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**Quasi-markets in employment policy in Australia, the
Netherlands and Denmark**

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1. Introduction

Institutional reforms of employment policies are sweeping across all OECD countries. Reorganising implementation of employment services is related to new public management of the public sector in general; but the intention is also to change the content of delivery in employment policies. It is, however, often difficult to determine whether the intention of decision-makers is to create more effective bureaucratic or administrative solutions, or it is to make substantial policy changes.

In this article we want to focus on one of these institutional reforms: the contracting-out of Public Employments Services (PES). The arguments behind this institutional reform are also closely linked to expectations that a quasi-market will deliver more efficient, effective and de-bureaucratised employment services. By comparing experiences from three different countries and welfare regimes (Holland, Australia and Denmark), we will, on one hand, try to find out whether these mainly "technical" arguments hold water (ie, do the reforms in fact deliver on their own promises), and on the other, investigate whether there are substantial differences in the motivations for and designs of the contracting-out models in the three welfare regimes, in relation to the question of more efficient bureaucracy versus policy changes. This should enable us to conclude with an evaluation of whether a quasi-market model in effect creates a new type of employment policy, clouded in the "technical" language of improving efficiency and effectiveness, and, if so, what this implies for the governance of labour market and employment policy in general.

First, we briefly describe the institutional history and set-up of the quasi-markets in Australia, Holland and Denmark. Second, we test the assumptions of the quasi-market approach and the political intentions through a comparative analysis of the three case-countries (cf. Bredgaard & Larsen 2006).¹

¹ The analysis is based on an updated study carried out in 2005, which, in addition to desk research, included a series of in-depth interviews with relevant actors in the field. The results have been published in a Danish book in autumn 2006 (Bredgaard & Larsen 2006). The analysis in this article will focus on the conclusions drawn on the basis of that study.

2. Institutional history and set-up of the quasi-market

There are several reasons why it is particularly relevant to compare Australia, Holland and Denmark. It is, however, not because they are the only countries to have contracted out their public employment services. Far from it: contracting-out seems to be an international trend that has spread to many different countries (cf. Brodtkin 2005, Finn 2005a, 2005b, Konle-Seidl 2005; Bruttel 2005, Barbier 2005; Simonin 2005; Struyven & Verhoest 2005 European Employment Observatory 2004).

We have chosen to compare Denmark with Australia and Holland because both countries have full-scale tendering models, meaning that all target groups of jobseekers are referred to external service providers and that the PES has stopped providing traditional employment services to the unemployed. Public authorities are instead used as gate-keepers in the quasi-market, and to pay out social security benefits. So, these are the radical models, allowing us to study the implications of a shift to a contracting-out model close to its pure form. Both countries were pioneers in contracting out the PES: in 1998 Australia adopted a full-scale tendering model, and Holland followed suit in 2001. Therefore it is possible to identify trends and developments over time, both as to how the market and governance develop. That is, trends and developments which are emerging, or perhaps already have emerged, in Denmark.

An additional reason for comparing Denmark with Australia and Holland is that the three countries represent three very different labour market and welfare models. If it proves possible to identify similar mechanisms and trends across three so different labour market and welfare models, then it would seem safe to conclude that such trends and mechanisms are rooted in the contracting-out model as such; ie, they are part and parcel of the inherent logic of contracting-out, transcending differences in labour market and welfare models.

2.1. The Australian tendering model

In Australia the public employment system, the CES, has always been run exclusively by the federal government. In contrast to Holland and Denmark, local authorities play hardly any role in the employment area, neither in connection with delivery of employment services or benefits. Benefits in Australia are universal and by international standards relatively modest. No distinction is made between insured and non-insured jobseekers.

Just as in Holland and Denmark, the Australian CES came under heavy criticism in the early 1990s. Large-scale unemployment – and not least long-term unemployment – was attributed to a malfunctioning CES and a far too standardised approach, failing to address the individual needs of the jobseekers. The Labour government's response was the reform "Working Nation" in 1994, which introduced a more needs-oriented approach, "case-management", and embarked on a cautious marketisation of the CES. A third of the new, individually targeted services (case management) for long-term unemployed were contracted out. The competitive element, however, was toned down as service providers were to compete on quality only (not price), using a combination of commencement fees and performance-related pay (Considine 2000: 278). Even though the Labour government introduced contracting-out on a limited scale only in its 1994 model, the way it tackled organisational challenges nevertheless plotted out the path for the future design of Australia's employment services.

The outcome of the reform is still disputed, but no one disputes that its implementation was fraught with difficulties. One of the reasons was that the ministry (DEETYA) decided to solve capacity problems by letting the new providers start by taking over the weakest of the unemployed. Furthermore, most of the extra resources allocated under Working Nation went to meeting the obligation to offer all jobseekers above the age of 18, and out of work for more than 18 months, either a (subsidised) job or skills upgrading. But the "case management" part of the reform, the individually targeted initiatives, failed to take off because neither the time nor the financial resources were available to upgrade the qualifications of the staff, or carry out the individual interviews. The system came under political pressure; and when a new liberal coalition government came to power in 1996, a new reform was in the pipeline (Considine 2005a, 2005b).

