Public employment services: Can East Asia learn from the experience in Europe?

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# Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  <strong>Introduction</strong></td>
<td>1</td>
</tr>
<tr>
<td>2  <strong>The East Asian Labor Market</strong></td>
<td>3</td>
</tr>
<tr>
<td>2.1 Background</td>
<td>3</td>
</tr>
<tr>
<td>2.2 ‘After’ the crisis</td>
<td>3</td>
</tr>
<tr>
<td>2.3 Some labor market characteristics</td>
<td>4</td>
</tr>
<tr>
<td>2.4 Conclusions</td>
<td>5</td>
</tr>
<tr>
<td>3  <strong>The European Experience</strong></td>
<td>7</td>
</tr>
<tr>
<td>3.1 The logic behind public employment services</td>
<td>7</td>
</tr>
<tr>
<td>3.1.1 Why the labor market does not resemble an ideal market?</td>
<td>7</td>
</tr>
<tr>
<td>3.1.2 Why the government has to play a role in the job placement market</td>
<td>8</td>
</tr>
<tr>
<td>3.1.3 What are the tasks of the PES?</td>
<td>9</td>
</tr>
<tr>
<td>3.2 The organization of the PES</td>
<td>10</td>
</tr>
<tr>
<td>3.2.1 Institutional structure</td>
<td>10</td>
</tr>
<tr>
<td>3.2.2 Integration of public employment services</td>
<td>12</td>
</tr>
<tr>
<td>3.2.3 Centralized versus decentralized structure</td>
<td>13</td>
</tr>
<tr>
<td>3.2.4 The relationship with unemployment benefits</td>
<td>14</td>
</tr>
<tr>
<td>3.2.5 Financing</td>
<td>16</td>
</tr>
<tr>
<td>3.3 Market shares and output</td>
<td>18</td>
</tr>
<tr>
<td>3.3.1 Market shares</td>
<td>18</td>
</tr>
<tr>
<td>3.3.2 Output</td>
<td>20</td>
</tr>
<tr>
<td>4  <strong>Evaluation of Public Employment Services</strong></td>
<td>23</td>
</tr>
<tr>
<td>4.1 Theory</td>
<td>23</td>
</tr>
<tr>
<td>4.2 Examples of evaluation studies</td>
<td>24</td>
</tr>
<tr>
<td>4.3 Conclusions</td>
<td>27</td>
</tr>
<tr>
<td>5  <strong>The role of private employment services</strong></td>
<td>29</td>
</tr>
<tr>
<td>5.1 Public versus private involvement</td>
<td>29</td>
</tr>
<tr>
<td>5.2 Co-operation between public and private employment agencies</td>
<td>31</td>
</tr>
<tr>
<td>6  <strong>Developments in the information and communication technology</strong></td>
<td>35</td>
</tr>
<tr>
<td>7  <strong>Future Developments in European PESs</strong></td>
<td>39</td>
</tr>
<tr>
<td>7.1 Priorities for concerted action</td>
<td>39</td>
</tr>
<tr>
<td>7.2 Conclusions</td>
<td>42</td>
</tr>
</tbody>
</table>
8 How the East Asian region can learn from PES-experience in Europe 43
  8.1 Introduction 43
  8.2 Employment services 43
  8.3 Considerations for PES in East Asia 46

9 Conclusions 55

References 57

Appendix
1 Introduction

In the crisis that started in East Asia in 1997, social issues have been placed at the forefront of public and international concerns. Obviously, labor markets and labor market policies play an important role. After all, the reduction in the demand for labor was the most important channel through which the crisis had an impact on households and – as a result – on rising poverty levels. Therefore, it will be important to focus on the design of sound and sustainable labor policies. One of the strategic challenges is to build a new labor relations framework which protects fundamental labor rights, avoids exploitative practices and comprises stronger labor market institutions. At the same time, a balance needs to be struck to avoid creating labor market rigidities. Sound passive and active labor market policies can help improve labor market functioning (World Bank 1999).

In this paper we concentrate on the role Public Employment Services may play in helping people prepare for and find decent work. PES activities cover a wide variety of tasks such as identifying job openings, helping job seekers to assess employment opportunities and to find jobs, and matching job seekers with employers. PES activities are found in all Western countries. In transition and developing countries PES activities are also becoming more and more important.

The main aim of this paper is to review European experiences with respect to Public Employment Services (PES) to inform policy-making in East Asia. Thereby we will try to answer the question whether the East Asian region can learn from the experience in Europe and - if yes - how?

The structure of this paper is as follows: in chapter 2 the situation on the East Asian labor market will be described briefly. The aim of this chapter is twofold: first some background information on the East Asian labor market will be given. Secondly, it will be shown why PES may play an important role on the East Asian labor markets. In chapter 3 the key elements of the Public Employment Services in Europe will be discussed. Section 3.1 starts with an overview of some general problems and developments in the labor market that call for the introduction of employment services? Besides, it will be explained how employment services may be used to tackle these problems. In section 3.2 attention will be paid to different ways how public employment services can be organized. Aspects that need to be considered here are the administrative structure, the degree of integration and decentralization and ways of financing the employment services. Section 3.3 focuses on the market shares and the output of PES in OECD countries. The market share is often used as an indicator for gross output. However, even more important are indicators of the degree to which the PES activities make a difference to the functioning of the labor market. This is the so-called net output or net impact of the PES. Chapter 4 pays attention to the question which delivery system is most effective and efficient, and under which conditions?

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2 In this paper we concentrate on five East Asian countries, Indonesia, Korea, Malaysia, Thailand and the Philippines.
Several evaluation studies can be used to filter out the success-factors regarding the
design of employment services. Therefore, in this chapter a review will be given of
evaluation studies of employment services in different countries. As there is an
increasing interest in private placement services and in the rapid developments in
information technology, these issues will receive some extra attention in respectively
Chapter 5 and Chapter 6. Chapter 7 discusses the activities – developed by the European
Commission – which contribute to the modernization of the PES in Europe and which
ensure they remain key players in the rapidly changing labor market. Chapter 8
examines the question whether – and if so, how – the East Asian region can learn from
the experience in Europe with regard to PES. In this chapter also a brief overview will
be given of current PES experience in Indonesia, Korea, Malaysia, the Philippines and
Thailand. Chapter 9 summarizes the main conclusions made in this paper.
2 The East Asian Labor Market

2.1 Background

The East Asian economies have achieved a rapid economic growth in the last two decades. The high growth rates also led to a declining number of people living below subsistence level. Also other indicators of social development - life expectancy at birth, infant mortality, and literacy – improved. These achievements are even more spectacular when compared with social developments in other regions or developed countries during their industrialization period (Atinc and Walton 1998).

Prior to the financial crisis in 1997, the five countries were at different stages of development. For example, per capita income in Korea – the most developed of the five countries – was almost ten times higher than in Indonesia – the least developed. Furthermore, Korea, Malaysia and Thailand were each characterized by a very tight labor market with very low unemployment rates. Both Indonesia and the Philippines still had substantial levels of unemployment. Also the employment structure differs across the five countries: in Korea and Malaysia most workers are employed in the service sector whereas in Indonesia and the Philippines agricultural workers are in the majority.

2.2 ‘After’ the crisis

In mid 1997 the financial crisis interrupted the long period of economic growth. The countries that suffered most were Thailand, Indonesia and Korea. Indonesia is by far the country hit hardest. Table 2.1 shows the enormous decrease in per capita GDP growth, the increase of the unemployment rate and the growing number of people living below the poverty level. Initially it was hoped that the crisis would involve a sharp contraction and sharp recovery. However, there are fears that the crisis will have a more prolonged period of contraction, and risks of a lengthy period of working through of structural, social and institutional problems. Nevertheless, three years after the onset of the crisis the economies are beginning to recover.

3 In this paper we will not deal with the causes of the financial crisis.
Table 2.1 Economic indicators: before and ‘after’ the crises

<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita GDP growth</th>
<th>Unemployment rate</th>
<th>Poverty incidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>5.7 -14.4 4.9 5.5</td>
<td>11.3 16.7</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>6.3 -6.6 2.0 6.8</td>
<td>9.6 19.2</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>7.0 -9.3 2.5 3.2</td>
<td>8.2 n.a.</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>0.4 -2.6 8.6 10.1</td>
<td>37.5 n.a.</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>7.0 -10.8 1.8 4.5</td>
<td>11.4 12.9</td>
<td></td>
</tr>
</tbody>
</table>


While the short-term outlook looks positive, the crisis had significant social costs. Within each country the poor and the nearly poor are suffering most. Unskilled workers in urban areas are among the first to be laid off. Furthermore, droughts have cut into the income of subsistence farmers in rural areas. Rising unemployment or movement into low-paid informal work, accompanied by price increases on basic commodities are cutting into families’ purchasing power. Since the poor spend the greatest proportion of their income on basic commodities they are hit hardest.

The reduction in the demand for labor was the most important channel through which the crisis had an impact on households. In general, younger, less-skilled and informal sector or casual workers were particularly vulnerable in all countries. In the following we will briefly discuss the development of the East Asian labor markets – focusing on the period just before and just after the crisis.

2.3 Some labor market characteristics

Although the five emerging market economies – Indonesia, Korea, Malaysia, Thailand and the Philippines – are often mentioned in one breath they are far from a homogeneous group. For example, Indonesia is with 200 million people by far the largest country of the five whereas Malaysia has a population of less than 22 million. Also with regard to GDP per capita large differences can be found: Korea’s GDP is 8 to 9 times higher than Indonesia’s and Philippines’ GDP per capita. Another striking difference is that Indonesia and Thailand are highly rural, whereas Korea has more than 80% of the population living in cities (World Bank 1999).

Table 2.2 displays a number of key labor market indicators. For all indicators we show the situation – prior to the crisis – in 1996 and the situation in 1998 – just ‘after’ the crisis. First of all, it can be observed that the unemployment rate increased in all countries between 1996 and 1998. For example, in Korea the unemployment rate increased from 2 percent in 1996 to 6.2 percent in 1998. The other countries also show an increase in unemployment though relatively small. Although the unemployment rate increased in all countries the situation is not dramatic. Only in the Philippines the unemployment rate approaches a double-digit level.

BK/pes_paper.doc
It is striking that the inactivity rates and participation rates do not show considerable differences between all countries. The participation rates ranges between 60% and 67% whereas the inactivity rate ranges between 33% and 40%. In Korea and Malaysia the participation rate decreased by respectively 1.3 and 2.4 percentage points. The other countries did not show an increase or decrease. Probably most dramatic are the changes in real wage growth: in Indonesia real wage growth was 6.6 percent in 1997 but two years later the real wages declined by 38 percent. Also in the other countries a decline in real wages was observed but less dramatic than in Indonesia. For example, in Thailand the decline in real wage amounted to 7.4 percent whereas in Malaysia the decline was relatively small, namely 1.1 percent.

Table 2.2  Key labor market indicators, 1996 - 1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Labor Force (millions)</th>
<th>Unemployment rate</th>
<th>Inactive population</th>
<th>Participation rate</th>
<th>Real wage growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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<tr>
<td>Indonesia a)</td>
<td>1996 88.2</td>
<td>4.9%</td>
<td>33%</td>
<td>67%</td>
<td>6.6</td>
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<tr>
<td></td>
<td>1998 92.7</td>
<td>5.4%</td>
<td>33%</td>
<td>67%</td>
<td>-37.8</td>
</tr>
<tr>
<td>Korea</td>
<td>1996 n.a.</td>
<td>2%</td>
<td>38.0%</td>
<td>62.0%</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td>1998 n.a.</td>
<td>6.8%</td>
<td>39.3%</td>
<td>60.7%</td>
<td>-5.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1996 8.6</td>
<td>2.6%</td>
<td>33.3%</td>
<td>66.7%</td>
<td>5.8</td>
</tr>
<tr>
<td></td>
<td>1998 9.0</td>
<td>4.0%</td>
<td>35.7%</td>
<td>64.3%</td>
<td>-1.1</td>
</tr>
<tr>
<td>Philippines</td>
<td>1996 30.3</td>
<td>7.8%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>3.3</td>
</tr>
<tr>
<td></td>
<td>1998 31.1</td>
<td>8.4%</td>
<td>33.9%</td>
<td>66.1%</td>
<td>-2.0</td>
</tr>
<tr>
<td>Thailand b)</td>
<td>1996 31.9</td>
<td>2.0%</td>
<td>1.2 million</td>
<td>n.a.</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>1998 32.1</td>
<td>4.6%</td>
<td>1.2 million</td>
<td>68.2</td>
<td>-7.4</td>
</tr>
</tbody>
</table>

a) In Indonesia, all persons from 15 years or older are included in the working age population and thereby in the participation rate.
b) In Thailand, all persons from 13 years or older are included in the working age population.
c) The inactive population includes all people in the working age that are either not working or not actively searching for work divided by the total number of people in the working age.
d) The participation rate includes all people that are either working or searching for work divided by the total number of people in the working age.

Source: WDI 1999 (Country specific reports).

2.4 Conclusions

From the foregoing it is hard to draw one conclusion that is applicable to all countries under consideration. One conclusion that can be drawn with certainty is that the labor markets are very diverse. Besides, the five countries considered here were at different stages with respect to the evolution of their labor markets and labor market institutions before the crisis in 1997. Just ‘after’ the crisis it became obvious that labor legislation and social protection was available only on a limited scale or had to be built up nearly from scratch. Public institutions were not in place to provide social support during and after the crisis. The unemployment rate increased from nearly full-employment levels (except for Indonesia and especially the Philippines) to a rate that is not dramatic but deserves extra attention. Therefore, in this paper, we concentrate on the role Public Employment Services may play in helping people prepare for and find decent work.
PES activities are found in all Western countries. The experience in Europe may be of help when recommendations have to be made regarding the development and/or extension of PES activities in East Asia. Therefore the following chapters describe the European experience with PES into detail. This is mainly to inform policy making in East Asia. In addition we use the European examples to recommend the East Asian countries how they may improve and extent PES activities.
3 The European Experience

3.1 The logic behind public employment services

In real life, labor markets suffer from a number of imperfections. What we usually observe is that unemployment and unfilled labor demand occur side by side. This is even true for more or less homogeneous segments of the labor market, such as sub-markets for a specific profession in a specific region. Therefore, even when labor demand and labor supply are of equal size and refer to the same type of labor, unemployment prevails. The unemployment occurring in this situation is often referred to as equilibrium or frictional unemployment. However, we can also observe that situations with a high surplus of labor supply or a high excess demand persist for a long time. This is particularly true for situations with excess supply. Currently, many countries face persistent high unemployment. This type of unemployment is called structural unemployment. The employment service is seen as a key instrument in addressing the structural problems of the labor market.

