network providers have a success rate similar to that achieved by the previous JobSkills and New Work Opportunities programmes — in other words, if they receive only the up-front fee for 75 per cent of clients and the full primary outcome for 25 per cent of clients — then the payment received per client in the most disadvantaged category would be A\$4,550 on average in the first contract period and A\$3,915 as a minimum in the second contract period.

These figures can be compared with unit costs of A\$7,105 and A\$10,009 for JobSkills and New Work Opportunities, respectively. For Job Network providers to cover the unit costs of the JobSkills programme, they would need to be achieving placement rates of 66 per cent in the first contract period, rising to 71 per cent (at the minimum payment rates) in the second contract period. Even with a 100 per cent success rate, Job Network providers could not cover the unit costs of New Work Opportunities.

What of a comparison with the more cost-effective wage subsidy programme, JobStart? Note that the estimated unit cost for JobStart, of A\$1,263, takes account of government savings in social security payments. Such savings will not accrue to a Job Network provider. From those providers’ perspective, the amount of such savings should be added in to give an estimate of the cost of providing a similar programme

placement. This is likely to give a unit cost closer to A\$4,700.⁶ At this cost per placement, the provision of services would be profitable if a 50 per cent placement rate could be achieved for the hardest-to-place jobseekers, given either the scheduled fees in the first period or the minimum rates in the second contract period, but higher placement rates would be required for those jobseekers attracting lower payment rates.

For the Job Network to achieve higher placement rates would require a considerable improvement in placement performance over that of JobStart. First, JobStart was not targeted closely to the most disadvantaged jobseekers. Second, the measured outcome may be strongly influenced by selection bias. Under JobStart, eligible jobseekers used the fact that they attracted a subsidy as a selling point to employers. However, only those referred by employers for assistance were considered to have commenced the programme. Hence, given eligibility, those selected into the programme will have been those that employers found the most attractive candidates. This selection bias will inflate the outcome measure.

Evidence is sketchy on what the actual placement rates have been under the Job Network. DEWRSB reports outcomes for those who commenced intensive assistance in the first three months of the Job Network, as nearly all this cohort had completed their placements at the time of the stage 1 evaluation. Of these, 49 per cent reached the end of the referral with no paid outcome to the provider, and only 18 per cent had been placed in work. For those who completed their intensive assistance placements during the first 15 months of the Job Network, post-assistance surveys indicated that 37 per cent were employed three months after completion (DEWRSB, 2000, pp. 82-83). However, this figure can be expected to have a strong upwards bias, as gaining a job would be one of the major reasons for leaving assistance. In any case, it compares unfavourably to that of the previous wage subsidy programme, and does not appear to represent much of an improvement over the other brokered employment programmes.

Despite this, intensive assistance provision is known to have been viable under the Job Network. In the first contract period, a number of providers claimed they were not profitable because they had tendered for both intensive assistance and job-matching contracts, but had only been awarded the latter. Those who had successfully tendered for both acknowledged that their basic job-matching activities were cross-subsidized by income from intensive assistance (CLMR, 1999; DEWRSB, 1998). So, in the absence of a significant improvement in

⁶ The average duration of JobStart placements has been calculated as 22 weeks (Stromback and Dockery, 2000, p. 8). Taking the unemployment benefit as at 1 July 1996 for a single person with no children (A\$316.70 per fortnight), this implies an average saving in social security payments of A\$3,484.

outcomes, it follows that this viability must have been achieved through a considerable reduction in the cost of assistance per jobseeker.

It is difficult to compare the new employment services market to the former public employment service with respect to job-matching services. One indicator of the effectiveness of job-matching services is the market share of vacancies. The number of vacancies lodged with the former public employment service declined markedly as the service was wound up, but rapidly rebounded to comparable levels as the Job Network bedded down. Market share can be expected to improve further as the market matures, employers' knowledge of the system improves and initial negative perceptions of the Job Network are allayed (Dockery, 1999, p. 150). DEWRSB (2000) reports generally favourable levels of employer satisfaction with the services.

It is safe to surmise that the contracted providers under the Job Network are operating at lower costs per jobseeker serviced. In the case of job-search training, it appears that this has been associated with an improvement in employment outcomes, and thus there is *prima facie* evidence that the competitive market has generated improved overall cost-effectiveness. For intensive assistance services, however, all that can be said is that the Job Network has delivered a lower level of expenditure per jobseeker serviced. These are tentative findings in the absence of a rigorous evaluation that can fully control for selection effects and deadweight loss. On this matter we turn to the incentive effects of the contractual framework.