Instead of building on the Working Nation reform, the new government chose to launch yet another fundamental reform. They did, however, keep the marketisation process started by the previous government. The overall goal of the new reform, as pointed out by David Kemp, the employment minister in 1997, was to achieve lower costs combined with structural changes. The means to achieve this goal were efficiency gains in the CES and budget cuts: the new employment service system was to be not only better, but also cheaper (DEWR 2002a: 12-13). The two main elements were a reduction of the services provided and a considerable expansion of the marketisation process already started under Working Nation. As for the first element, a new principle was introduced, linking services to the jobseekers' "capacity to benefit" from them. Working Nation may be described as a cautious testing of market elements in employment services - but it was the new reform, introducing the job network, which marks the transition to a full-scale quasi-market for employment services. A number of structural changes were introduced as well. Both to secure a more work-oriented approach, and to pave the way for implementation of a real market model. To make the services more work-oriented, the government merged the ministries of employment and social services, and introduced the so-called Mutual Obligation principle, which demands a higher degree of activation of the unemployed (DEWR 2002a: 11, 14). The up till then public provider, EEA, was freed of ministerial control and under its new name, Employment National, it was to become a public service provider operating on the same conditions as private providers. A new national public agency, Centrelink, was also set up. Its primary function was assessment and referral of jobseekers to other providers, and in addition to be in charge of administration related to paying out benefits; not just for jobseekers but social benefits in general. Thus, with the stroke of a pen, the entire traditional PES, whose core activity had been providing employment services for the unemployed, was dismantled. As a consequence, there is no longer any public employment service in Australia. From then on, provision of employment services was to be carried out in competition between the public provider and the private providers (DEWR 2002a). The final administrative change was the introduction of a new profiling tool, the Jobseeker Classification Instrument (JSCI), used, among other things, to classify job seekers to determine the size of the providers' performance-related pay.

In the first tendering round (1998-2000), providers were to compete on price as well as quality, and the focal point was defined as outcome in terms of ordinary jobs, which was reflected in the outcome payment structure. There was a strong belief that competition between local providers would lead to efficiency gains. The driving force for this competition at the local level was the jobseekers' freedom to choose their own provider. The government had criticised the previous systems for relying too much on standard solutions. Now the providers in the Job Network would be given freedom to choose their own methods, based on the rationale that this would spur them to

come up with innovative solutions, of a work-first nature (DEWR 2002a: 15). Since 1998, the government has completed four tendering rounds through the Job Network. We are not going to go through all developments from the first to the fourth round, just sum up the central elements:

- An Active Participation Model (2003), tightening the requirements for job seekers to live up to the demands of Centrelink and the Job Network providers about participation in job-preparing activities. At the same time, a regular-contact regime was introduced. Jobseekers are assisted by a single provider for the full duration of their unemployment.
- A Job Seeker Account, which providers can draw from to finance expenditure helping to reintegrate individual jobseekers.
- Business Rollover based on a star-rating system. It means that 60% of providers are offered automatic renewal of their contract, provided they achieve a certain rating, leaving only 40% up for new tender. The star-rating system allows the ministry to measure and compare the outcomes of the various providers.
- Codes of Conduct, which is a set of rules for ethical conduct. Providers who fail to live up to this set of rules may be sanctioned by exclusion or loss of market shares. A sanctioning and reward system has been introduced, enabling the ministry to continuously regulate the market shares of individual providers.
- The welfare to Work bill (2006) means that new applicants for income support are shifted from disability support pension and parenting payment to lower payments, and becomes covered by new activity requirements and penalties for non-compliance, and required to participate in, among other things, the Job network.

To sum up, Australia to some extent has introduced public re-regulation rather than relying on market competition only. There is stronger public control and governance of the quasi-market, and market elements such as performance-related pay are used less than during the early contract periods. Some even argue that Australia has moved away from a tendering model towards a preferred-provider model for delivery of employment services (Sol & Westerweld 2005).

2.2. The Dutch tendering model

Just as Australia, Holland has been held up as a “prototype” of tendering in the provision of employment services and reintegration of the unemployed. Since 2001, Holland has implemented full-scale contracting-out of the PES. This reform is part of a broader reform agenda, aiming basically at making both labour market and social policies more active. Deregulation, decentralisation and privatisation have been seen as the right means to achieve lower social security spending and to increase the participation rate of unemployed and inactive social security recipients.

Throughout the 1970s and 1980s, Holland’s expenditure on social security kept on increasing. The “Dutch disease” came to be a way of describing an expensive and unsustainable welfare state, which managed to provide welfare for its citizens, but failed to provide jobs (cf. Visser & Hemerijck 1997). Social security spending was later successfully reined in, but long-term unemployment and early retirement due to disability persisted at a high level. At the beginning of the 1990s there was therefore a need for fundamental reforms which could create more flexible, active and cheaper labour market and social policies. Just as in Denmark, activation policies became the favourite tool, under the slogan “jobs, jobs, jobs”. Since the early 1990s, this policy shift has been followed up by almost constant changes to the PES. The development towards a contracted-

out employment services system has happened in four phases (cf. Sol & Hoogtanders 2005; Koning 2004; Visser & Hemrijck 1997).