3.1.1 Why the labor market does not resemble an ideal market?

Why does the labor market not resemble an ideal market, in which labor shortages and surpluses are quickly removed and equilibrium is the usual state of affairs?

There are a number of reasons (De Koning 1995):

σ The labor market is lacking transparency, because every unemployed person and every job has specific characteristics, even within submarkets that seem to be homogeneous.

σ Many jobs require specific skills. Nobody can predict exactly how much labor of a specific kind will be needed in the future. Therefore, mismatch between demand and supply cannot be completely avoided. Mismatch requires retraining of workers, which takes time and will for various reasons not take place automatically. Employers are sometimes reluctant to train workers in view of the danger of poaching by other employers. Furthermore, workers often simply cannot afford making the investment.

σ Wages are rigid and cannot, therefore, bring about equilibrium. Wage rigidity may be caused by minimum wages and social protection benefits, which may prevent wages from falling to the levels that would be needed to clear the labor market. However, even in the absence of this type of institutions wage rigidity would probably exist, for instance due to a certain amount of monopoly power of the workers.

σ Unemployed job seekers are sometimes not hired because of their ethnic origin, their sex or other characteristics that are not relevant for their performance as an individual worker. This may have to do with the fact that individuals are treated as representatives of a group, in which case one speaks of statistical discrimination.
However, the fact that in many countries ethnic minorities suffer from extremely high unemployment is at least partly due to hard-core discrimination.

- Lack of labor demand. Unemployment emerges and/ or increases when job creation cannot keep up with the rate of job destruction.
- Unemployment is to some degree self-sustainable. Once a person is, purely due to bad luck, unemployed for some time, this fact alone will reduce her or his chance of a job. Employers often look at the (long-term) unemployed as ill-motivated and unproductive. Moreover, prolonged unemployment will eventually lower motivation and reduces skills.

These factors and mechanisms do not only explain why unemployment occurs and why it co-exists with unfilled demand, but also why some groups are disproportional confronted with unemployment.

### 3.1.2 Why the government has to play a role in the job placement market

Employment services may be of help in solving the problems mentioned before. However, that does not necessarily imply that the government has to take responsibility for the provision of the services. In principle, there is a private demand for this type of services, which may be provided by private companies. In fact, in many countries private placement and training agencies operate on a purely commercial basis for the private sector. On the other hand, in most countries the Public Employment Service (PES) holds a large share of the employment services market. It is generally recognized that the government has an important role to play in this market.

Mosley (1997) lists the following reasons why the PES can solve problems that the market cannot solve by means of private employment services:

- Private agencies cannot provide the collective good of greater transparency on the labor market because information on job seekers and vacancies is for them a proprietary asset in a competitive business environment.
- Private agencies will only serve a small part of the labor market, resulting in a suboptimal use of mediation services by employers and the few job seekers that can afford them. In particular long-term unemployed (LTU) need sheltered jobs that can only exist with government aid.
- There may be economies of scale in the provision of placement services.
- Weak and inexperienced participants in the labor market may be exploited by private services.
- There may be external effects to unemployment: in the EU-countries many unemployed job seekers get unemployment benefits. It makes control of the eligibility for benefits necessary, for example by looking at the availability for work and search intensity.

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4 Jobs in which the unemployed can obtain some working experience, and consequently, can improve his/ her position on the labor market.
On the basis of these points it can convincingly be argued that the government should play an important role in the employment services market. However, it does not follow automatically that the government should be the only player. Over the last two decades it has been increasingly recognized that private employment agencies contribute to the functioning of the labor market. Chapter 5 pays extra attention to the current role of private employment agencies and their relationship with the PES.

### 3.1.3 What are the tasks of the PES?

The activities of the PES usually aim at two main objectives:
1. To make the labor market work more efficient.
2. To promote equal opportunities for the different groups of job seekers.

Originally, the main tasks of the PES were in the provision of labor market information and in job brokerage, activities that are mainly relevant for the matching of job seekers and vacancies. However, the formidable rise in unemployment during the last decades implied that a more efficient matching was not going to bring about a solution for the unemployment problem. There simply were not enough vacancies to serve the unemployed. Therefore, increasingly the PES became engaged in measures that were meant to promote equal opportunities. When full employment is unattainable, one can at least try to avoid that some groups are hurt considerably more by unemployment than others. Moreover, one can also try to prevent extremely long spells of unemployment.

The typical activities of the PES include the following:

- The provision of labor market information, both about the current and the future labor market situation.
- Services in the field of occupational and educational choice.
- Job brokerage.
- Management (including the selection and the admission of participants) and (partial) implementation of specific measures in the field of training, placement subsidies and subsidized labor (active labor market policies).
- Administration of unemployment benefits.

In addition to these tasks the PES may have a central role in promoting coherence between all elements of labor market policy. However, in a number of countries the Ministry of Labor fulfils the latter task. Moreover, the administration of unemployment benefits is not always a PES task. On the other hand, in some countries the PES has additional tasks, for instance in the field of immigration and job protection.

Obviously each country plays out its roles differently. For example, with regard to the job-broking role the involvement of the PES varies according to how information on job seekers and job vacancies is made available. The PES in Greece (OAED) keeps most vacancies closed, with active matching taking place mainly through the rule that half of the candidates for subsidized hirings should be nominated by it rather than proposed by

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3. The range of activities of Public Employment Services varies from country to country.
the employer. The PES in Ireland (FAS) puts most vacancies on to semi-open display. Here a more active role from the job seekers is required. A vacancy is made public by an advertisement or notice board with a job description. Job seekers can ask for more details at the PES and the job officer selects suitable candidates. This method may be more successful in meeting the preferences of both job seekers and employers. The PES in Portugal (IEFP) handles most vacancies on a closed basis, with an emphasis on rapid active matching by – for example – computerized matching, self-help or self-service and the Internet (OECD 1998).

3.2 The organization of the PES

In a rapidly changing environment in which the PES now operates, organizing and managing the PES has become an increasingly complex task. Frequent organizational adjustments have been needed to accommodate new employment and labor market policies. The most notable organizational adjustments that have been taken place are the decentralization process, the increasing integration of services and the competitive service delivery.

In this section we discuss these and other organizational aspects:

- Institutional structure.
- Integration of public employment services.
- Centralization and decentralization.
- Relationship with unemployment benefits.
- Financing.

3.2.1 Institutional structure

How is the PES legally defined as an institution? There are several legal categories possible. First of all, the PES may simply be a department of the central government, usually the Ministry of Labor. Historically, this is how the PES was set up in most countries. The status of the PES as an integral part of the Ministry of Labor can take two forms (Thuy et al. 2001):

- A fully integrated part of a government department: here the Minister of Labor is in charge whereas the staff members have the same status as other officials in the public service.
- An executive agency within a government department: the functions of the PES have been transferred to a separate organization within a government department. The head of the PES is directly accountable to the relevant Minister under an agreement on aims, objectives, resources and performance. This model is at present applied in the UK.

It should be noted that the information provided in this chapter is based on policies and practices that were in operation in the second part of the 90s and these are subject to (rapid) change.
The main advantage of a situation in which the PES is fully integrated in a government department is that Ministers have direct control over the PES or, in other words, the PES is “owned” by them (Thuy 2001). However, government organizations do not have a reputation of client-friendliness. Since service activities for clients (job seekers and employers) is an increasingly important task of the PES, it can be doubted whether it can be responsive to its customers. Another problem is that PES may suffer from arbitrary political intervention. This can lead to decisions that are not made on sound business grounds. In case the PES is an executive agency within a government department most of these problems can be overcome. However, here its success depends on a good working relationship between the Minister and the head of the PES.

In most EU countries such as Austria, Germany and the Netherlands the PES is jointly administered by the government and the social partners (unions and employers) (see the Appendix). The motivation behind this tripartite structure is that the involvement of the social partners will make it easier for the PES to gain the trust of employers. Furthermore, the social partners will be more inclined to include arrangements on the inclusion of target groups in their collective agreements. However, all this presupposes that a well-developed system of industrial relations exists. And even then the question is whether the administrative involvement really makes a difference. Individual employers do not necessarily take care of the collective agreements.

The success of this most popular model ultimately depends on mutual understanding between ministers, social partners and the PES leadership. As can be observed from the Appendix, in Greece the impact of the social partners is limited due to conflicts between employers and trade unions. On the other hand, in Ireland the impact is strong due a high degree of consensus between employers and trade unions. Box 1 gives some practice examples of tripartite structures in Italy and Ireland.

Australia is the only country were the PES has been replaced by a private organization. In this model private, community and public sector agencies are contracted to place unemployed people in jobs. The privatized PES is established as an enterprise/corporation under a corporation act (Thuy 2001). As there is an increasing interest in private employment services Chapter 5 gives this issue special attention.
Box 1 Tripartism in Italy and Ireland

A high degree of tripartism, such as in Italy, may lead to a relative neglect of the weakest unemployed. In Italy, tripartite influences contribute to the focus of both unemployment benefits and active placement efforts on victims of collective lay-offs, rather than people who have lost work from small firms or people who have never been able to find a first job. This has lead to a neglect of some groups in Italy (OECD 1996).

In Ireland, so-called Area-based partnerships are established in disadvantaged regions addressing economic disintegration and providing a new framework for job creation and the fight against unemployment persistence. The partnership is run by an 18-member board in which, among others, the PES, social partners and community groups take place. In this way, all groups are represented and the local needs for all stakeholders can be taken into consideration in combating unemployment and developing local projects. This innovative approach has been evaluated well (OECD 1999).

3.2.2 Integration of public employment services

The OECD jobs study of 1994 recommended the integration of three functions of the PES: job-broking (job-counseling), payment of unemployment benefits, and active labor market programs. However, this does not mean that these functions must be delivered in the same institution (institutional integration). For example, Sweden combines job-broking, training and labor market measures but leaves unemployment insurance to the trade unions (Thuy 2001). In a number of Asian countries training for the unemployed comes under the responsibility of the Ministry of education. In Germany and the Netherlands, municipalities play a key role in the implementation of job creation schemes for the long-term unemployed, which constitute a considerable share in total expenditure on active policies. In these countries the long-term unemployed often rely for income support on social assistance, carried out by the municipalities. However, since municipalities do not have the expertise to place unemployed persons in regular, unsubsidized jobs, co-operation between the municipalities and the PES seems essential. In other words, not institutional integration is essential but functional integration. Box 2 shows some additional examples of integration of PES functions.

In spite of the fact that services have been delivered by the same institution or not, there have been problems in achieving coherent local services. Two new approaches have been developed to organize service integration (Thuy 2001): customer-focused integration – or one-stop centers – and tiered service delivery. In the one-stop centers a number of services are delivered from the same premises in order to assist the customer. The main advantage of this approach is that it is much more likely that interface problems can be quickly resolved and unemployed people receive integrated help to aid them return to work. A disadvantage is that it constrains the PES choice of local premises meaning that the PES may not be able to operate in prominent city center sites. The United States government has been a pioneer of the one-stop approach. Also in the

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7 Alternatively, municipalities can hire private companies for the job placement of their clients.
United Kingdom, Sweden, France and the Netherlands one-stop centers have been recently set up.

In the tiered service delivery approach PES services are organized according to the level of intensity of services that is needed to either remove barriers to employment for job seekers or to assist employers to fill vacancies (Thuy 2001). In practice this means that customers receive services better tailored to their personal needs and interests. Another advantage can be that the customers who are in need of the greatest support receive most assistance. In Sweden and the United States this approach has already been adopted.

Box 2 Examples of integration of Public Employment Services in Greece and Ireland

In Greece, the several functions of the PES (placement, benefit administration, referral to ALMPs), are formally integrated. However, people entitled to benefits can maintain their claims through the local benefit office and sign on with no obligation to visit the employment offices regularly. So in spite of formal integration there is a large degree of separation of the PES functions. Integration of PES functions in Greece has proven not to be effective because in practice the integration is not in function (OECD 1998).

In Ireland, the different functions of the PES, such as unemployment benefits, ALMPs and job services are administered and paid out of a by a different Ministry. This has increased differences in culture and attitude between the two administrations, as well as problems of coordination at the strategic planning. The social benefit network administers some types of subsidies for hiring and the employment office network administers others. This makes it difficult to provide clients with information and advice covering the full range of programs (OECD 1998).

3.2.3 Centralized versus decentralized structure

Another question one might ask in the design of employment services is whether employment services should be centralized or decentralized. In most European countries there has been a big move towards decentralization of the PES (see the Appendix). Decentralization is often associated with autonomy for the regional boards of the PES. However, forms of functional decentralization are also possible. For example, in Portugal the training institutions belonging to the PES are a separate branch within the PES organization.

The decentralized strategy in most European countries has been caused by a growing recognition of the pace and change in the (regional) labor market and the diversity of the needs among the clients of the PES. Consequently, the main advantage of the regional decentralization of employment services is that the services are more accessible and better targeted to the needs of that specific region. However, decentralization involves less detailed control by the central management which means that sound policy guidelines and trust in local judgement are essential prerequisites. Too much
decentralization may imply that each regional PES develops its own procedures and instruments. This may lead to uncertainty among clients (job seekers and employers) about what they can expect from the PES. Moreover, practical problems in inter-regional job brokerage may occur when regional PES organizations use different information systems. Such problems occurred after the introduction of a highly decentralized structure in the Netherlands in 1991. As a result, the government reduced the autonomy of the regional PES boards again after four years. However, regional boards still have a considerable amount of freedom with respect to choosing the policy mix and the way policies are implemented. Box 3 shows two examples of how decentralization of PES may work out in practice.

Box 3 Examples of decentralization tendencies in Finland, Denmark and the United Kingdom

In Finland and Denmark, a combination of decentralization and rewards for performance, has proven to encourage management at regional level to take account of nationally agreed strategies. It also encourages regional management to provide information for monitoring and accept inspection of its procedures. It may also help to motivate staff. Most important, decentralization has helped labor market strategies to be adapted to local needs (OECD 1996).