Incentive effects, creaming and monitoring

While the performance-linked payment structure is designed to increase cost effectiveness, the incentives can generate both positive and negative effects. The adverse effect most widely associated with a privatized employment services market is the incentive to cream. Where jobseeker eligibility is based on observable criteria, such as level of education or duration of unemployment, creaming may still occur within the eligible population on unobservable characteristics, such as motivation. The main safeguards against creaming in the Job Network are the separation of the referring agency and the providers, and the contractual condition that providers cannot reject jobseekers referred to them. Under this arrangement, creaming may occur by providers concentrating their efforts on jobseekers with the best chance of returning a positive outcome, and cutting their losses on harder-to-place jobseekers.⁷

⁷ This is not a necessary outcome of the incentive structure, but it depends on whether the marginal impact of assistance increases or decreases with jobseeker quality. If it decreases, the optimal strategy is to ignore the most employable jobseekers, who are likely to achieve positive outcomes anyway, and concentrate assistance on the most disadvantaged.

In terms of sex, age, unemployment duration, level of education and special target groups, the profile of jobseekers placed in jobs through basic matching activities during the first 15 months of the Job Network is very similar to that of jobseekers placed in jobs by the public employment service in 1996-97 (DEWRSB, 2000, p. 54). Thus there is no sign that creaming is more widespread in the privatized market.⁸ As noted above, job-search training providers are now servicing a less disadvantaged client group as a consequence of the shortfall in commencements relative to contracted caseloads. This has occurred largely because of the low proportion of referred jobseekers who actually commence programmes with their employment services provider. It is doubtful that creaming can occur to any great extent from the point of referral by Centrelink to the point of commencement. However, since clients choose between providers, and providers themselves are supposed to actively promote themselves to jobseekers, there is scope for providers to target more actively those with positive characteristics, to the relative exclusion of those known to be hard to place, such as indigenous clients. This could contribute to higher non-commencement rates among jobseekers with less favourable characteristics. Disaggregated data show that commencement rates are actually higher for the very long-term unemployed and for those with lower levels of education, but low for single parents and indigenous Australians (DEWRSB, 2000, p. 63).

Who are the 60 per cent of referred jobseekers who do not commence assistance with their provider? Since non-commencement carries the threat of benefit loss, the proportion seems very high. Some will have found work soon after referral. It is also possible that the disutility of attending job-search training either increases jobseekers' search effort and their exit rate into employment, or causes them to cease claiming benefits. In fact, viewing the non-commencers as a control (non-treatment) group for evaluating the effect of the job-search training on those who do commence, if a third of these non-commencers did not commence because they found work, then the net estimated impact of the training would be zero. After the relaxation of the eligibility criteria, the number of referrals to job-search training rose from around 8,000 per month to 16,000 per month, while commencements remained unchanged at 4,000 per month; the commencement rate thus fell to just 25 per cent (DEWRSB, 2000, p. 62). This may have been a result of faster unemployment-employment transition rates of the newly eligible jobseekers, or of the continuing improvement in labour market conditions. Commencement rates for intensive assistance, however, have been far higher, at around 70 per

⁸ Although placements relative to the eligible population of jobseekers would have provided a better indicator.

cent. This would suggest that transition to employment may be a significant reason for non-commencement.⁹

According to DEWRSB, clients of job-search training programmes reported a reasonably high level of service from their providers. Overall, there is not much evidence of creaming. As mentioned above, job-search training contracts are quite detailed in specifying the services to be delivered, and payments are made simply for signing a jobseeker onto a job-search plan. This contrasts with intensive assistance contracts, which offer an up-front payment unrelated to outcomes and, initially, set almost no conditions on the actual services to be provided. The Government's stage 1 evaluation contains strong indications that adverse incentive effects created by the contracts for the delivery of intensive assistance are generating many of the failings feared of a private market.

There are signs that creaming may actually occur at the referral stage. Relative to the eligible population, referral rates are decreasing with duration of unemployment and increasing with educational level. Indigenous Australians and single parents display lower-than-expected referral rates and, once referred, markedly lower commencement rates (DEWRSB, 2000, p. 76).¹⁰ Allocations to the various service levels are, however, set administratively on the basis of scores obtained from the Jobseeker Classification Instrument, and this would appear to offer a reasonably sound safeguard against creaming during the allocation phase. The "user-choice" model may contribute to lower commencement rates for harder-to-place jobseekers if providers more actively promote their services to those with favourable characteristics. Commencement rates were lower for jobseekers classified as most disadvantaged. More explicit evidence of creaming comes from consultations with jobseekers and providers:

Qualitative research suggests that indigenous job seekers have limited understanding of the new arrangements and do not believe that Job Network members [providers] will help them to get work. ... some Intensive Assistance providers were reluctant to attract indigenous job seekers due to the perception that employment placement would be difficult and unlikely to produce a funded outcome (DEWRSB, 2000, p. 77).