The first phase consisted of a *separation of policy and administration*. During the crisis of the 1980s, the PES system came under heavy criticism for being inefficient, not sufficiently service-minded and for lacking the ability to innovate (just as in Denmark and Australia). This unpopularity made the government try to drum up more support for its labour market policy by involving the labour market organisations more in policy formulation and implementation, which in 1991 resulted in a corporatist structure, where governance of the system was shared by the employers, the trade unions and the government. The final change was breaking the public monopoly of providing employment services. What replaced it was a licensing system for private providers. However, when the three-tier PES structure was evaluated in 1995, the outcomes were deemed not satisfactory. Criticism focused especially on lack of governance from the central tripartite councils, that decentralisation had gone too far, that budgets were poorly managed, that the decision-making process was blurred, slow and unwieldy, and finally that employment services still failed to target the weakest groups on the labour market (Visser & Hemerijck 1997: 170). A review of the act in 1996 therefore resulted in changes to the governance structure and decentralisation. A process of making local authorities and private reintegration firms more involved and accountable in labour market policy began.

The second phase implied a *separation of purchaser and provider*. The new coalition government of Social Democrats and Liberals in 1994 announced that the single most important task of the PES was to fight long-term unemployment. At the same time, the relative success of private employment services agencies (especially temp agencies) seemed to support the idea that it might not be necessary to pour yet more resources into an expensive PES system for the already-employed who just wanted to change jobs. The next step towards a contracted-out system came in 1996 when it was decided to separate public authorities (local authorities and social security funds – UWV) from the actual providers of employment services. The budget for active labour market policies was transferred from the PES to the UVW and the local authorities. The PES was also ordered to contract out 80% of their reintegration to external providers. As a result, by the late 1990s, a number of private reintegration firms had started operating in the market. Just as in Australia, parts of the previously public PES was contracted out and supposed to compete on an equal footing with private providers to win contracts from the public sector. However, several of the private reintegration firms complained that the old PES had a preferential status in the market because many purchasers felt obliged to buy a certain share from them. This practice ceased in 2000, and led to a fall in the market share of the now private parts of PES.

In the third phase, *an open tendering system was introduced*. The most far-reaching step was taken in 2001 with the so-called SUWI reform (Work and Income Implementation Structure Act). With this new implementation structure, the government planned to abolish the PES offices altogether, and nationalise implementation of unemployment benefits and the disability system. New jobcentres for work and income (CWI) were established and took over responsibility for direct job referral, and all reintegration programmes were contracted out to private providers via tendering rounds. The former PES was split up into several separate parts and ceased to exist. The part of PES previously in charge of reintegration was turned into an independent public enterprise (Kliq) and supposed to compete on market terms (cf. Sol & Hoogtanders 2005). At the same time, a new national structure for implementation of national insurance schemes (unemployment, illness and disability), the UVW, which is an amalgamation of the former five industry-specific social security

funds (UVI) and their national umbrella organisation (Lisv), was established. The SUWI reform also ended the direct involvement of the labour market organisations in the administration of the employment services system. Instead, the parties were given an advisory role in the tripartite council (RWI) (Struyven & Steurs 2003: 337).

In the so far last phase, local authorities have been given *full financial autonomy*. This will not be explained in detail here (but the system is by and large identical with the Danish system). Until 2006, local authorities were obliged to contract out 70% of their reintegration, but they are now free to choose whether to do it in-house or through external providers. As in Denmark, local authorities are in principle autonomous when it comes to designing their employment initiatives. As for contracting out, the local authorities are free to choose their own tendering procedure, selection and allocation criteria, contract period and content, payment models, monitoring systems etc. (cf. Sol & Hoogtanders 2005; Berkel 2007).

The 2001 reform represents a fundamental change, contracting out all reintegration initiatives to private service providers. According to Sol & Hoogtanders (2005: 147) the overall objective of the Dutch reintegration market is to find the quickest possible route to reintegration of the unemployed (work first). That means shifting the policy in a more socially disciplining direction through tougher availability requirements, sanctions and short-term initiatives. To achieve this, it was necessary to introduce a new implementation structure (cf. Berkel & Aa 2005). Up through the 1990s, a consensus had emerged that the main reason for the high number of people on transfer income was institutional problems, and that a reorganisation of the social security systems and labour market policy would be the solution (Struyven & Steurs 2003: 336). It is an important point to note in this context that the labour market organisations were seen as a barrier to such a more active and disciplining line in labour market and social policy. An important purpose of contracting out was therefore to make sure that the labour market organisations were sidelined, making it impossible for them to protect the existing system, in particular the lucrative disability act. In the new contracted-out employment services system, the labour market parties are only involved to a very limited extent in policy formulation and implementation. Apart from seeking to shift the content of labour market policy towards work first, the contracting out of the PES system is also part of a general trend, the essence of which is reducing the role of the state in society, based on the assumption that competition between private providers will lead to efficiency gains and improved service (Koning 2004). The state has therefore adopted a “laissez-faire” attitude towards regulation and governance of the quasi-market, expecting it to be basically self-regulating (Koning 2004).