In the United Kingdom, as far as job search programs are concerned, where evidence is available, it has indicated that those programs which are locally administered, maintaining close contact between ES staff and the client are most effective. This has allowed greater emphasis to be placed on the matching of opportunities. Similarly, the success of project work in local offices has involved a greater sensitivity to trends within the labor market, by taking account of the growth of part-time employment and making this a more attractive option for young people. Job match is another relatively successful scheme which has recognized changing labor market conditions and enhanced the attraction of taking part-time work. The schemes, which have proved most successful, have therefore involved a close degree of cooperation and liaison between employers and ES staff at local level and taken account of changing labor market trends. Measures taken at a local level and on local initiative have thus proven to be effective.

3.2.4 The relationship with unemployment benefits

Unemployment benefits may be managed by the PES, by another state institution or by the social partners. Although in some countries such as Austria, Germany, Japan and Norway the PES is also responsible for the payment of unemployment benefits, it is often handled by a separate administrative authority in other countries.

The main advantages of PES that is responsible for the administration of unemployment benefits are:

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Detection of highly motivated or unmotivated job search behavior can have direct implications for the benefit paid.

It will be easier to adjust unemployment benefit regulations in such a way that job seekers are motivated to accept jobs and employers are motivated to hire unemployed beneficiaries.

Potentially higher administrative efficiency.

Correct use can be better monitored.

In general, integration could help to make unemployment benefits more employment-friendly. However, there are also potential drawbacks involved. First of all, in many countries only a limited proportion of the unemployed is eligible for the benefits that are provided by the PES. As a result the PES will be inclined to concentrate its reintegration activities on a very specific group among the unemployed. This is, for example, the case for Germany, where the PES is responsible for unemployment insurance benefits, but not for social assistance benefits. Usually, the more disadvantaged groups have to rely on social assistance, which is in most countries provided by the municipalities. Therefore, integration of the reintegration and the benefit-paying functions may carry the risk that the PES pays less attention to the disadvantaged groups, which need help most. Furthermore, when job counselors monitor the job search behavior of unemployment beneficiaries and pass the information on to officials dealing with benefit payment, this may be counter-productive. It may lead to job applications for form’s sake. Box 4 highlights some good and bad practice examples with regard to registration with the PES in combination with unemployment benefits.

According to Thuy et al. (2001) the current opinion tends to favor a close relationship between benefit administration, the PES and the one-stop concept of co-locating the functions at a local level. In the Netherlands recently one-stop offices have been created which carry out the intake of newly unemployed persons. The information from the intake is used both to determine their benefit and their ‘distance’ to the labor market. The latter determines the type of assistance offered for reintegration.

Particularly for countries which - for the first time in decades - experienced rapidly increasing unemployment and poverty levels (Central European Countries, Asian countries⁹) it is important to build in incentives for unemployed people to quickly return to work. This means that unemployment benefit programs had to be streamlined and integrated with other PES programs (ALMPs). However, sometimes this had unexpected but dramatic impacts. For example, the initial version of the unemployment compensation system in Poland causes a so-called ‘added-worker effect’. In this initial version all registered unemployed were eligible for unemployment benefits, there was no previous work requirement, and the entitlement period was open-ended. This encouraged many so-called ‘secondary workers’ – i.e. household members not included in the labor force under the centrally planned period – to enter the labor market. This may be due to the attempt to compensate for lost household income by those households affected by unemployment. In the initial version of the unemployment compensation,

⁹ It has to be kept in mind that of the East Asian countries (the countries which are under consideration in this paper) only Korea provided a system of unemployment benefits.
there was also a requirement that the person was available to be employed. Those refusing an ‘adequate’ job offer twice in a month would forfeit their right to receive the payment of benefits. However, in practice, the likelihood of being offered an ‘adequate’ job was very low. Moreover, it is very difficult to give a clear definition of an adequate job. Consequently, the number of unemployed registering in the labor offices was greater than the number of those who were laid off. To avoid paying unemployment benefits to people who were actually outside the labor market, the initial version of the eligibility criteria was changed a couple of months after the introduction.

**Box 4 Experiences with unemployment benefits in relation to the PES (Portugal, Ireland and Finland)**

The height and eligibility criteria for unemployment benefits influence the number of people registering with the PES. The OECD reports that countries where registering with PES is necessary to be eligible for unemployment benefits, the number of people who register with the PES increases. In Portugal, extensions of regulations for unemployment insurance and assistance systems in the eighties have helped to bring up the proportion of the unemployed who register with the PES to high levels. In Ireland, such an obligation does not exist which has led to a poor overview of the number of unemployed. Only about half of the unemployed are registered in Ireland, which makes it difficult for PES to make fast or high-quality placement by active matching (OECD 1998).

In the registration system of Finland, duration of registration is not the same as the duration of unemployment for benefit purposes. As a result unemployed workers often have refused to enter training or short-term jobs. This is because taking training or a temporary job resets unemployment duration at zero according to PES records. Since subsidized jobs are allocated on the basis of unemployment duration according to PES records, the chance of being offered a subsidized job reduces that way. This interaction between benefit administration and the allocation of subsidized jobs does not promote the efficiency of labor market services (OECD 1996).

### 3.2.5 Financing

In most EU countries employment services (ALMPs, unemployment insurance benefits) are financed partly by general public revenues and partly by employer and employee insurance contributions. Moreover, a notable part of the ALMPs is financed through funds from the European Union. Below we discuss how the tasks of the PESs are financed in a number of EU countries.

The German PES, Bundesanstalt für Arbeit (BA), is largely financed through employees’ and employers’ contributions. The BA has its own budget that requires the approval of the federal government. A budget surplus is transferred to the reserve fund and budget deficits are covered by corresponding withdrawals from the reserve. In case the funds of the BA are not sufficient to meet its financial obligations, the federal government provides the liquidity assistance needed to balance the accounts in the form
of an interest-free loan. The financial resources of the BA may only be used for legally prescribed or permitted purposes.

Among the main budgetary expenses are (EC 1997):

σ Benefits within the context of ALMPs (vocational training, vocational rehabilitation of disabled persons, promotion of job creation etc.)

σ Benefits in the event of unemployment or an employer’s insolvency.

In Greece and Portugal, the unemployment insurance benefits and a large part of the ALMPs are financed out of employer and employee social security contributions. There is also substantial support provided under the European Social Fund (ESF) Program the European Regional Development Fund (ERDF) (ERDF only in Portugal). This support is both for employment subsidies and vocational training, and some financial support from the general Exchequer via the budget of the Ministry of Labor. The PES in Greece (OAED) operates its own budget. However, spending targets for the different ALMPs are specified in labor Ministry decrees, after consultation with the OAED board of directors. External influence over the budget is enhanced by the role of EU funds which are channeled to OAED via the Labor Ministry.

The PES in Portugal (IEFP) prepares its annual budget on the basis of projected social security contributions, the ministry’s spending targets and budget submissions by the regional directorates. After assessment of the governing board and the supervisory commission, the central office decided on the amount of money going to the regional directorates by detailed program category. Each region then manages its own budget (see also box 5).

In Ireland, unemployment insurance benefits are financed through the social insurance fund which collects Pay-related Social Insurance (PRSI) contributions from employers, employees and the self-employed. The state may add a small subsidy from the general budget. The proportion of the fund allocated to paying unemployment insurance varies according to need. Unemployment assistance – for job seekers entitled to no or reduced insurance benefit – accounts for over three quarters of overall unemployment benefit spending and it is financed, like other social assistance programs, entirely by the Exchequer out of general taxation.

In Denmark, Finland and Italy funding of employment services is done partly from insurance contributions (see the Appendix). However, the insurance contributions do not suffice to finance the labor market policies towards insurance beneficiaries, not even their benefits (except for Italy). The direct expenses like staff wages are paid from the general exchequer, via the budgets of the Ministry of Labor. In the Scandinavian countries, the PES now can ask fees from employers.
Box 5  Budget allocation to the regional/local offices, Portugal

In Portugal, the IEFP prepares its annual budget on the basis of projected social security contributions, the ministry’s spending targets and budgetary submissions by the regional directorates. After assessment by the governing board and the supervisory commission, the central office decides on the amount of money going to the regional directorates. Various indicators such as working-age population and size of registered and long-term unemployed are used as a means of determining regional needs. Each region then manages its own budget. The national budget is usually revised or updated twice a year. In the course of the year requests for adjustment usually come from the regional directorates after feedback from their local offices. IEFP headquarters may authorize transfers of funds between regional budgets, while regional directorates themselves can shift funds. These shifts of funds are based on changes in local needs. Shifts can only be made between program categories of the employment services. However, any shifts of funding between training centres and the employment services have to be decided at national level. This process of budgetary adjustment in consultation between the various office layers allows flexible responses to local variations and actual program take-up.

3.3 Market shares and output

Placing job seekers in jobs or, put in different terms, filling vacancies, is usually seen as the core business of the PES. However, there are other channels than the PES through which employers notify and fill vacancies and job seekers look for and find jobs. It is of interest to examine the importance of the PES in this ‘placement’ market. Therefore, in the first section of this chapter an overview will be given of the market shares of PES in OECD countries. In the second section we deal with the question whether the use of market shares is really meaningful. After all, market share is often used as an indicator for gross output. What we need, however, are indicators of the degree to which the PES activities make a difference to the functioning of the labor market. This is the so-called net output or net impact of the PES.

3.3.1 Market shares

A ‘placement’ is realized when a vacancy is filled by a job seeker due to the mediation of the PES. Various definitions are used. According to the strongest definition, both the job seeker and the vacancy must have been registered with the PES and the PES must have played an active role in the vacancy filling. However, there are various interpretations of what ‘active’ means in this context.

There are different ways for the PES to execute its vacancy filling brokering function (OECD 1996):

- Active brokering; this entails a large role for the job officer. When a vacancy is reported, the job officer contacts some suitable candidates and selects them for an interview. This method is quite fast as job seekers are connected immediately. A disadvantage is that this method of handling vacancies needs heavy staff input.
Semi-open advertising; here a more active role from the job seekers is required. A vacancy is made public by an advertisement or notice board with a job description. Job seekers can ask for more details at the PES and the job officer selects suitable candidates. This method may be more successful in meeting the preferences of both job seekers and employers.

Fully-open advertising; vacancies with all details are made public and job seekers have to take all further action. This can be done by means of self-service job shops where job seekers can find info on jobs by means of billboards and computers. This is a quite cost-effective way. Job seekers can contact a PES officer for more information or they can address the company directly. A disadvantage of this method is that it is difficult to indicate with certainty that the vacancy was filled or a job seeker found the job as a result of the information provided by the PES. In other words, it makes it difficult for the PES to check the status of current vacancies.

These three different methods of handling vacancies have advantages and disadvantages. In practice, many countries use a combination of all three.

There are other channels than the PES through which employers notify and fill vacancies and job seekers look for and find jobs. On the basis of surveys among employers and job seekers the market share of the PES in vacancy fillings found is usually around 16 per cent. Surveys among job seekers often produce even lower market shares for the PES. Other channels, particularly newspaper advertisements and informal channels, are more important. The market shares of private placement agencies differ a lot between countries, but in most countries it is lower than the share of the PES.

Official PES placement numbers are usually higher than what surveys among employers and job seekers indicate. Partly, this is due to the fact that in practice the placement concept used by employment offices is often broader than the official definition suggests. Furthermore, it is often difficult to say who delivered the decisive input for a vacancy filling: the employers, the job seeker, the PES or another organization or channel? Therefore, differences in opinion are certainly possible.

Table 3.1 shows a number of estimates of PES markets shares in OECD countries. Although making comparisons is difficult because of – for example - different data collection practices, the information on PES market shares is informative. One striking result is that there is a broad spectrum of PES impact, ranging from less than 5% of total hirings in the USA and Switzerland to around 30% in the United Kingdom and Italy. The average market share in all hirings is 16.4% which means that almost 85% of placements take place through other search and recruitment channels.
Table 3.1 Estimates of PES Market Share by Various Definitions in Early 1990s

<table>
<thead>
<tr>
<th>Country</th>
<th>Commercial placement since</th>
<th>Employers’ PES notification rate (% vacancies)</th>
<th>PES Registered Job-Seekers (% all jobseekers)</th>
<th>PES placements (% hires)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>1994</td>
<td>26.7</td>
<td>-</td>
<td>12.0</td>
</tr>
<tr>
<td>Australia</td>
<td>1947</td>
<td>25.5</td>
<td>-</td>
<td>16.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>-</td>
<td>25.3</td>
<td>77.3</td>
<td>16.9</td>
</tr>
<tr>
<td>Germany</td>
<td>1994</td>
<td>34.5</td>
<td>76.0</td>
<td>24.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>1990</td>
<td>19.0</td>
<td>64.8</td>
<td>10.0</td>
</tr>
<tr>
<td>Spain</td>
<td>-</td>
<td>23.0</td>
<td>86.1</td>
<td>22.0</td>
</tr>
<tr>
<td>Finland</td>
<td>1994</td>
<td>32.0</td>
<td>-</td>
<td>17.0</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>28.0</td>
<td>64.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Greece</td>
<td>-</td>
<td>-</td>
<td>10.5</td>
<td>-</td>
</tr>
<tr>
<td>Ireland</td>
<td>1971</td>
<td>19.6</td>
<td>59.7</td>
<td>9.8</td>
</tr>
<tr>
<td>Italy</td>
<td>-</td>
<td>-</td>
<td>74.4</td>
<td>30.0</td>
</tr>
<tr>
<td>Japan</td>
<td>-</td>
<td>51.0</td>
<td>-</td>
<td>14.0</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>-</td>
<td>-</td>
<td>46.7</td>
<td>-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1991</td>
<td>23.0</td>
<td>68.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>76.0</td>
<td>-</td>
<td>19.0</td>
</tr>
<tr>
<td>Portugal</td>
<td>-</td>
<td>-</td>
<td>63.2</td>
<td>-</td>
</tr>
<tr>
<td>Sweden</td>
<td>1993</td>
<td>36.3</td>
<td>-</td>
<td>24.8</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1910</td>
<td>9.0</td>
<td>-</td>
<td>4.0</td>
</tr>
<tr>
<td>United</td>
<td>1850</td>
<td>39.0</td>
<td>-</td>
<td>29.0</td>
</tr>
<tr>
<td>USA</td>
<td>1920</td>
<td>8.9</td>
<td>-</td>
<td>4.8</td>
</tr>
</tbody>
</table>

a) Data refer to 1990.
b) Data refer to 1991.
c) Data refer to 1992.
d) Data refer to 1993.
e) Data refer to 1994.