The greatest concern regarding intensive assistance contracts relates to the services provided to jobseekers once they have been placed with a provider. Adverse incentive effects stem from the fact that the provider receives an up-front payment irrespective of outcome.

⁹ It was discovered with the introduction of the Restart programme in the United Kingdom that simply sending letters to jobseekers asking them to attend an interview to assess their needs resulted in a significant proportion of persons leaving the unemployment register (Dolton and O'Neill, 1996).

¹⁰ Participation is voluntary for some single parents.

If the provider reduces the level of assistance such that unit costs are less than the up-front payment, then the provider can remain profitable with a zero placement rate (Dockery, 1999, p. 145). Previous results for control groups suggest that, even if the provider offered no assistance at all, placement rates of around 20 per cent could still be expected (DEETYA, 1997). Based on the payment structure applicable in the first contract period and an estimate of the rate at which extra dollars of wage subsidy increase the probability of gaining employment, Harding (1998) has shown that there is no incentive for Job Network providers to offer wage subsidies as a form of assistance. The payments gained through improved outcomes will not compensate for the outlay in subsidies. This is despite wage subsidies being previously recognized as one of the more effective methods of assistance (Stromback and Dockery, 2000; DEETYA, 1997).

The incentive to minimize costs and thus service levels is tempered by the fact that providers with low success rates are unlikely to be successful in later tenders. However, given the evidence above — that viability in providing intensive assistance has been contingent on lowering unit costs relative to the pre-existing labour market programmes — it is pertinent to explore what services have been provided. The Migrant Employment Taskforce has claimed that clients from non-English-speaking backgrounds were just being “parked” (offered no service) as a consequence of the unconditional up-front payment (Petersen, 1999, pp. 12-13). In a jobseeker satisfaction survey, 23 per cent of jobseekers reported having visited their provider only “once or twice”; while post-assistance surveys showed that the proportion of jobseekers who “rarely or never had contact with their provider” ranged from 20 per cent at the beginning of the placement to 36 per cent towards the end (DEWRBS, 2000, p. 79).

As to the type of assistance offered, jobseekers reported the main form of support was “encouragement in search for work”. The next most frequent form of assistance, reported by 43 per cent of jobseekers, was training in job-search skills. Less than one in five reported receiving training in skills relating to employment. It also seems that few jobseekers are ever referred to vacancies or job interviews (DEWRBS, 2000, pp. 79-80). A survey of providers in three areas where a large proportion of the population was from a non-English-speaking background revealed that few providers offered services addressing the obvious underlying barriers to employment faced by migrants. Only 15 per cent offered English language training and none used standard tests to assess English language competency (Petersen, 1999, p. 13). Alford and Gullo (2000, p. 65) also note a lack of funding for specialist assistance for indigenous people.

More telling are providers’ own assessments, as revealed by the Department’s qualitative research:

When probed on the services they offered to Intensive Assistance clients, most service providers described job search services. Very few service providers reported that they were offering services which would address underlying barriers to employment, such as language classes, counselling or assistance with vocational training. The basic services that were described were regular meetings with a case manager, résumé preparation, job search and interview skills (DEWRSB, 2000, p. 80).

It seems that, in interviews, the providers openly admitted to engaging in creaming by stating that decisions on what assistance should be provided were based on the likelihood of an outcome as well as the jobseeker's needs. The Department's interpretation of this as a positive finding that "enables providers to be more responsive to client needs rather than being constrained by rigid program guidelines" (DEWRSB, 2000, p. 80) is unconvincing. The overwhelming impression, acknowledged more candidly in other parts of the stage 1 evaluation, is that intensive assistance providers offered minimal levels of assistance, often less than that offered under job-search training. There is evidence that hard-to-place jobseekers are simply "parked" in many cases, and that resources are directed to those judged to offer the highest likelihood of a positive outcome for dollars spent.

Important benefits expected of a competitive market include innovation and experimentation in methods of assisting jobseekers. These almost certainly have not been delivered to any significant extent. The strong suspicion must be that much of the activity in the competitive market for intensive assistance is driven by "rents" extracted through deadweight loss (payments for outcomes that would have occurred anyway) and selection strategies, and that the outcomes are less than optimal from the perspectives of social equity and efficiency. This charge will be difficult to sustain or dismiss without more rigorous econometric evaluation.

An intriguing feature of the Job Network evaluation is that, despite providers seemingly offering very little in the way of active assistance, jobseekers report high levels of satisfaction with the service received, and that outcomes in terms of the proportion placed in employment are comparable with the outcomes of previous programmes which delivered on-the-job experience and employment-based training. This would imply that there is in fact very little return from additional spending on active assistance for those who are very hard to place. The behaviour of the private agencies simply reflects this reality. Also, some jobseekers may prefer not to receive active assistance. For them, a provider offering minimal assistance essentially serves as an unobtrusive immunity from activity testing.