Developments since 2001 in the one-year contract periods will not be described in detail here, just a few general characteristics. There are mainly private providers in the market. The payment models are in general based on the principle “no cure no pay” for short-term unemployed and “no cure less pay” for long-term unemployed. Even though delivery of employment services has been left to private reintegration firms, a number of tasks, such as registration, drawing up action plans and direct job referral, are still carried out by the public sector, by the CWI. All jobseekers, whether insured or not insured, must first contact the CWI. Any person at risk of long-term unemployment is referred directly to the social security funds (UVW) or the local authorities (Koning 2004). The UVW and the local authorities are responsible for the administration of transfer income and for contracting out reintegration to private providers. The UVW is in charge of reintegration of insured jobseekers and on disability benefits. The local authorities enjoy a good deal of freedom from the government, and they are largely free to design their own reintegration policies for non-insured jobseekers. This means that compared with Australia, there are more purchasers of employment

services in the market (including employers, who are also obliged to buy such services in case of lay-offs), which makes the Dutch system more similar to the system in Denmark.

2.3. The Danish tendering model

The Danish governance system resembles the Dutch system more than the Australian. Governance and organisation of employment policies is tiered as in Holland; it is a two-tier system with the PES system in charge of services for insured jobseekers, and local authorities for the non-insured, but there is no common referral agency like the Dutch CWI. In 2007 the PES and the local-authority social and employment departments started working side by side in the new local jobcentres. Apart from 14 pilot jobcentres run by local authorities alone, these shared jobcentres are to deliver employment services to all jobseekers, whether insured or not.

It is the employment minister who, on the basis of input from the tripartite National Employment Council, decides to what extent private providers are to be used in the PES system. But the employment ministry has no authority to set the level of local authorities' contracting out to private providers. In accordance with the Danish tradition for local authority autonomy, the individual local authority decides their own policy for contracting out and strategy for involving private providers. Once the minister has set the targets for private provider involvement, it is, even in the public system, to a very large extent the public parts of the local jobcentres who, in cooperation with regional and local tripartite employment councils, manage the tendering process. In contrast to Australia, the Danish model for contracting-out is highly decentralised. This implies that, again compared with Australia, so far there has been very limited central governance and control of the quasi-market.

Another important difference between Denmark on the one hand, and Holland and Australia on the other, is that private providers are not in charge of the entire range of employment services. Denmark does not have a full-scale tendering model. The PES is not a part of the quasi-market, and it delivers employment services to almost 2/3 of all insured jobseekers (the target for referral of insured jobseekers to private providers is a minimum of 15%). The local authorities involve private providers to an even lesser extent, and not through public tenders, but a kind of preferred-provider model. So, there are three parallel systems providing employment services: the PES, the local authorities and private providers.

A final characteristic of the Danish quasi-market is the strong involvement of the labour market organisations. This involvement takes place mainly via the tripartite regional and local employment councils (whose influence has, however, been eroded to some extent by the 2007 employment reform) and the National Employment Council. Some of the trade unions are also themselves private providers in the market and the trade union movement therefore play a double role as both purchaser and providers of the same services.

Looking at the historical development, it was in fact the trade unions that, until the late 1960s, were responsible for referring unemployed members to a new job. This employment service was taken over by the state when the Public Employment Service (AF) was introduced in 1969. The new AF ended the unions' right to refer their unemployed members to a job. Following mounting criticism that the AF failed to service the ordinary labour market, taking on more and more extraordinary (social) tasks instead, the conservative government in 1990 decided to liberalise employment

services, aiming to create a quasi-market for delivery through the unemployment funds, the trade unions and temp agencies. This was never really a success, as the AF's services continued to be free of charge; and the AF continued to be the main provider of employment services for the ordinary labour market (Csonka 1992).

The goal of the labour market reform of 1994 was actually the exact opposite from contracting out: it intended to strengthen the AF. This was supposed to take place by means of a policy shift in content, away from standardised and rule-based initiatives towards needs-oriented and individual activation initiatives (just as in Australia). However, it was not long before the qualitative aspects of the needs-oriented activation services were replaced by quantitative outcome targets, and before the regional freedom of choice was to some extent rolled back (Larsen et al. 1996; Jørgensen et al. 1999; Bredgaard et al. 2002). The AF found it difficult to meet the political intentions of needs-orientated, individually and regionally adapted initiatives.

Consequently the AF continued to be criticised for being too inefficient, too costly and lacking in qualifications. This line of criticism was already noticeable under the Social Democratic-led coalition government; in spring 2001 the employment minister was preparing a "U-turn" of the AF system, stating that there would be "no sacred cows". He just managed to introduce a special employment services plan, a moderate experiment involving private providers and performance-related pay in employment services, before the current liberal-conservative government took over in 2001. The incoming government wanted more far-reaching changes, including more involvement of private providers in employment policies.

As can be seen, until the labour market reform "More at Work" in 2002, there has not been any strong tradition for contracting out employment services to private providers, and especially not for using public tendering and performance-related pay. Traditionally, the AF has been responsible for servicing the insured jobseekers, and for the initial contact with jobseekers, registration, information, guidance, job referral, and for initiating clarification, activation and skills upgrading interviews. Private providers have been used primarily to deliver specific services, such as clarification, education and training.