3.3.2 Output

Market shares, registration rates and filling rates are widely used concepts to measure the impact of the PES. The question is, however, whether they are really meaningful. Job matching is only one type of PES activity and may thus underestimate the actual impact of the PES. The PES is most important as a search channel for individual job-seekers, especially the unemployed. The real impact of PES activities on the labor market will be largest by promoting greater transparency (e.g. information services) and providing job search assistance. A high market share of the PES in itself is meaningless. It only becomes relevant when a high market share would enable the PES to make the labor market work more efficiently and justly. Unfortunately, this is not necessarily the case. A market share maximizing strategy may favor job seekers with a high profile in the labor market, who can easily find a job through other search channels than the PES. In that case the PES activities would neither contribute to more efficiency or equity. That means that placements and market shares are indicators for gross output. What we need, however, are indicators of the degree to which the PES activities make a
difference to the functioning of the labor market. This is the so-called net output or net impact of the PES.

To that end, we would have to know the answers to the following questions:
1) Do the PES activities increase the total number of filled vacancies?
2) Do the PES activities lead to more equality in employment opportunities?

De Koning (forthcoming) gives a review of the type of aggregate impact studies that deal with questions like that. The number of studies shining light on the net output of the PES is relatively small. The conclusion on the basis of the available literature is that the overall impact of the activities of the PES on the functioning of the labor market is quite limited. There is somewhat more evidence that these activities help to improve the labor market situation of disadvantaged groups such as the long-term unemployed. However, even for those groups deadweight, substitution and displacement effects are quite high.

In order to maximize net output, it seems natural for the PES to give high priority to unemployed job seekers who have difficulties in finding a job. Placement activities are often not enough to reach this goal. Therefore, usually the PES is heavily engaged in reintegration activities such as training, placement subsidy schemes, schemes for subsidized labor, and so on. Some of these activities, for instance training, are outsourced to external agencies. It is quite possible then, that people trained with a PES subsidy (or ‘treated’ in some other way), find jobs through other search channels than the PES. These cases do not count as PES placements, although the training may have been decisive in the job finding process. This is another reason why the placement concept is not that useful. The evaluation of active measures is treated in a separate module.

However, for various reasons the PES should not concentrate entirely on disadvantaged groups:
- Some labor market imperfections such as imperfect information and underinvestment are partly of a general nature.
- Concentrating entirely on disadvantaged groups may constitute a disincentive for employers to register their vacancies with the PES (a point already mentioned earlier).
4 Evaluation of Public Employment Services

Evaluation of Public Employment Services is indispensable to justify or to improve the effectiveness of the PES activities. According to de Koning (1993), three evaluation phases can be distinguished: ex-ante evaluation, evaluation during implementation (performance evaluation) and ex-post evaluation (impact evaluation).

4.1 Theory

Ex-ante evaluation mainly refers to policy development. Questions to be answered during this phase are:

σ What is the relevant policy problem?
σ Should a new measure or activity be developed to solve a given problem, or are the existing policies, adjusted if necessary, appropriate?
σ If a new measure needs to be developed, what alternatives are then available?
σ Which of these alternatives is expected to offer the most favorable cost-benefit ratio at the present stage of knowledge?

Ex-ante evaluation is still not fully developed, a situation that might be due to its integration with political decision-making (Walwei 1996).

Evaluation during implementation (performance evaluation) refers to the monitoring of certain activities with the help of simple indicators. Performance evaluation considers different PES activities in terms of input as well as output. In order to monitor activities several indicators are used such as the number of placements and their distribution among specific groups. In addition, performance indicators aim at measuring relative market importance, the success of services, and the satisfaction of users. These indicators permit rapid identification of problems, in particular those relating to implementation. They are of particular importance for PES managers of local operating offices because they help to estimate the level of efficiency attained by their resources. Furthermore, careful monitoring of activities is necessary in order to obtain the information which is needed for the third phase (ex-post evaluation) (Walwei 1996).

Ex-post evaluation – or impact evaluation - estimates the results of certain activities or measures in comparison to the zero situation (net effect). It tries to assess the external effects of these PES activities, for example the resulting net benefits for users, as well as the impact on the functioning of the labor market as a whole. The results are used to determine whether the activity or scheme in question needs to be adjusted or even replaced. Ex-post evaluation mainly concentrates on the measurement of the effects of a particular PES activity on the labor market position of individual participants. The crucial question is what would have happened to users had they not received such services from the PES. Clear-cut results in this area can be derived from random-assignment experiments. Such analyses compare the effects of PES activities on individuals receiving a given service to those who applied for and were eligible for
services but were randomly assigned to a control group to which these services were not provided. However, for obvious reasons, such experiments are highly unlikely. PES traditionally has been open to all clients. Therefore, it seems to be doubtful that such services could be withheld from a designated group (Jacobsen, 1994).

Although performance evaluation and impact evaluation focus on different issues and have different purposes they are also interrelated. On the one hand, findings from studies dealing with impact evaluation are required in order to assess to what extent public services are needed and which kind of services (for example, self-selection or intensive mediation) should be offered to the various types of clients. That means, impact studies can be used in order to define reasonable performance standards which would then allow cross-office comparisons of relative efficiency. On the other hand, the establishment of a performance measurement system relying on careful monitoring would offer the opportunity to design and carry out studies based on "experimental regions" and "control regions". For example, organizational changes can be studied by means of "comparative before-after studies". The impact of such changes can be measured by monitoring the development of performance indicators (Walwei 1996).

4.2 Examples of evaluation studies

It is surprising that in spite of the important role of employment services on the labor market there are only a few examples of evaluations of Public Employment Services. And even these few studies do not evaluate issues related to program design and implementation, staffing, and intensity and quality of services provided. Most evaluation studies focus on the impact of participation of unemployed job seekers in ALMPs on employment and earnings. To give an idea of the results of evaluation studies, we briefly review 5 studies on the effectiveness of the PES in – respectively – three developed countries, Canada, the United Kingdom and the United States, and two transition countries, Hungary and Poland. Since it falls outside the aim of this paper we will not discuss the methodology used in the various studies.

Hungary and Poland

O’Leary (1998a, 1998b) examined the impact of the specialized Employment Service (ES) assistance on employment and earnings. O’Leary compared a group of people who chose to use ES assistance with a group of people who chose not to use ES-assistance. In practice the decision to use the ES assistance means participating in one of the ALMPs used in Hungary and Poland: retraining, wage subsidies, self-employment assistance etc.

The results suggest that the ES did not have strong independent positive effects on re-employment outcomes. However, if the economy is improving, some subgroups of those who chose to use ES-assistance – particularly women – fare significantly better than those who did not chose to use ES-assistance. As O’Leary (1998, p. 97) rightly

These evaluation studies are also reviewed in Fay (1997). Based on this review we have summarized the evaluation results.
concludes, the ES is more than simply a job referral service. The ES in Hungary acts as a one-stop shopping center for all forms of re-employment services and temporary income support for the unemployed. The administrative costs per person registered as unemployed are relatively small, and the large social value of services provided is hard to estimate with precision.

Canada

The effectiveness of the Canadian PES has been investigated in the years 1981, 1983 and 1986 (Osberg 1993). Osberg found that neither men nor women derived any benefit from using the PES in 1981 - a peak period in terms of the business cycle. That is, job finding probabilities were not higher and, therefore, social returns were zero. In 1983 - a year characterized by a major recession – the PES increased the job finding probability of long-duration jobless males. Consequently, unemployment insurance (UI) payments decreased by about $340 million. The results regarding 1986 – a recovery year – showed that only long-term unemployed women benefited from use of the PES. Given the smaller number of the unemployed, savings to the UI account were much smaller resulting in no net social benefit.

United Kingdom

Gregg and Wadsworth (1996) examined the effectiveness of state employment agencies. First they indicate that most job-seekers use more than one method of job search – on average just over 2 during the period 1984-1992 – whereby newspaper advertisements was the most common method of job search followed by PES and by friends. Similar to the Canadian study, the results show that use of the PES is counter-cyclical: during recessions, use of the PES is higher. Furthermore the results show that Job Centers have the most beneficial impact for groups who tend to make more use of the Centers - the less skilled and the long term unemployed. Use of Job Centers resulted in higher transition probabilities – from unemployment to employment – reducing unemployment duration’s and increasing lifetime earnings. Overall, the more advantaged job seekers tend to rely on Job Centers only during slumps in economic activity.

Another study – using data for the years 1987-1988 – shows that job seekers who turn to the PES over other job search methods have shorter unemployment spells than those who did not (Thomas 1997). Moreover, job seekers who eventually turned to the PES - after unsuccessfully using other methods – had the longest unemployment spells. The results of Thomas suggest that encouraging some groups of job seekers – who would not normally - to turn to the PES would be beneficial to them. In that case, the unemployment spell for workers aged 55-64 would be reduced by 68 per cent and that for workers aged 16-54 by 52 per cent (Fay 1997, p. 31).

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11 This analysis has been criticized since it ignores – among other things – substitution and displacement effects.
12 The costs of employment services were not examined in this study.
United States

Jacobsen (1994) presents four interesting results. First, the Employment Service (ES) in the United States is used by workers who (a) lack access to the best sources of information, or (b) have failed to locate suitable work using other sources. Second, mandatory registration of claimants impedes the operations of the ES labor exchange significantly. Third, the ES reduces joblessness by about 2 weeks for those who have not exhausted unemployment insurance, and by more than 13 weeks for the roughly 20 per cent of claimants exhausting UI. This reduction in joblessness tends to be greater for women than for men. Moreover, for job seekers whose previous earnings are less than $20,000, the ES is able to find jobs that generate similar earnings to those found through other means. On average each ES referral of a UI claimant saves about 1.25 UI payments or almost $200. Finally, Jacobson (1994) notes that the available evaluations are partial equilibrium in nature, and ignore the potential negative effect of ES actions on non-users. There is also the problem of "congestion": the use of the PES by one person will affect other job seekers, for example through less time spent determining their needs.

Another study notes that the high priority the PES placed on the most disadvantaged job seekers led many employers to abandon the ES as a source of referrals. Bishop’s study (1993) shows that PES referrals performed as well as "walk-ins" and job seekers who responded to advertisements. A study of retail clerks found that referrals from both private and public employment agencies were 9 to 15 per cent more likely to be classified as unsatisfactory compared with walk-ins and new hires from newspaper adds. Firms that used the PES tended to be larger than average, more capital intensive, paid lower wages, and had higher turnover. Workers tended to be older and had lower educational attainment (Bishop 1993). Workers hired through the PES were less likely to stay late and were less profitable (by about 16 per cent of average productivity, holding several factors constant). However, individuals recruited through private placement agencies were only slightly more productive.

Overall

Dar and Tzannatos (1999) examined 18 evaluations of job search assistance/employment services. One of their main conclusions is that job search assistance is – in some sense – one of the most successful active labor market programs. In the general case, it costs little to provide and the program is not any less effective than alternative ALMPs. The results of the evaluation studies were – not surprisingly – much dependent on whether the economy is growing or in a recession and on the availability of public funds (Dar and Tzannatos 1999, p. 20).
4.3 Conclusions

All the studies indicate that the PES activities lead to private payoffs, that is, PES helps integrate the unemployed back into work - in particular the long-term unemployed. PES tends to be used most during economic downturns and – then – it appears to be most effective. In general, many PES activities such as job-search assistance and re-employment bonus programs are found to be effective in reducing search time among the unemployed. The greater cost-effectiveness, compared to other ALMPs, is another attractive feature of job-search assistance. However, what we miss in the evaluation studies is an answer to the question whether the PES is meeting its goal in the most efficient way, and in line with this, whether the PES should be the main actor in employment services. Moreover, the evaluation studies do not evaluate issues related to program design and implementation, staffing, and intensity and quality of services provided. These are important issues that have an impact on the likelihood of success of employment services.

In most countries of Western Europe, there is social consensus on the necessity to pursue employment services: its right to exist is not dependent on achievement of the desired effects. The measurement of success or failure is only done with the intention to improve their efficiency. Particularly in transition and developing countries the immaturity of the institutional may lead to some unsuccessful outcomes. However, the administrative costs per person registered as unemployed are relatively small, and the social value of services provided is large.
5 The role of private employment services

5.1 Public versus private involvement

Up to the 1990s the government held a monopoly in job brokerage in most countries. The regulations were so tight that private job placement agencies hardly existed. Private employment services were restricted to specific segments of the labor market. There were exceptions, however. Australia, the United States, the United Kingdom and Switzerland have a long history in private job placement services. In other countries such as the Netherlands commercial temporary work agencies were allowed.

In the 1990s the state monopoly in job brokerage was abolished in many European countries. In most cases the PES continued to exist as a government (funded) organization. However, in other countries at least some of the activities the PES used to be responsible for, were privatized. Not only job placement activities were privatized, but also the implementation of reintegration measures for target groups.

What are the reasons behind this tendency to abolish the state monopoly in job brokerage and generally to involve private organizations in the implementation of active labor-market policy?

There are three main reasons:
1. Dissatisfaction with the performance of the PES caused that employers used other channels of placement such as advertising.
2. The PES has become subject to public spending constraints.
3. The general feeling that private companies in a market environment, which is characterized by a rapidly changing and flexible labor market, produce products and services of higher quality in a more efficient way than governments can do.

When the PES is the only provider of employment services the government is provider and purchaser of these services at the same time. More competition can increase the efficiency of the labor market and it can also induce the PES to increase its own efficiency because of the competition. When the market mechanism is at work, the PES is - for example - no longer able to allocate all the unemployed to its own training courses (Fay, 1997). A major drawback of a mixed structure in which the PES has to compete with private actors is that it becomes more difficult for the PES to place disadvantaged groups. Private agencies tend to fall in with employer's wishes, particularly in a situation of high unemployment. As a result job seekers with a higher profile in the labor market will be served first. In order to compete with the private agencies was much smaller.