It is clear that steps can be taken to alleviate negative incentive effects by refining the contractual arrangements. Contracts for the second-round tenders contained several reforms that can be interpreted in this light. The up-front fee has been reduced in proportionate

terms, and the total fee is now set through competitive tendering subject to a minimum. This will give more scope for providers who focus on particularly hard-to-place clients or who operate in depressed regions to provide a greater level of service and to experiment with more expensive forms of assistance. The new payment structure should increase incentives to achieve higher placement rates rather than to minimize costs, but does not completely eliminate negative incentive effects. The reduction from three to two classifications of eligibility for intensive assistance would seem contrary to the need for closer targeting and will increase the potential for creaming.

The other major change for intensive assistance contracts has been to specify minimum levels of assistance to be provided and to enhance monitoring arrangements. The specifications include the development of an assistance plan, to be agreed on between the provider and jobseeker. The plans can be audited by the Department, and a system to record contacts between the jobseeker and provider has been established. Community sector providers, who are less likely to be profit driven, gained a greater market share following the second-round tenders (OECD, 2001, p. 18).

Conclusion

From a theoretical perspective, it can readily be argued that private employment agencies, or public employment agencies, or some model of coexistence will be superior. In practice, the outcome is largely contingent on the ability to specify and monitor contracts under conditions of imperfect and costly information, and on the relative weights assigned to efficiency versus equity outcomes. With little empirical evidence available to cast light on these issues, Australia's experience is of considerable interest in the context of international trends in the delivery of employment services.

The essence of the Job Network model is to develop a competitive market geared to improving the effectiveness of assistance for jobseekers through payments linked to outcomes, while maintaining equity by offering higher payments for the placement of jobseekers identified as being disadvantaged. It is too early to offer a comprehensive assessment of the Job Network model. In the first two years of its existence we find evidence both of the efficiency gains touted by advocates of privatization, and of the failure of the private market to ensure that the most disadvantaged jobseekers are not excluded from assistance.

We find no evidence of creaming in the delivery of basic matching activities and job-search training; the characteristics of clients of the competitive market closely match those of the former public employment service. With regard to assistance in job-search training, signifi-

cant gains in cost effectiveness — of the order of 50 per cent per positive outcome — appear to have been achieved by the contracted providers, as compared to a similar programme delivered by the public employment service. For these services, the condition that providers cannot refuse to service jobseekers referred to them has been effective in limiting creaming.

A very different picture emerges with regard to the contracts for intensive assistance services for more disadvantaged jobseekers. The very lack of active measures taken to assist jobseekers is perhaps the most striking feature of the Government's stage 1 evaluation. We believe that the model erred by entrusting the choice of services to be delivered to the provider's discretion in the hope of promoting flexibility and innovation, instead of specifying at least a set of core activities to ensure that a reasonable level of assistance is provided. Presumably, the rationale was that higher payments for positive outcomes would provide an adequate incentive to service providers to assist all jobseekers actively. Instead, it appears that the combination of lack of specification of deliverables and up-front payment unrelated to outcome has resulted in providers creaming the system through deadweight loss and many jobseekers being excluded from assistance. It also seems that the Government was initially too zealous in trying to extract cost savings. From the experience of previous labour market programmes, we know that it is very expensive to achieve successful employment outcomes for the most disadvantaged jobseekers. In the Job Network model, the fees payable simply did not reflect this cost. When it comes to assistance for the most disadvantaged group, there is a clear need to combine higher outcome payments with closer monitoring of deliverables.

Although the wording is somewhat euphemistic — creaming becomes “informal targeting”, and the minimization of services becomes “fostering self-reliance” or “flexibility” — the Government's evaluation recognized the potential deadweight losses: “On the grounds of value for money — if the more-difficult-to-place job seekers were to receive only minimal assistance, the Government has paid a substantial fee but received little in return” (DEWRSB, 2000, p. 89).

The Australian experience reinforces the conclusion that, unless contracts are well specified and payments well structured, negative incentive effects will seriously detract from social outcomes. It is yet to be seen whether the refinements introduced in the second round of contracts will overcome these problems, but there is certainly scope for considerable improvement before the underlying model is deemed a failure. The market is some years from maturing, and limited information on providers' performance has meant that the “user-choice” mechanism does not yet provide significant competitive pressure. For the purposes of evaluation, it is imperative that the Department shift its

focus from measuring outcomes at a given time after completion of assistance to a given time from the commencement of assistance or from the time of referral. The separation of the referring agency from the provider also adds sources of selectivity effects. In such a model, evaluators need to be conscious of three selection processes: referrals from within the population of jobseekers; commencement of assistance by jobseekers within the population of those referred for assistance; and the jobseekers targeted for assistance within the provider's case load.

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