The reform "More people at Work" (*Flere i Arbejde*) in 2002 really opened up for the tendering of private providers. From a qualitative point of view, the main change was that from 2002 practically all previous restrictions on tendering of private providers, such as limitations on duration, scope, target groups, average prices and types of activities, were to be lifted. In principle, there were no limits on the activities and instruments private providers could choose to use, other than the ones laid down by general legislation. They were given freedom of methodology. This fundamentally altered the basis of governance, organisation and implementation of employment policies. The first tasks to be contracted out to private providers on market terms were the so-called contact periods, job referral and activation activities.

Rhetorically, the involvement of private providers was never launched as privatisation, contracting out or liberalisation of the AF system, but merely as a wish to broaden the choice of providers of employment services; this no doubt helped secure political support. External providers were thus referred to as "other actors" defined very broadly, including not only private providers, but also trade unions, unemployment funds, educational institutions etc. The trade unions and unemployment funds were thus offered a chance to participate in this quasi-market, which gave especially the unions a double role as not only decision-makers (via their representation in councils,

agencies and committees), but now also as service providers. The trade unions' role as service providers is what really distinguishes the Danish reform from the reforms in both Holland and Australia. Along with the fact that parts of the AF, the previous PES system, do not act as service providers in Denmark.

The underlying political idea has been to create a quasi-market for employment services that is "better and cheaper", but also more specialised and innovative than the PES system. A quasi-market in which "*competition, market testing and well-documented outcomes will permeate all aspects of both activation and ordinary employment services*", and in which the providers are governed by financial incentives in the form of performance-related pay (Regeringen 2002: 14). For the individual jobseeker, the goal is "back into a job as quickly and directly as possible". And for the government, it is to meet the 2010 economic targets by means of an increased labour supply (Beskæftigelsesministeriet 2002).

Officially, the involvement of new providers is justified with the argument that, historically, neither the AF nor the local authorities have been able to gain a foothold in all corners of the labour market (Beskæftigelsesministeriet 2002: 12). It is argued that the Danish labour market is characterised by a huge variety of industries and job types, representing a multitude of qualifications and educational levels; and that offering flexible services targeting the individual jobseeker requires extensive knowledge of the special conditions of wide range of industries and professional groups. Meaning: the AF and local authorities do not possess this knowledge. And that providers, who are able to specialise in finding the right activities for specialised target groups, therefore need to be involved in employment services to a much larger extent. An example of these special target groups could be graduate jobseekers or so-called "weak groups" (eg, seniors, refugees and immigrants). External providers are expected to bring their specialised competences, and thereby help innovate employment services overall.

Just as in Australia and Holland, contracting out is based on the implicit belief that a "free market" by definition is "better and cheaper" than a bureaucratic PES. The reasoning runs as follows: when employment services are exposed to "market testing" through tendering rounds and performance-related pay, private providers will emerge on the stage who will prove "better and cheaper" than the PES and the local authorities, which will, in turn, lead to efficiency gains and reduced spending. Competition from external providers is also expected to lead to a less bureaucratic and more flexible public sector. The invisible hand of the market will, by definition, produce more cost-effective solutions. And the jobseekers will be freed from the "clientilising state", represented by de-motivating social workers turning jobseekers into clients. Providing an income for the unemployed, which is one of the cornerstones of the modern welfare state, still remains the state's obligation, whereas the obligation to provide employment services, activation and skills upgrading is contracted out.

Although the market had only been operational for about 18 months, the employment ministry issued an action plan in spring 2005, attempting to rectify some of the worst malfunctions of the quasi-market. This action plan is the first Danish example of re-regulation of the market. The action plan can be seen as a wish to use external providers as part of a competence strategy rather than a resource strategy (cf. Beskæftigelsesministeriet 2005a; Arbejdsmarkedsstyrelsen 2005a). The action plan should also be seen as an attempt to create a more centralised and standardised market for employment services, as employment policies are now decentralised to local jobcentres. The most important changes of the action plan are:

- External providers are to be used based on employment political objectives and for target groups where they will be able to make a difference. The initial basic contact with jobseekers can no longer be contracted out to external providers. Tendering must specify clearly defined target groups and a clear labour-market political justification for contracting out.
- The focus must be on making the use of external providers as smooth and un-bureaucratic as possible. Complicated payment models and contracts are to be replaced by more one simplified and centralised payment model and standard contracts. New guidelines for tendering have been sent to the AF, to encourage more standardised bids and make the market simpler and more transparent for providers. To support the tendering model, a national IT system will be designed.
- There has to be increased focus on measurable outcomes and benchmarking of both outcomes and quality. In future, comparable measurements of provider outcomes will be established and published on the internet. Outcomes must be decisive for the choice of providers.
- There has to be increased focus on getting the jobseekers back into jobs as fast as possible. Financial incentives should be used to get jobseekers into employment rather than activation or educational activities. The share of the pay related to performance must amount 75%. Contracts must specify clear and measurable outcome requirements. Pay can be adjusted to give a higher bonus for more challenging target groups such as long-term unemployed or immigrants. External providers are to take over full responsibility for financing all activities during the contract period, and they are obliged to ensure that jobseekers participate in activation activities for at least 40% of the time.