\(\text{Firms use temporary work not only to cope with output fluctuations, but also as a recruitment device. When labor demand is rising firms are often uncertain whether the increased need for labor is permanent. Temporary labor gives them the opportunity to buy time. Firms may also be uncertain about the productivity of newly recruited workers. Firms can monitor temporary workers for some time and then decide on a permanent contract. Even with an official state monopoly in job brokerage, then, private agencies can have a considerable share in the numbers of vacancies filled. In the Netherlands the share of the temporary work agencies was almost as high as that of the PES. In most countries the market share of the private agencies was much smaller.}\)
agencies, the PES will be forced to do the same thing (De Koning, Denys, Walwei, 1999).

There is a theory, the so-called carrier-wave theory, that the PES is only capable of helping the disadvantaged when it has a high market share in vacancy fillings. Only then, the reasoning goes, employers will be inclined to register their vacancies with the PES. They are reluctant to do so when the PES concentrates its activities on the disadvantaged, who are often considered less attractive by employers. If this theory is true, it would not make sense to let the PES compete with private placement. However, the carrier-wave theory is not generally accepted. Buttler and Walwei (1995) defend the position that the existence of Private Employment Services (PRES) will not necessarily lead to a shrinking market share of the PES. They argue that many unemployed persons have to register with the PES in order to become eligible for an unemployment benefit. This gives the PES a clear advantage to private competitors. Furthermore, one has to realize that the PES can offer its services for free, whereas employers have to pay for private employment services. Therefore, it may be possible that the PES continues more or less to play its traditional role even when the state monopoly in job brokerage is abolished. Probably, in that situation the roles of the PES and the PRES will become somewhat more complementary, the PES concentrating more on the disadvantaged. This could be a third model besides the state monopoly model and the model with a maximum involvement of the private sector.

It is interesting that after the state monopoly in job brokerage disappeared in many OECD countries, this did not have a clear impact on the size of the private placement sector in the 8 EC countries under consideration (De Koning, Denys and Walwei, 1999). In a country such as Sweden, which now has very liberal regulations concerning private placement agencies, the market share of these agencies is still very low.

There are at least three possible explanations:

1. As long as the PES can offer its services for free, private agencies are at a disadvantage. Particularly when the PES is offering services of reasonable quality, private agencies will find it hard to compete.
2. Firms have other ways to procure flexibility than temporary labor. For example, when workers can easily be fired, there is less need for a costly screening device such as agency work.
3. Specific country characteristics. In countries with a small population and a low population density, job placement on a commercial basis may not be feasible.

Data on private placement services is scarce, particularly in transition and developing countries. However, the expectation is that the role of private job placement agencies will grow in the (near) future. In transition and developing countries extra attention has to be paid to the regulation - for example the legal framework - of private employment agencies.

The market for job placement on a purely commercial basis may be limited in many countries. However, there is a different way to enhance the role of the private sector in
job placement. In the extreme case, the PES is replaced by a job network of private, community and governmental organizations which were paid to place clients in jobs. This is the case in Australia. The functions of this new network involve job-brokering and intensive employment assistance for unemployed people. As agencies receive a fee for each unemployed person they place in a job (with extra fees for long-term unemployed) the system is strongly driven by outcomes. According to Thuy et al. (2001, p. 129) the Australian government took considerable risks in introducing such a far-reaching reform so quickly. Such a comprehensive change could lead to the loss of a wealth of carefully acquired expertise in the PES. In particular the loss of a rather intangible factor, the “corporate memory”, is regrettable. The corporate memory often enables the PES to introduce and deliver new programs for governments at short notice. This unique step that is being taken in Australia will be watched closely by employment ministers all over the world. At the moment it is too early to make judgements (Thuy et al. 2001).

A more cautious approach has been implemented in the Netherlands. Here only some basic services, mainly in the field of labor market information, are still implemented by the PES. Reintegration activities are still publicly financed, but the implementation is outsourced to private companies. The part of the PES that is used to implement active measures is turned into a private company that has to compete with the existing private placement agencies. In this model the government still plays an important role, because it finances employment services, prioritizes the various reintegration measures, chooses between the competing bids and regulates the employment services sector.

5.2 Co-operation between public and private employment agencies

Since there has been a rapid growth of Private Employment Agencies (PREA) it becomes increasingly important for the public employment services to enter into a good relationship with the PREAs. The public and private operators have erected a series of foundation pillars to create an approach and set of dynamics which are based more on the concept of co-operation, complementarity, and partnership than on competition (ILO 1998).

Co-operation between public and private employment agencies can take many forms. Following the practices in a number of European countries, the following types of co-operation seem to emerge (see Box 6 for a number of good practice examples):

- Detailed contractual arrangements facilitating co-operation contracts between public and private employment services.
- Enabling contracts with a close monitoring of financial results in terms of added value.
- Informal arrangements organized at the local level.
- Combination of any of the three above arrangements.

The idea of complementarity is more appropriate with regard to particular labor market segments or particular kinds of services. One example of complementarity in services takes place in Mexico where 32 state employment systems have been set up to foster the
exchange of information on openings and job seekers. Also when the PES and PREAs are operating in the same market segment this can be beneficial to both organizations in the sense of encouraging sensitivity to customer needs (Thuy et al. 2001).

In the future relationships between the PES and the PREAs are likely to depend on the following actors (ILO 1998, Thuy et al. 2000):

σ The employment policies being pursued by governments.
σ The relative capacities of the PES and PREAs to deliver those policies in the market segments in which they operate most effectively.
σ The strength of competition policies.
σ Judgements about the extent of the market share needed by the PES to help disadvantaged groups.

In a study that compared the way in which the PES and private employment agencies operated, several interesting conclusions were reached. In France, the Netherlands and the UK the PES has sought to strengthen its competitive position by seeking to innovate and introduce new ways of influencing the labor market. Both public and private operators initiated an approach based on ideas of complementarity, co-operation, partnership and subsidiarity rather than on competition. It was found that the PES was the driving force in the process of co-operation. Box 6 highlights some examples of co-operation between public and private providers of employment services.
Box 6  Collaboration between private and public employment services in Sweden, Switzerland and the Netherlands

**In Sweden**, private employment agencies co-operate with the public employment service on the area of advertising. PES accepts advertisements for their vacancy list from private agencies if information about the employer is given in the advertisement or at least known to the PES. This is possible because the private agencies have established themselves in areas where there is a demand for services that the PES has not been able or should not supply. In this way, PES can offer services to a broader public.

**In Switzerland** private employment agencies existed before the creation of PES. Facing an increasing high unemployment the government encouraged collaboration between the PES and private employment agencies in exchanging information on vacancies and job seekers, in providing mandates to private placement services and in providing common 'training' to both partners. In Switzerland collaboration between public and private placement agencies is expressly stipulated by law. In the new Act on unemployment insurance, Parliament instructed the Regional Placement Offices to cooperate with the private placement agencies. The Regional Placement Offices were even given the option of contracting and paying for the services of the private agencies. A large proportion of Swiss private placement agencies belong to one of two branch-level associations. The FOIACL created a working group, composed of representatives of the two associations, the cantons and the FOIACL. This working group meets regularly and is charged with determining the principles of collaboration and discussing the problems encountered. Initially, the representatives of the public and private placement agencies expressed some initial fears and reservations. The representatives of the cantons and the FOIACL were concerned, in particular, that the private agencies would confine their efforts to only the most easily placed workers. This would leave to the Regional Placement Offices the task of placing the most difficult-to-place job seekers, which would reflect negatively on them from the employers' perspective. The private placement agencies, for their part, feared that the Regional Placement Offices represented unfair competition, since they were subsidized by the State. Thanks to discussion in the working group, these reservations have practically disappeared. In other aspects, the working group has helped to improve the level of reciprocal information and understanding regarding the concerns and interests of each party. The results are undeniably positive.

**In the Netherlands** a public-private partnership started in 1995. This partnership involved detailed negotiations concerning co-operation, objectives, separation of public and private services, and principles of a joint venture. One of the results of this partnership was a joint venture between the PES and two private organizations to deliver a wide range of services (in the area of temporary work) to employers.

In all cases both Public and Private employment agencies have succeeded to broaden their expertise. The collaboration has led to a situation where it is made easier for job seekers to obtain the desired information on vacancies and training.
6 Developments in the information and communication technology

The rapid developments in the Information and Communication Technology (ICT) have led to many changes in our private business life. ICT already plays an important role in the social security area and it is unquestionable that this role will become increasingly important. The developments in ICT affect the demand for employment services, but also have a big impact on the products and the production process in the employment services sector.

In the course of time, many functions of Employment Services have been computerized in many countries.

Examples are (Fretwell and Goldberg 1993, p. 35):

- The registration of job seekers and vacancies, including calculation of unemployment benefits.
- Operation of inter-office labor exchanges and development of linkages with social welfare and social security offices.
- General administration and management; development, analysis and dissemination of labor market information etc.

In principle, job application interviews can also be done with the use of the new technology. Probably, video-conferencing will be available - worldwide - in a satisfactory form in a couple of years. Answers to electronically available questionnaires can be processed easily when using the appropriate software. For 'future' generations, communication by electronic means will be more common and acceptable.

In many transition and developing countries this computerization process also took place, although there were some start-up problems. For example, at the start of the transformation process - 1989 - the telecommunication infrastructure was very poor in Hungary. There was no 'on-line' connection (or just a poorly working one) with the labor offices. This meant that information and statistics were forwarded to these centers off-line on floppy disks. Even the data communication between the local labor centers and the national labor center was off-line which led to a situation in which local labor centers were not fully aware of each others' cases. Consequently, there were cases where a given person was registered as a job searcher and claimed unemployment benefits simultaneously in more than one local labor center. Although the situation improved considerably, there are several key issues that must be addressed in automating (Fretwell and Goldberg 1993).

The shift from automation to transformation

It is unquestionable that the role of ICT will become increasingly important in the social security area. However, during the last years, the paradigm was shifted from automation

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14 I would like to thank Knut Leipold for valuable comments (and contributions) on this chapter.
to transformation. While automation includes the support of already existing or defined processes, transformation stands for process reengineering, organizational restructuring initiated by the use of new and modern ICT. Germany and Turkey are just two examples where formerly different organizational divisions were responsible for different functions: registration, job placement, job counseling, benefit payment etc. With the availability of integrated information systems, self-service applications, and relational databases, these institutions re-defined their processes and re-organized their structures in a way which results in customer focus. Today, one employee in a local labor office has access to different software sub-applications in order to serve the same customer on different issues. Customers appreciate this approach rather than waiting in long lines for each different question.

This paradigm shift may offer an option for the East Asian countries: leapfrogging and come up with public employment services driven by the use of latest technologies, such as skill-based intelligent job matching agents or remote UI claim filing. Also, the use of electronic networks linking together all the local labor offices would provide a lot of statistical information in real time to be consolidated and taken as basis of management decisions.

**User and client acceptance**

Particularly in transition and developing countries - where rapid changes take place and expertise is limited - developing, installing and maintaining a comprehensive automation system - let alone process reengineering - should not be underestimated. In this respect, user acceptance is a key element in the success of automation efforts. Operational staff often has high expectations about how computers can reduce their workload, and some fear that they will lose their jobs. Initial training and orientation for all staff are critical to acceptance of automation (Fretwell and Goldberg 1993). In particular, staff may be retrained in a sense that they are able to give more detailed advice to in-person visitors.

This would improve the image of public employment services from two perspectives:

- The customer has the choice to find a job by using modern self-service technology.
- The customer is more satisfied if he/she feels that office staff really takes time for advice and may better help knowing that there isn’t a long waiting line outside.

Moreover, there may also be a need to help specific groups in using the new medium. Groups such as older and lower educated people may not be able to use the new technology, and they are precisely the groups that are over-represented among the hardcore of the unemployed. The new technology may not increase unequal opportunities. Therefore, the government should develop training programs for the unemployed and other disadvantaged groups to teach them how to use the internet. Furthermore, employment offices can offer facilities for the use of the internet in job search. The general expectation is that the technology will become more user-friendly, which may lead to a growing interest of people in the lower educated segment.
Costs and benefits

The main question is - of course - whether the benefits of computerization of employment services are higher than the costs. The costs of computerization can be divided into development costs (staff, consultant, pilot hardware/software), capital investments (hardware, software, communication equipment, facilities, user training) and maintenance costs (consumables, repairs, retraining, staff and ongoing consultancies, communications). Economizing on costs can take place by sharing of resources. For example, electronic employment service delivery may not only be offered through equipment owned by the local labor office but also through as many different electronic channels as possible. If there are other public institutions out with public self-service computer systems, just offer employment services through them. Thus, existing delivery channels may be shared in order to reach as many people as possible.

Benefits may include faster vacancy filling, staff saving, higher quality of placement, reduction in turnover, improved information systems and improved targeting of services. The problem is that some of the benefits are hard to quantify. Fraud detection/prevention is one of the benefits of using electronic cross-matching systems. It avoids granting benefits to people who are not eligible and, at the same time, it may locate people who get benefits without being eligible. Evaluation studies in Canada and the United States found positive benefits of automating PES placement services. Box 7 shows some good practice examples.