So far, the action plan has resulted in two central (national) tenders, for the group of jobseekers with vocational competences and jobseekers aged 50+, and for graduate jobseekers. The jobcentres decide themselves whether they want to make use of these tenders. The regional employment authorities are still allowed to make they own calls for tender, which the jobcentres in the region are obliged to use. And finally the jobcentres themselves can still – alone or together with other jobcentres – make their own calls for tender for specific target groups.

2.4. Summing up

Across the three countries, the official political intentions behind contracting out employment services seem to have been, above all, to make the much criticised public employment services systems cheaper and better. However, there seem to be other agendas as well, such as instilling a more pronounced work first approach in delivery of employment services. And there seems to be an agenda about political power as well, such as a wish to minimise the influence of labour market organisations, seen most clearly in Holland. And finally, there is the ideological agenda. In our analysis, however, we are going to concentrate on the first agenda, the explicitly politically formulated arguments to create a more efficient and un-bureaucratic system, which can also be formulated as the quasi-market theory (Le Grand & Bartlett 1993). In the following, we will describe how the quasi-markets have developed in Australia, Holland and Denmark in relation to this theory.

3. Do quasi-markets deliver on their promises?

In the following, we are going to try and answer the question whether contracting-out models are able to live up the political demands for efficiency gains, improved quality, as well as simplification and de-bureaucratisation. We will first investigate efficiency, and how to create a quasi-market. Then we will look at quality of services delivered, and finally conclude with an evaluation of public regulation and the goal of simplification and de-bureaucratisation.

3.1. A more efficient and cheaper market?

Creating a market

Before aspiring to test the market model on its own premises, it needs to be established whether efforts have been made to create a “real” market in the first place (as expressed in the quasi-market theory). This means, among other things, that there has to exist a competitive market with many providers (who are not strong enough to fix the market price on their own by changing output), with relatively easy entry and exit, and that the price of services is allowed to respond freely to changes in supply and demand (Le Grand & Bartlett 1993). This was the starting point in both Australia and Holland, where great efforts had been made initially to make conditions attractive enough for many providers to want to participate in the market. And both countries succeeded in meeting these criteria (Bredgaard & Larsen 2006).

The Danish market for employment services was launched as a reduced model only. The public employment services system (AF) was maintained parallel with the new quasi-market. The AF is not allowed to act as a provider in the market (submit tender bids), but can only deal with the parts of services and the target groups not contracted out to external providers. The government set the first minimum target for contracting out to at least 15% of the insured jobseekers. In addition, local authorities must set targets for contracting out employment services as well, and the employment minister can issue guidelines for these targets. Still, local authorities have used contracting out to a very limited extent. In general, though, the efforts to kick-start a quasi-market for employment services must be said to have been successful. The market has been growing constantly, and at its peak in late 2005 it reached 35% of insured jobseekers. But the employment minister’s action plan (cf. above), combined with the setting-up of joint state and local authority jobcentres in 2007 put a curb on this trend; by the end of 2006, only 18% were referred to external providers (www.jobindsats.dk). However, when the new contracts are signed in 2007, the market is expected to recover.

So, at the outset, all three countries managed to establish relatively free markets with many providers (but on a limited scale in Denmark). Over time, however, there seems to be an increase in public regulation, reining in the free market conditions. There is also a trend towards a concentration of providers, growing larger and fewer in numbers. These trends are most notable in the case of Australia, who has the longest experience, but the trend can also be seen to a lesser extent in Holland. However, when it comes to comparing providers, there is the problem that there can be employment effects without any delivery of employment services, simply because jobseekers manage to find a job themselves. This makes it harder for the public purchasers to evaluate the outcomes of the services delivered by providers in general. And in both Australia and Holland the market has attracted so-called cowboy providers, who have made a good deal of money

basically by doing nothing. In response, a tougher selection and award criteria of potential providers has been introduced, along with transfer of financial risk to providers (among other things through price reductions). This makes conditions for operating in the market harder (and reduces the number of providers), but it also means that providers end up competing on price and costs (and not innovative tools and methods) if the true costs of services delivered are not compensated for in the price. In Holland and Australia, the markets are in fact today characterised by competition on price and costs, and not on instruments and methods. Another factor making it complicated to strike the right balance between the danger of attracting cowboy providers and offloading too much risk on providers is the fact that the employment outcomes produced without any services from the provider vary depending on the business cycle. The first experiences from Denmark also show a tendency towards increasing market concentration and less freedom of action in the conditions laid down by public regulation (just as in Australia and Holland).

Composition of providers

The quasi-market for employment services is also a market where semi-public and voluntary (non-profit) providers are active. Especially the Australian quasi-market is characterised by having a large number of voluntary organisations, accounting for about 50% of the market. It is interesting to note in this context that there is a strong tendency for the “non-profit” providers to pick up a “business culture” to be able to compete in the market (Considine 2003). Large voluntary associations (like the Salvation Army, Australia’s largest provider) have had to change their approach to dealing with people to become or stay competitive, just as they have had to adopt more professional business structures. In both Australia and Holland, parts of the former PES system have been turned into private providers; it is characteristic that most of these privatised organisations have proved unable to compete in the market.

In Denmark, 2/3 of the market is made up of private providers. In contrast to the two other countries, there are no public providers but a PES operating parallel to the market. Neither is there any significant involvement of voluntary organisations. But trade unions, unemployment funds and educational institutions are relatively important players in the market. It is one of the unique features of the Danish quasi-market that trade unions are active as service providers. The fact that trade unions are also private providers creates some uncertainty as to their motivation structure. Are they in the market to make a profit, as is expected to be the motivation for private providers; or is it to secure a high quality of specific services; is it to look after the interests of their own members, or is to expand their portfolio of activities in times when traditional trade union services are on the decline? In many ways, these questions mirror the issues facing the Australian voluntary organisations, and which seem to be gradually moving them away from their original culture and way of approaching people (jobseekers), for the sake of being able to compete in the market (cf. Considine 2003). Aside from a few indications, we have not been able to identify the same tendencies among Danish providers with close connections with the trade unions. This may be because the Danish market in general is not as performance-driven as the Australian and Dutch; something that is already changing after the 2005 action plan from the ministry of employment.

The trade unions and unemployment funds have been able to hang on to their market shares, but not so the educational institutions. One explanation may be that the educational elements of employment services have been decreasing, being replaced by more short-term and cheaper initiatives. Some educational institutions operating in the market have adopted a for-profit mentality to survive in the market, similar to the Australian experiences. So, we may be seeing the first

parallels with Australia: non-profit organisations may be forced to change their mentality and attitude if they want to make it in the quasi-market for employment services.

Transaction costs

Experiences from both Australia and Holland show that there are big costs involved in establishing a quasi-market for employment services. Some will be one-off costs, but even so, contracting out still seems to entail substantial transaction costs (for purchasers as well as providers); and in particular tendering rounds seem to be very cost-heavy. It does, however, also appear to be possible to reduce these transaction costs, by means of more public regulation and increased professionalism, as has been shown especially in Australia (Bredgaard & Larsen 2006).

Because of the high transaction costs, it would seem there is an inbuilt dilemma in the tendering model. On the one hand, one of the goals of contracting out employment services in the first place is to get “better and cheaper” services, a goal which can be achieved by creating competition between a number of (private and public) service providers in publicly regulated tendering rounds. On the other hand, the tendering rounds themselves tend to generate massive bureaucracy and considerable transaction costs, in particular in the transitional phase between a PES and a quasi-market model. The reduction in public spending aimed for will, of course, only be achieved provided the cost savings brought about by involving external (primarily private) providers outweigh the transaction costs resulting from the tendering rounds (Bruttel 2005). Especially Australia, but also Holland, has experimented to reduce transaction costs. The problem is, though, that transaction costs seem to be higher, the freer and more transparent the market and conditions for competition are. It is possible to reduce transaction costs by entering into more stable provider and partnership relations, as has happened in Australia; but this implies moving further and further away from the original intentions behind the market-based contracting-out model for employment services. It needs to be borne in mind that creating and maintaining a market structure is an ongoing process, which will continue to demand new public regulation.

In Denmark, too, the transaction costs involved in establishing a market for employment services have turned out to be substantial – for some surprisingly so. The providers find that preparing and presenting tender bids requires disproportionate amounts of resources. And the administrative tasks, such as working out payment and documentation of jobseekers’ employment situation, have also turned out to be quite demanding (Rambøll 2004: 57, 93-94). The majority of providers say that the workload of administration and setting up procedures is considerably higher than expected. It has also proved difficult for the purchasers to describe the services required in precise terms, and the tendering material has therefore been rather vague at times. This has led to diverging interpretations of the services to be delivered, which again leads to extra work when trying to clarify and settle differences of expectations (Rambøll 2004).

All in all, this leaves the impression that the transaction costs related to contracting out employment services in Denmark have been quite considerable. However, there are no evaluations available of the total transaction costs involved. And it would in fact be difficult to draw up such a statement as some of the transactions are “invisible” and difficult to quantify. Some of the costs are “one-off costs” and can be expected to fall over time. But the costs connected with tendering rounds, preparing contracts and checking contract compliance will continue to be high compared with the former system, as they are in Australia and Holland. Experience from the three countries show that transaction costs are an inescapable by-product of contracting out. And it is a problem that will have

to be taken into account when considering how to design a quasi-market. There are many indications that the freer the market, the higher the transaction costs. So the strategic choice here is to decide what level of costs is acceptable. However, there is no standard model to fall back on for such calculations. Designing a market is an ongoing process.

Freedom of choice

Experiences from Australia (and to some extent Holland) indicate that free choice as a quality driver is next to impossible to implement in practice. Practically all our respondents are of the opinion that, to the extent jobseekers have a free choice, it is exercised mostly on the basis of chance and not the quality of the provider; for instance geographical proximity of the provider. It is also debatable whether the individual jobseeker can be expected to possess the knowledge and capacity necessary to make an informed choice, leading to rejection of the least qualified and selection of the provider with the best outcomes. And furthermore there seems to be a trade-off: the more freedom of choice the individual jobseeker is given, the higher the transaction costs. Obviously this trade-off does nothing to further the possibilities of realising a high degree of free choice in practice. It needs to be mentioned, though, that after our data collection ended, the use of individual reintegration budgets (IRO) has increased substantially in Holland. This may be indicative of more freedom for jobseekers to choose their provider; but we have not been able to evaluate recent Dutch experiences in detail.