For the government the improvement in matching technology of the private placement sector due to the use of the internet implies that job placement activities can be left even more to the private sector. However, the government will keep a general responsibility for the provision and availability of labor-market information. This holds in particular for the transition and developing countries where the legal and institutional framework with respect to the private sector still has not yet been properly filled in with operational contents.
Box 7  Examples of positive benefits of automating employment services

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poland</strong>: Employment Promotion and Services Project (1991-1999)</td>
<td>It is estimated that the automation of some 450 local labor offices and 2,500 social welfare offices improves compliance, administrative processes as well as the detection of gray market employment and fraud, which would lead to an increase of the effectiveness of spending some US$ 3 billion annually of the Labor and Social Welfare Fund by one percent. Thus, the automation would be paid back to Polish taxpayers in 2 years.</td>
</tr>
<tr>
<td><strong>USA (North Carolina)</strong>: Computer Scanning for fraud detection (1996)</td>
<td>According to the Employment Security Commission (ESC), more than $ 2.3 million in fraudulent unemployment insurance payments was recovered in 1996. Using computer technology, which allows ESC to scan approximately 200,000 claimant files each quarter, a total of 3,466 cases were investigated in 1996, with 1,107 individuals being tried and 1,106 being convicted for illegally obtaining unemployment benefits.</td>
</tr>
<tr>
<td><strong>USA (Michigan)</strong>: MARVIN – Michigan’s Automated Response Voice Interactive Network (1995)</td>
<td>MARVIN was launched in 1995 by the Michigan Employment Security Agency as a high-tech alternative to the Agency’s old system for administering unemployment benefits. Savings from reduced staffing of temporary workers once used when unemployment claims increased due to layoffs were projected to result in $ 1 million in 1997. Further annual savings of $ 200,000 were due to less paperwork (6.4 million forms eliminated by MARVIN).</td>
</tr>
</tbody>
</table>

Source: Leipold (2001)
7 Future Developments in European PESs

It is obvious that in a world characterized by processes of globalization, competition, technological development, and the changing role of the state, PES is also undergoing profound changes. The former bureaucratic type of organization is increasingly moving towards customer-oriented services. At the same time, PES should be able to meet the ongoing changes in the labor market. During times of growing labor demand and declining unemployment, it has a different role than during times of high unemployment. Therefore, a flexible approach is desired from the PES. In the following section we discuss the way these changes require the PESs to rethink their institutional role, working methods, goals and objectives.

7.1 Priorities for concerted action

In the 1998 Employment Guidelines PESs are considered as a key institutional component of the new European approach to employment policy. The Employment Guidelines are based on four pillars: improving employability, developing entrepreneurship, encouraging adaptability of business and their employees and strengthening policies for equal opportunities between women and men (European Commission 1999). Box 8 gives a brief description of the four pillars of the employment guidelines.
Box 8 EU Employment Guidelines 1998

The European employment guidelines are based on four pillars. PESs are a key institutional component of these guidelines. The four pillars are the following:

**Improving employability.** The PESs are directly and indirectly responsible for instruments to provide assistance to job seekers. The 1998 Guidelines give a high priority to improve the employability of unemployed. Counseling in job search techniques, incentives to go in for training or to take up work, improved access to training and work experience are all important instruments in this respect.

**Developing entrepreneurship.** The Employment Guidelines call for more self-employment and for making more of potential sources of local employment in social services and activities that serve needs not yet satisfied by the market.

**Encouraging adaptability of business and their employees.** Apart from its main task of helping the unemployed, PES should also give attention to the management of structural change within enterprises and branches of the economy by helping workers and employers to minimize the risks of unemployment and to find alternative job opportunities. Co-operation with social partners is important here as well as this can relieve any potential tensions.

**Strengthening policies for equal opportunities between women and men.** PESs should promote female participation in the labor market and promoting a more equal gender representation in occupational sectors which have had a traditional gender bias. PESs also play an important role in improving the employment chances of handicapped workers and fighting against inequality for people of different race or ethnic origin, different age groups etc.

The National Action Plans (NAPs) confirm that PESs play a particularly important role with respect to the first pillar of the guidelines—employability – while they are also deeply involved in the forth pillar – policies to strengthen equal opportunities. To ensure that the PESs meet the challenges of the modern labor market and are able to live up the targets set under the European Employment Strategy the following requirements should be followed:

- Promoting access to vacancies.
- Ensuring systematic case management.
- Contributing to the coordinated delivery of all services to job-seekers.
- Exploiting synergy between PESs and other relevant actors.
- Using PESs to facilitate international labor mobility.

**Promoting access to vacancies**

PESs help to make the labor market more efficiently by creating the link between the market and the people seeking work. Hereby it makes the labor market more transparent. The expectation is that there will be a shifting from helping the unemployed job seekers to helping the employers who are seeking new employees. With the decline in the population of working age in various regions of the European Union labor shortages emerge. Employers may find it more and more difficult to attract employees. The PES may therefore become increasingly important to employers, which demands a flexible approach of the PES.
The PES in various EU countries have introduced technological innovations and developed new ways of handling employers and job seekers and of putting both in touch with each other. Of these new ways, the use of Internet technology will potentially have the most profound implications. An interesting example regards the Internet self-service systems in Sweden. Here Internet services comprise not only a vacancy bank but also a job seeker bank (where applicants can search for vacancies by occupation or by regional municipalities) designed to be compatible with the vacancy bank. Also career information is being made available via the Internet. In the Netherlands the so-called ‘kansmeter’ has been developed. This instrument is used to assess the distance of job seekers from the labor market. When the distance of an individual job seeker is determined employment services will be tailored to his or her specific needs. Job seekers can be placed in one of four categories or phases. Job seekers with a good record are assigned to phase 1. The PES only nominates these clients for vacancies. Job seekers assigned to phase 2 only get limited reintegration services while phase 3 clients get more extended services, such as training or work experience. Phase 4 clients have the largest distance from the labor market and are assigned first to the services of social assistance institutions. Later they may move back into phase 3 or 2.

**Ensuring systematic case management**

Within the groups of unemployment more and more attention is paid to the so-called problem groups, i.e. youth unemployed and long-term unemployed. Under the European employment strategy PES is encouraged to pay more attention to the individual needs of these groups. Such systematic case management implies early identification of possible long-term unemployed by a careful diagnosis of each unemployed. Having regular interviews with these people and in some cases designing tailor-made action plans has proven to be effective in preventing long-term unemployment (European Commission 1999). Individual case management also involves the other task of the PES, namely the unemployment benefit administration.

**Contributing to the coordinated delivery of all services to job-seekers**

The systematic case management as described above also entails that the different services of the PES should be well coordinated. PES can thereby offer a full range of labor market services such as income replacement, information, counseling, brokerage and training. This does not necessarily mean that the PES itself should perform all these tasks but it should be able to interconnect the different bodies that execute these tasks. The PES thus has an important coordination role. Clear procedures are necessary to offer tailored services for all individual cases. Not all countries within the Europe offer such integrated services at the moment and doing this involves major management changes. Again this requires a flexible approach.

**Exploiting synergy between PESs and other relevant actors**

Not only is it important that the PES coordinates the different employment services, it should also interact with other actors on the labor market, such as regional and local
Local and regional authorities are involved in employment policies as they are often responsible for several policy instruments such as social assistance, welfare schemes and education.

The social partners in most member states have been involved in the management of PES. Social partners have an important role in improving the adaptability and flexibility of employees and are often involved in designing and implementing employment policies.

The PES should also interact with the institutions for vocational training to obtain an optimal match of education with the labor market.

Private agencies act more and more as a complement to public services. As PES often focus on the unemployed, and mostly low-educated unemployed, private agencies are more employer-oriented and often also serve different groups within the labor market. Another reason for the rising number of private agencies is that more and more companies subcontract part of their tasks. Private employment agencies may benefit from this development.

Using PESs to facilitate international labor mobility

The heads of Public Employment Services of the European Union and European Economic Area (EU/EEA) agreed to strengthen their cooperation at European level. Main aim of this cooperation is – within the EURES (European Employment Services) Network to facilitate international labor mobility within the EU/EEA. Since it is to be expected that international labor mobility will increase the coming years both employers and job seekers need help to make informed decisions and to put these decisions into effect (European Commission 1999).

The best way to improve the impact of EURES is a better integration in the PES operations on national level. For example, by integrating EURES in their services PES helps to respond to a growing need of job-seekers and employers. Moreover, they give substance to the right of every European citizen: the right of free movement of workers.

7.2 Conclusions

The PESs in Europe are currently facing different challenges. Not only does globalization demand more co-operation and co-ordination, the changing labor markets demand a flexible approach of PESs towards job search assistance and other tasks. The European Commission is clearly involved in this process of modernization, mainly in view of the cycle of formulating and updating the Employment guidelines, and establishing and implementing the National Action Plans. For example, the European Commission supports co-operation between PESs across Europe in order to facilitate exchanges of information and best practice on operational issues and to develop common activities at EU level. Further developing the EURES network as a key instrument for European labor mobility is another important example of how the European Commission wants to encourage the modernization process of the PESs.
8 How the East Asian region can learn from PES-experience in Europe

8.1 Introduction

It is without saying that the East Asian countries can learn from the PES experience in Europe. Learning starts with informing. The main aim of Chapter 3 to 7 was to inform policy-making in East Asia with regard to PES activities in Europe. The next step is to give recommendations with regard to how to use examples of the PES experience in Europe. It is for sure that simply adopting good practice examples out of Europe deserves no recommendation. Even though some aspects of PESs in Europe work it is highly uncertain what would happen if it were applied to Malaysia or Indonesia. Generally speaking, there is much we need to know about how PES-systems work if we are to judge the various systems and suggest ways to improve the functioning of PESs. For example, one has to keep in mind that the institutional structures, labor market characteristics, and economic (restructuring) processes remain extremely diverse between Europe and East Asia, but also even within the East Asian countries. What may be right for the Netherlands or Germany may have unwanted results in Korea or the Philippines. Keeping this in mind, in section 8.3 we discuss several considerations for Public Employment Services in East Asia. We think that these considerations are valid - to a less or higher degree – for all five countries. But first, in section 8.2 we briefly describe the current practice of employment services in the five East Asian countries.

8.2 Employment services

All countries – Indonesia, Korea, Malaysia, the Philippines and Thailand – have public employment services. Table 8.3 gives an overview of some aspects of employment services in East Asia. In the following we discuss – for all 5 countries – the main tasks of the PES, the actions that were taken just after the crisis and the problems the PESs have to contend with.

Korea

In Korea the Public Employment Service (PES) is responsible for job search assistance, vacancy tracking and placement. Being the only country with unemployment benefits, it is also responsible for the registration and administration of these benefits. Furthermore the PES offers information on careers and it provides counseling.

The Korean government has worked out comprehensive measures in 1998 to address growing unemployment. Until the crisis, the government had virtually neglected employment services. The measures that were taken are categorized as job keeping, job creation, vocational training and job placement and social protection. At the same time, the Korean government has expanded the number of PES agencies managed by the government from 52 in February 1997 to 134 in March 1999 (see table 8.1). The
number of Employment services offices by the local government amounted to 285 in February 1997 and 281 in March 1999. Since the crisis a nationwide network for job information has been established. Now there are job centers that provide a job seeker with all kinds of information and services on vacancies and unemployment benefits.

Another measure that has been taken by the Korean government is a relaxation of regulations for private placement agencies, which has resulted in an increase of the number of private agencies. The increasing use of the Internet in Korea has also boasted the number of private job agencies in the country. The PES has also made use of the Internet by copying the Canadian WorkInfoNet, which is an electronic labor exchange system. In Korea it is now called WorkNet. It aims to provide information on vacancies, training, career information, employment policies etc. although in practice it gives limited information in comparison to its Canadian example. Currently, the Korean government is developing a set of databases of registered unemployed. It has also introduced a Worker Profiling system that gives profiles of previous unemployed with certain characteristics. This system can be used for early identification of long-term unemployed.

Although the increased number of PES agencies has led to an increase of the number of people that have found a job with the help of the PES, the agencies are still thought to be insufficiently efficient. The counselors are quite inexperienced and the information that is provided is still limited.

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>Public managed by central government</th>
<th>Public managed by local government</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1997</td>
<td>1432</td>
<td>52</td>
<td>285</td>
</tr>
<tr>
<td>March 1999</td>
<td>1756</td>
<td>134</td>
<td>281</td>
</tr>
</tbody>
</table>

Source: Country specific report Korea

**Malaysia**

The main tasks of the PES in Malaysia include registration and placement, counseling services, occupational guidance and registration, promotion of occupational mobility and regulation of private employment agencies. Public employment agencies only focus on domestic labor while private agencies also focus on foreign labor. Private employment agencies have to be registered under the Private Employment Agencies Licensing Unit. They need to report regularly to the PES (before the crisis quarterly, now once a month) on the number of registrations and placements.

The need for clear labor market information increased during the economic crisis. The Malaysian government responded to this need by implementing the National Recovery Plan which includes information on causes and effects of economic crises, labor policy
responses, its objectives and actions to be taken. It was prepared jointly by the
government, university, employers’, workers and consumers organizations.

During the economic crisis, retrenchment of workers within firms was very common.
The PES has reacted to this development by registering these workers and make special
efforts to help them to find a job again. Many of these workers have been successfully
placed in 1998.

Philippines
In the Philippines, the economic crisis suddenly fastened the establishment of
employment services. The main task of the PES is to register unemployed, establish a
national manpower registry of skills, provide information for employment placement
and mediate in various employment promotion programs and service.

The government aims to establish a PES office in every province, key city and highly
urbanized municipality under the PESO 1998 Act. The local offices try to detect firms
where there may be lay-offs and try to take preliminary measures to help the workers
and/or the firm.

At the same time improvements in the Labor market information system have been
made. In November 1998 the Phil-Jobnet was established which is an automated job and
applicant matching system that aims to fast tract job search for job seekers and
employers. It is also accessible through the internet. For those who do not have direct
access, public workstations have been installed in 43 regional offices within the
Philippines.

Not only has the number of PES been growing, there is also an increasing trend in the
number of private job agencies. Private agencies offer paid services to job seeker s and
employers locally and abroad. These agencies are monitored and regulated by the
government. There is a radio station that broadcasts job openings from different
companies. Recently the program has started to collaborate with the public employment
services to be able to broadcast important issues and the latest news.

Thailand
The Thai PES offers assistance to job seekers and employers through its 85 branches (of
which 9 are located in Bangkok). Its main tasks are to register and place unemployed,
provide job counseling and career guidance and organize job fairs where employers and
job seekers can meet. At these fairs the PES also provides job orientation and career
guidance. Another service offered by the PES is a free skills test that job seekers can
take for orientation. This test is also used to match the job seeker to a job vacancy. The
public employment office encourages workers to go work abroad. Information on
foreign jobs for interested job seekers is provided regularly.

Private agencies are under governmental supervision to protect workers against
dishonest agencies. They are quite popular, especially among unskilled workers.
The labor market information system in Thailand is not sufficient. The recently installed automated system has inadequate processing capacity and does not provide complete information.

**Indonesia**

The PES in Indonesia is responsible for providing services to job seekers and employers. This includes registering unemployed people as well as providing sufficient information to job seekers and match them with employers. The PES provides services for domestic placement only, while private agencies provide placements abroad as well. Private agencies are strictly regulated by the government.

The labor market information system in Indonesia has not fully developed yet. There are problems in the co-operation between different areas and employees of employment agencies often do not have sufficient skills to manage computer programs. The computer systems are not linked to each other and the data are not fully reliable. Only basic information of both job seekers and job vacancies are registered. In 1999 however, a national tripartite co-ordinating body for empowerment of manpower was established that aims to set up as data base on lay-offs, new job seekers and vacancies abroad. It will provide on-line job matching in the future and may therefore be a competitor to the PES.

### 8.3 Considerations for PES in East Asia

Before we give a number of considerations for PESs in East Asia we emphasize that it would be unwise to simply adopt good practice examples of the PES experience in Europe. The PESs in EU countries have developed services in response to particular problems which may well differ from problems in developing countries. Therefore, lessons and good practice examples which can be derived from PESs in Europe – though not always backed up by strong empirical evidence – may have unwanted results when applied in East Asian countries. Nevertheless, we discuss certain points on which we think we can be clear.

**Improving the Labor Market Information System (LMIS)**

One important lesson that can be drawn on basis of the previous section is that the labor market information system (LMIS) in the East Asian countries has to be improved. Already in the 1980s an ILO interregional technical co-operation project identified four major types of obstacles to building a LMI capacity in developing countries (Richter 1989):

- Inadequate relationships between information customers and producers
- An under-use of existing sources of LMI
- An information gap in the informal sector
- Inadequate understanding of methodological considerations and pre-occupations
Table 8.2 gives an overview of the labor market information before and after the crisis. It can be seen that prior to the crisis the LMIS was not developed well. Sometimes offices are not even computerized, and in case the offices are computerized access is slow. But even after the crisis almost no improvements can be observed. Obviously the impact of PES activities on the labor market can be improved by promoting greater transparency with regard to demand and supply on the labor market. Information technology has to play an important role in the process towards more transparency. In this respect the current developments in European may offer some useful information (see page 43). The PESs in Europe are in the process of developing a fully-fledged self-service system – called EURES – for their information function and for first line counseling and brokerage services. This system makes services accessible at any time and place and makes them cover the European labor market as whole. Modern technology – the internet and other media – will be used. The self-service system will be linked to an easily accessible offer of personal employment services.

Table 8.2 Labor market information before and after the crisis

<table>
<thead>
<tr>
<th>Country</th>
<th>Prior to crisis</th>
<th>After crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>System not well developed; offices not computerized and not linked</td>
<td>No change</td>
</tr>
<tr>
<td>Korea</td>
<td>Network of centers, not heavily utilized</td>
<td>Government set up “Employment Security Centers”: large rise in usage; “Work-net” begins</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Network of centers</td>
<td>No change</td>
</tr>
<tr>
<td>Philippines</td>
<td>No information</td>
<td>No change</td>
</tr>
<tr>
<td>Thailand</td>
<td>7 branches in Bangkok, 76 in provinces, computerized and linked but access is slow (hardware problems)</td>
<td>No change</td>
</tr>
</tbody>
</table>


Improving the LMIS could also take place at a regional level. For example, Indonesia and the Philippines have a substantial number of overseas contract workers whereas Korea and Malaysia have sizeable populations of foreign workers, 0.2 million and an estimated 1.7 million respectively (see Horton and Mazumdar 1999). As for Thailand, about 0.3 million Thais are working abroad in more skilled jobs whereas about 0.8 million foreign workers from lower income countries are employed in Thailand. In this respect the developments and experience of the EURES may be of importance for the East Asian countries. Geographical mobility is becoming an increasingly important labor market adjustment tool. The development of a jobs-database enables employers to advertise their vacancies outside their national borders, greatly increasing the pool of labor to choose from and increasing the chances of the PES to fill the vacancies they receive.
Training of personnel

Mainly due to the heavy workload, labor offices in transition economies were unable to provide high-quality employment services to their clients (Dorenbos 1999). Also the lack of expertise and experience among the staff of the labor offices was an important element in the malfunctioning of the whole institutional system. Similar problems can be noticed in East Asian countries were in a very short period of time the number of registered unemployed increased sharply. This means that personnel of the labor offices had to contend with an increasing number of people who needed help to assess employment opportunities and to find jobs. Besides the increasing workload employees of the labor offices had also to deal with a relatively new problem: how to place job-seekers in a labor market that is characterized by declining demand. To better equip the personnel of the labor offices more information and training is needed. The European PESs prefer to hire people with a background in public administration but, even then, additional training in required for new staff. Since the share of staff that actually works with job seekers in person ranges from 10-50 percent, communication skills (customer-oriented skills) are considered as essential.15

Also with regard to the development of a regional database training is needed, for example training to improve Information Technology and Communication (ICT) skills. Perhaps a regional adviser should be appointed, responsible for the promotion of the cross border labor mobility. With regard to training, one of the crucial decisions to take is how to allocate the available funding for training and education infrastructure. It deserves recommendation to pay considerable attention to improving knowledge transfer from Europe to East Asia. We think of training on site but also study visits of PES-staff to European PESs.

Image building of the PES: improving service and information towards job seekers and employers

The existence of PES may raise expectations: jobless people who otherwise may have left the market remain registered because the availability of information and counseling give them new hope of finding a job. This limits the number of discouraged workers. But only the existence of PES may not be enough, results have to be achieved and that means a high job placement rate. However, besides having a reputation of an efficient organization it is also to have a reputation of client-friendliness. PESs must be recognized as an organization that is most responsive to its clients (job seekers and employers). Directly linked to the aspect of client-friendliness is the supply of information towards job seekers and employers. Box 7 shows a few examples of how European PESs picked up this aspect.

15 In several countries, the PES itself may hire long-term unemployed as part of a work experience project. This system however may not always be very effective, such as in Finland, where subsidized hires lasted only for six months, which posed a heavy burden on training and management time of the experienced and well trained staff (OECD, 1998).
Box 9 Examples of improving service and information towards job seekers and employers

In Denmark, PES staff carry out regular visits to firms. These visits allow PES officers to keep better in touch with employer needs. Information for job seekers is provided by fairly extensive libraries, with information about specific education and training courses, salary and career prospects, requirements of different occupations etc.

In Greece, since 1996 Employment Promotion Centers have been set up that should improve services to job seekers and employers. In these centers an enhanced computer system for vacancies and job seekers is present. Furthermore, in each of these offices a specialized vocational guidance counselor and a representative of the PES's service for people with special needs is available for job seekers. The centers also aim at an enhanced outreach towards employers.

Besides improving service and information towards job seekers and employers also the attitude of employers towards PES clients has to be positive. In Europe PES clients have to contend with stigmatization. Potential employers consider PES clients as low skilled and low productive who may not have the right attitude towards work. In this respect involvement of social partners in the PES is crucial (see below).

Involvement of social partners (tripartism)
The most popular institutional structure in EU countries is the one where the PES is jointly administered by the government and the social partners. The success of this structure depends on mutual understanding between ministers, social partners and the PES leadership. Involvement of the social partners may enhance the effectiveness of the PES (see Box 1 for European examples). Not only political commitment to the role of PES is critical but also having good relations with firms. PES often has difficulties with this. Almost by definition the job seekers with a relatively low profile in the labor market register with the PES and use this organization as their search channel. Particularly, involvement of employer's organizations in the PES organization could be important. It is difficult to imagine how occupational training can be provided at a high quality level without fine-tuning the curricula with employer's needs. The precise role of the social partners in the PES will depend on the national context. Only when a well-developed system of industrial relations exists, involvement of social partners seems advisable. In other cases an advisory role for the social partners may be more appropriate.

Labor market programs
An important difference between East Asia and Europe with regard to the role PES plays is that in most western countries the importance of PES is driven by its role in delivering unemployment insurance. In the five East Asian countries under consideration only Korea has an unemployment insurance system. Active labor market programs do exist but these are less substantial than in industrialized countries. Evidently, Public Employment Services play an important role in further developing the ALMPs in East Asia.
The evaluation results of ALMPs show that – in general – these programs have little or no impact on the employability and earnings of workers. However, besides economic aspects ALMPs serves social objectives as well. In Europe there is social consensus on the necessity to pursue an active labor market policy: its right to exist is not dependent on achievement of the desired effects. The measurement of effect is only done to improve their efficiency. For the East Asian countries it is important to identify which are the priority objectives since it is the objectives that should determine program choices and program design. Regardless of the specific objectives, a strong employment service is needed since this is the first link in the ALMP chain (Betcherman et. al 2000). Moreover, targeting is important: job placement as such does not seem to be a major concern for the PES. People will usually find a job through other channels. The PES should concentrate its placement activities on groups that have difficulties in finding a job and need, for instance, to be trained first. Moreover, taking the specific situation in East Asian countries into consideration, labor programs targeted at the promotion of self-employment in the rural and informal sectors seem to be self-evident. But also the development of entrepreneurship and promoting micro-, small and medium-sized enterprises need to be strengthened.

Private and public employment services

Most Public Employment Services in Europe have a long history. They have evolved during periods of economic downturns and economic upswing. The PESs as they exist nowadays are the results of a long process of trial and error. And only recently a discussion is going on regarding the role Private Employment Services ought to play in Europe. The main reason for deregulating the placement system was the finding that in many cases private agencies complement public services. Private agencies are more employer-oriented whereas public agencies mainly try to place the jobless. The question is whether further deregulating the placement system in East Asia would be wise in this stadium. Strengthening the Public Employment Service system should be the first priority. In particular setting up an efficient LMIS is crucial for all countries. In this stadium only the government will be able to develop and run such a system, which can be filled with information from different sources (personnel advertisements, for instance). The information should be diffused across the country – and even outside the country – as widely as possible. When an efficient LMIS exists then a discussion can start whether also private placement agencies should get the information for free. In any case government regulation regarding private placement services has to be optimal.

It is obvious that the answer to the question whether private placement will become more and more important depends on the government. It is likely that in the future legislation will be liberalized further and that subsidizing PES activities will decrease. In EU countries such as Denmark and the Netherlands legal restrictions concerning Temporary Work Agencies (TWA) have been lifted. This was done under the condition that the TWA sector was prepared to accept collective agreements and to regulate itself. The TWA sector is well aware that the government and the unions accept TWAs to behave as decent employers. Renewed legislation will be introduced as soon as this
“implicit” contract is violated. Therefore, self-regulation is more or less a necessity for the sector (De Koning et al. 1998).

The practice in Europe shows that collaboration between PES and private employment agencies has made it easier for job seekers to obtain the desired information on vacancies and training. The collaboration was based on ideas of complementarity, cooperation, partnership and subsidiarity rather than on competition. It was found that the PES was the driving force in the process of co-operation.

**Flexibility**

It is essential that the organization of PES is flexible and responsive to the changing demands of the market. More specifically, during times of growing labor demand and declining unemployment, it has a different role than during times of high unemployment. Although unemployment increased in all five countries the unemployment rates have not reached two-digit levels. Moreover, unemployment is concentrated among vulnerable groups: women, children, and the lower educated. This means that targeting – as noticed before – is very important.

In Chapter 7 we have discussed some new (future) developments in European PESs. These developments have one main goal in common which is to meet the ongoing changes on the labor market. Although the success (or failure) of these developments have not yet been backed up by empirical evidence we believe that also in East Asia a flexible approach is desired. For example, continuously monitoring and evaluating the efforts of PESs in the East Asian countries is crucial to keep an eye to the latest developments and needs of the market.

**Assessing training needs**

The PES can play an important role in both the design and the implementation of training and education policy, by:

- Monitoring the labor market and observing where matching problems occur.
- Making labor market forecasts so that future skill shortages can be detected and prevented.
- Providing information on the current and (expected) future labor market situation to parents, children, the training and education sector and the private sector.
- Providing funding for occupational education and training to deal with mismatch on the labor market.

The implementation of some of these activities may be contracted out to private firms - under regulation of the government – assuming that more efforts will be made to regulate the private employment service sector. On the basis of the available information the PES should diagnose the labor market problems: what problems occur, which factors cause them and what can be done about them? Making a sound labor market and policy analysis is half the way to solving the problems.
Towards an integral approach

In transition economies there are more and more voices that call for a policy framework in which labor market policies are fully integrated into an active economic policy (for example Kabaj 1997). The core of an integral approach should be that when economic growth cannot expand employment sufficiently, the macro-economic policy measures need to be adjusted to promote the creation of jobs. It is too early to estimate whether this situation – jobless economic growth – will occur on the East Asian labor markets in short notice. If so, an approach aiming at counteracting unemployment and increasing employment must comprise three interlocking and correlated subsystems:

1. A macro-economic policy conducive to the creation of new jobs.
2. An active labor market policy and improvements in labor market efficiency and flexibility.
3. Effective co-ordination of programs against unemployment, including the activities of employment agencies.
4. Perhaps the main obstacle to an integral approach is the need to combine a range of policy responses from many resources into a cohesive program tailored to specific needs and characteristics. This requires a rigorous adaptation of the institutional framework. Thus, the success of an integral approach depends largely on the willingness and capabilities of policy-makers from different areas to build a strong coalition.
<table>
<thead>
<tr>
<th>Country</th>
<th>Services offered</th>
<th>Public/ Private</th>
<th>Labor market information</th>
<th>Crisis-specific intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>σ Registration and administration of unemployment benefits σ Job search assistance, vacancy tracking, and placement σ Career guidance and counseling</td>
<td>σ Recent easing of restrictions on private agencies</td>
<td>σ New internet-based career guidance and job search system called “Work-Net” σ Instituting new “Worker Profiling System” σ Major revisions in occupational classification</td>
<td>σ Increased number of PES agencies σ Implemented one-stop “Employment Security Centers”</td>
</tr>
<tr>
<td>Indonesia</td>
<td>σ Job search assistance, vacancy tracking, and placement σ Voluntary registration of unemployed workers</td>
<td>σ Private agencies are strictly regulated</td>
<td>σ Limited computer literacy of administrative clerks σ Inter-agency overlap &amp; communication problems</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>σ Job search assistance, vacancy tracking, and placement σ Career guidance and counseling σ Monitor labor mobility</td>
<td>σ Private agencies must be licensed through PES office and other agencies if international</td>
<td>σ Computer-based Employment Service Automatic Reporting System</td>
<td>σ Retrenched workers σ Replacement Task Force tracks and monitors placement</td>
</tr>
<tr>
<td>Philippines</td>
<td>σ Register unemployed, maintain national registry of skills σ Referral for job placement – locally and overseas σ Career guidance, job fairs, and placement in other ALMP’s</td>
<td>σ Innovative examples: private radio station airs job openings and takes calls from seekers and employers σ Private recruitment agencies are supervised by the government. Growing sector; successful in placement, especially overseas</td>
<td>σ Long term project under GATT Adjustment program: Systematization of labor market information and employment counseling σ Phil-Jobnet launched in Nov. 1998 to match job seekers with employers</td>
<td>σ 146 new Public Employment Service Offices (PESO) established in 1998 σ PESO Act of 1999 will establish national facilitation network in every province and key city</td>
</tr>
<tr>
<td>Thailand</td>
<td>σ Job search assistance, vacancy tracking, and placement σ Job fairs and counseling</td>
<td>σ Private agencies are monitored and supervised under Ministry of Labor and Social Welfare</td>
<td>σ Very little coordinated or comprehensive effort to collect LMI</td>
<td>σ No significant new initiatives</td>
</tr>
</tbody>
</table>

Source: Betcherman et. al. (2000)
9 Conclusions

The aim of this paper was twofold: first, to inform policy-making in East Asia about the PESs in Europe. Secondly, to give recommendations regarding how the East Asian region may learn from the PES-experience in Europe.

Chapter 3 to 7 referred to the first aim: inform policy-making in East Asia. We paid attention to – among other things – organizational aspects like the administrative structure, the degree of centralization and ways of financing the employment services. We also discussed the market shares and the output of PES in Europe. Furthermore, we looked at the results of several evaluation studies to filter out the strengths and weaknesses of job search assistance/employment services. Since there is an increasing interest in private placement services and in the rapid developments in information technology, these issues receive extra attention. Chapter 7 discussed the activities of the European Commission and the heads of the European PESs to modernize PES in Europe. This modernization process is crucial since the socio-economic environment of Public Employment Services is changing rapidly. Trends like the globalization process, the introduction of competition, rapid developments in ICT and the changing role of the state all have an enormous impact on the services that regulate the labor market.

Chapter 8 can be considered as the heart of this paper. How can the East Asian countries learn from the PES-experience in Europe? First of all, it was obvious that the most effective form of intervention for those who recently became unemployed in the five East Asian countries is strong job search service, including advice and counseling on a regular basis and to a level that provides real assistance to the job seeker. This means that a strong PES is needed.

The following main considerations were made regarding Public Employment Services in East Asia:

σ The first step towards a mature PES-system in the East Asian countries is the development (improvement) of an efficient Labor Market Information System (LMIS) to make the labor market more transparent. Important elements of the LMIS are:
• Use of modern information technology.
• Development of a regional database (including all countries in region).
σ Staff of PES need to be trained to better equip them to provide high-quality employment services to the (new) needs of their clients.
σ Since the PESs are the first link in the ALMP chain they should play a very important role in further extending the ALMPs and in determining the priority objectives of the ALMPs.
σ Involvement of social partners (e.g. employers) in the PES to improve the image of the PES and to encourage them to use the PES in their recruitment activities.
σ The push towards an increasingly customer-oriented approach is needed.
Continuous monitoring and evaluating the efforts of PESs is crucial to keep an eye to the latest developments and needs of the markets, in other words, to take care of a PES that is flexible and responsive to the changing demands of the market.

Deregulating the placement system should not (yet) be a priority in the East Asian countries. The PESs in the five countries under consideration are still in their infancy. Top priority is the development of the LMIS. In any case, government regulation regarding private placement services has to be optimal.

Where the PES has been strengthened, collaboration between PES and private employment agencies may be encouraged. In Europe collaboration - based on ideas of complementarity, co-operation, partnership and subsidiarity rather than on competition - led to a situation where it became easier for job seekers to obtain the desired information on vacancies and training.

The last lesson we would like to emphasize is not based on experience from Europe but on the experience from Latin America and Eastern Europe. This lesson is that solving social problems means putting them at the top of the agenda. Too often in the Latin American crisis, and during the first years of the transition process in Eastern Europe, policy makers’ energy was devoted to restoring macroeconomic stability and implementing structural reform. Social issues were hardly taken into consideration. East Asia has the opportunity to avoid this mistake by putting social issues at the top of the agenda. With respect to PES this means that with regard to helping people prepare for and find decent work the importance of PES has to be put at the top of the economic and social policy agenda in the East Asian countries.
References


Appendix
### Table A: Employment Services in Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Administrative structure</th>
<th>Concentration/ de-integration</th>
<th>Centralization/ decentralization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark (AF)</td>
<td>Labor Ministry manages PES indirectly through National Labor Market Authority. Tripartite commissions participate in management at national and regional level.</td>
<td>Usually labor market policies and labor market services are separated but regional offices can decide on their own structure.</td>
<td>Councils at regional level have considerable influence. Some conflicts with the national policy goals of the Labor Ministry and National Labor Market authority have emerged.</td>
</tr>
<tr>
<td>Finland (VTML)</td>
<td>The Ministry of Labor manages the PES at regional and local levels. The Ministry is advised by the tripartite council for Labor affairs.</td>
<td>PES is aiming at differentiated services for employers and jobseekers by one contact person or division. The concentration of services is quite high.</td>
<td>Decisions concerning the placement into subsidized jobs and other selective employment measures have been increasingly delegated from central to regional and local offices.</td>
</tr>
<tr>
<td>Italy (SCI)</td>
<td>The Ministry of Labor manages the PES offices at all levels. Tripartite commissions have an important role at all levels.</td>
<td>Services of PES are rather separated.</td>
<td>Duties of regional and local offices laid down in detail by legislation. However, interpretation leaves a certain area of autonomy to each level of the administration.</td>
</tr>
<tr>
<td>Greece (OAED)</td>
<td>PES is an independent agency. Impact of social partners is relatively limited due to conflicts between employers and trade unions.</td>
<td>In spite of the formal integration there is a large degree of separation of PES functions.</td>
<td>The regional offices have administrative autonomy. De-centralization is increasing.</td>
</tr>
<tr>
<td>Ireland (LES)</td>
<td>PES is an independent agency. Impact of social partners is relatively well due to a high degree of consensus between employers and trade unions.</td>
<td>PES is mainly concerned with vocational training but there are different managers for each PES function. Local offices have a higher concentration of functions.</td>
<td>The LES is decentralized by design. Basic reporting requirements one of the few features that are centralized. Within main PES agencies, decision-making authority at lower level is limited.</td>
</tr>
<tr>
<td>Portugal (IEFP)</td>
<td>The Ministry of Labor and Solidarity has overall responsibility for PES. A permanent council for Social Co-operation including members of the government, trade unions and employer associations has an advisory role.</td>
<td>De-concentration into six different division although part of them overlap.</td>
<td>The PES agency has been given national targets for direct job creation. The targets are distributed across regions and offices.</td>
</tr>
</tbody>
</table>

Table B  Employment Services in Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Financing</th>
<th>Unemployment benefits</th>
<th>Private employment services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark (Af)</td>
<td>Direct expenses are financed by the general exchequer via budgets of the Labor Ministry. Part of the costs of services provided can be charged on employers since 1990. Unemployment insurance funds are financed by general taxation and compulsory employee Labor market contribution.</td>
<td>Ministry of labor takes responsibility for the administration of unemployment benefits. Since 1994 tighter supervision by the PES and the Ministry at central level of the insurance funds in relation to benefit sanctions for refusal of suitable work. PES is responsible for implementing ‘activation’ obligations which apply to people after they have been in passive receipt of insurance benefit for two year</td>
<td>The monopoly of PES was abolished in 1990. No restrictions exist for private employment services.</td>
</tr>
<tr>
<td>Finland (vtml)</td>
<td>The State finances the flat-rate unemployment allowance. Unemployment insurance benefits are co-financed by the State, employers and employees. Almp’s are financed by the state.</td>
<td>Paying benefits since 1985 handed to the insurance fund supervised by a different Ministry. PES offices retained effective powers to assess availability for work for benefit purposes. PES has little influence over municipalities’ decisions concerning social assistance benefits</td>
<td>Private employment services are officially allowed since 1994, but before that time they did also exist. Private agencies may charge no fee for services to worker aimed at employment.</td>
</tr>
<tr>
<td>Italy (SCI)</td>
<td>Social Security payments are handled by INPS. Employers pay most of unemployment benefits. Employment subsidy and grant programs are financed through the general budget. Training is financed by the regional government and ESF.</td>
<td>INPS directly handles payment of special benefits, e.g. in case of effective dismissal but the SCI’s handle ordinary unemployment benefits.</td>
<td>Private agencies are not allowed in Italy. Only some head-hunting offices are allowed.</td>
</tr>
<tr>
<td>Greece (OAED)</td>
<td>Largest part comes from employer and employee social security contributions. Substantial support under the ESF-program. Some financial support from the general exchequer via the budget of the Labor Ministry.</td>
<td>Administered by PES but people entitled to benefits can maintain their claims through the local benefit office and sign on with no obligation to visit the employment offices regularly.</td>
<td>PES enjoys a quasi-monopoly. Since 1931 private employment services operating on a commercial basis (not non-profit organizations) have been banned.</td>
</tr>
<tr>
<td></td>
<td>Financing</td>
<td>Unemployment benefits</td>
<td>Private employment services</td>
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<tr>
<td><strong>Ireland</strong></td>
<td>Unemployment benefits are financed through global social insurance fund (employers, employees and self employment contributions). The State may add extra budget. Almp’s are mainly financed by FAS. Unemployment assistance is financed by the Exchequer via the budget out of taxation.</td>
<td>UB are administered and paid out by a separate office network. Registration with FAS or LES is not a condition for benefit receipt</td>
<td>Under some conditions both temporary employment agencies and private placement agencies are allowed to operate (under license). FAS and private agencies co-operate by advertising their vacancies in its own local offices.</td>
</tr>
<tr>
<td><strong>Portugal</strong></td>
<td>Labor market policy is financed out of the global social insurance fund: insurance contributions from employers (23.75% of wage bill), employees (11%) and the self-employed. A small percentage of VAT also goes to the fund. IEFP receives 4.7% of the fund’s annual income. Also the ESF and the ERDF are a principal source of income for IEFP.</td>
<td>Administered and paid out by a separate office network which have local offices. There is extensive integration of the benefit and placement function</td>
<td>Temporary work agencies and private placement agencies are allowed (under license and supervision). They are obliged to notify the PES of the vacancies filled on a biannual basis</td>
</tr>
</tbody>
</table>

### Table C: Employment Services in Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Administrative structure</th>
<th>Concentration/de-integration</th>
<th>Centralization/decentralization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden (Af)</td>
<td>The National Labor Market Board (AMS), which falls under the Ministry of Labor, is responsible for the employment services</td>
<td>Sweden has a one-stop/entry service, which means that all measures are available through the same organization.</td>
<td>The AMS lays down general guidelines for policy of the employment services but the employment services decide on what way they should be implemented.</td>
</tr>
<tr>
<td>Germany (BA)</td>
<td>Legal supervision by the Ministry of Labor and Social Affairs. Tripartite system directly influences the BA’s purpose and the way in which it operates</td>
<td>PES is responsible for job-brokering, vocational guidance, unemployment compensation and almp’s but these divisions are rather separated.</td>
<td>The PES offices are rather tightly supervised by the head-quarters at Land-level but the local offices have increasing responsibilities. The self-governing principle is systematically applied at all administrative levels of the BA.</td>
</tr>
<tr>
<td>The Netherlands (Arbeidsvoorziening)</td>
<td>Arbeidsvoorziening is being supervised by the Ministry of Employment and Social Affairs. Some parts of Arbeidsvoorziening are independent.</td>
<td>Although the different tasks are performed by several divisions, the different divisions closely cooperate and are even often situated in the same building. In the process towards one-stop centers</td>
<td>The different offices are not autonomous but have many responsibilities and act independently.</td>
</tr>
<tr>
<td>Belgium (ONEM)</td>
<td>ONEM is entrusted with implementing measures that are drafted up by three directorates of the Employment Administration; the directorate for employment policy, the directorate for study of Labor problems and the Unemployment Directorate.</td>
<td>The three separate regions in Belgium are responsible for the placement of workers and related issues in three subdivisions of ONEM, the federal law is responsible for social security and the three communities are responsible for vocational training and further training. Offices at regional and community level are regulated and monitored by a central office.</td>
<td></td>
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</tbody>
</table>
Table D  Employment Services in Europe

<table>
<thead>
<tr>
<th></th>
<th>Financing</th>
<th>Unemployment benefits</th>
<th>Private employment services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden (Af)</td>
<td>Partly public financing and partly income from unemployment insurance funds. ESF pays a small part of alm’s in Sweden.</td>
<td>Unemployment insurance funds administer unemployment insurance funds and/or trade unions.</td>
<td>Private employment services for the purpose of assistance and the hiring out of labor are allowed although they are prohibited from requiring payment from employed or unemployed job seekers.</td>
</tr>
<tr>
<td>Germany (BA)</td>
<td>Partly public financing and partly income from unemployment insurance funds. Budgets are prepared mainly by the agencies themselves and thereafter approved by the federal government.</td>
<td>Unemployment insurance is managed within the PES administrations. Recipients must register at PES and must be available for work. Social Assistance on the contrary is administered by different Lander.</td>
<td>Private employment services are allowed but only employers pay fees, not employees.</td>
</tr>
<tr>
<td>The Netherlands (Arbeids voorziening)</td>
<td>Partly public financing and partly income from unemployment insurance funds.</td>
<td>Unemployment benefits are being regulated by several separate divisions (who cooperate), which are planned to be brought together (in one-stop centers)</td>
<td>Private employment services are allowed in the Netherlands. Some divisions of Arbeidsvoorziening are being privatized as well.</td>
</tr>
<tr>
<td>Belgium (ONEM)</td>
<td>Partly public financing and partly income from unemployment insurance funds.</td>
<td>Under the federal law, ONEM is responsible for the distribution of unemployment benefits.</td>
<td></td>
</tr>
</tbody>
</table>