In Denmark there ought to be good conditions for a high degree of free choice, as there are relatively many providers of employment services. In reality, however, the individual jobseekers have been offered limited choice so far. Rambøll's data collection of experiences from 2004 showed that 67% of the jobseekers interviewed did not feel they had had the opportunity to choose between providers. There are regional differences, but the freedom of choice is limited to turning down a provider offered. The AF allocates the jobseeker to a provider beforehand, based on an assessment of the jobseeker's qualifications and needs (educational background, eg), and then the jobseeker is given the option to turn down the provider and specifically choose another. In contrast to the two other countries, political interests are a factor when choosing a service provider in Denmark, due to the unique characteristic of the Danish quasi-market that some trade unions are also providers of employment services. As a result, the employers' organisation, DA, who would be expected to be a staunch supporter of freedom of choice, is in fact sceptical of the jobseekers' freedom to choose their own provider (Bredgaard & Larsen 2006). Rather than choosing providers documenting good outcomes and rejecting the badly performing, many jobseekers will probably be inclined to choose their own unemployment fund or trade union. The Danish Confederation of Trade Unions, LO, takes great care to inform unemployed members of their freedom to choose another provider. The employment minister's action plan from July 2005 once more sings the praises of freedom of choice. It is stated here that in order for freedom of choice to work, it is an important condition that private providers have a big enough share of the services to be delivered for the jobseekers to have a real choice. It is also emphasised that it is the AF's job to make sure all jobseekers are informed about their right to choose between several providers, to make all information about the outcomes and quality of providers available on the local AF region's homepage, and to give a presentation of any provider the jobseeker is referred to. However, these initiatives are not going to change the two fundamental mechanisms which in reality hamper the jobseekers' real freedom of choice: that a jobseeker is automatically allocated to a provider by the AF system, and that a union-member jobseeker will probably still prefer his or her own unemployment fund or trade union as a provider. So it remains uncertain whether extra information

will have any effect. Just as in Australia in particular and to some extent in Holland, the idea of freedom of choice as a driver turns out to be difficult to make work in practice in Denmark as well. Even if public authorities and the government publicly support the principle of jobseekers' freedom to choose, in practice freedom of choice is mainly the preserve of the purchasers (ie, the authorities). So, the freedom of jobseekers to choose their own provider of employment services has turned out to be rather limited.

The relationship between provider and jobseeker

Even if using the jobseekers' freedom to choose their provider as a market driver does not work as intended, the relationship between provider and jobseeker nevertheless changes, turning into a sort of consumer relation. Actually this seems to what providers strive for; they are eager to establish a more trust-based and less "clientising" relationship. This approach is in line with the principle of making jobseekers take on more responsibility for their own joblessness, a kind of "self-help" philosophy. As a consequence, providers tend to downplay their public-authority-like tasks, which can be seen especially in their lenient practice on sanctioning jobseekers who are not available for the labour market. The providers have no wish to jeopardise the trust-based relationship they have worked hard to build up; so, as they put it in Australia, "*it's all about barking but not biting*". Bureaucracy as well as un-compensated costs of reporting are stated as arguments for the lenient practice, too.

In general, several respondents point out that jobseekers express great satisfaction to be seeing private providers rather than public authorities. The difference in attitude on the part of private providers may of course explain this satisfaction; but it just might also have something to do with the lenient sanctioning practice. Overall, jobseekers are satisfied with their relationship with the providers; when jobseekers express dissatisfaction it is usually due to lack of relevant employment activities. As for sanctioning practice, the Danish providers are different from the other two countries in that their practice is more balanced. It is a matter of striking the right balance, and report not too few and not too many. As one provider puts it, it is best not "*to top the list as most reporting*"; which is no doubt also recommendable when cooperating with a PES system greatly influenced by corporatist interests, not least union interest in this case. And, of course, in Denmark the trade unions are also among the external providers.

Outcomes and effects

The full-scale tendering model has been in operation for almost ten years in Australia and about six in Holland. But in spite of that, there is still little valid and systematic knowledge on the outcomes and effects the system is able to deliver. This makes it difficult to evaluate the efficiency of the private service providers compared with the previous PES system, including cost-effectiveness. All the same, there are some indications that the shift to contracting out has produced cost savings in Australia, even though discontinuation of some cost-heavy programmes around the time of contracting out might also explain some of the savings. It is not possible to make comparisons for the Dutch system. So even if it is difficult to draw any conclusion whether the contracted-out employment services system is indeed "better and cheaper" than the old public system, there can be no doubt whatsoever that contracting out has resulted in a fundamentally different employment services system (which in itself makes before-and-after comparison difficult).

The same applies for Denmark. As explained above, the quasi-market model was here introduced parallel with a still-functioning PES system, which, in principle, should make it possible to compare the outcomes and effects of the two systems. In practice, this is far from easy, as the first effect measurements have proved. It is our evaluation that it has been far more difficult than anticipated to meet the conditions for establishing a well-functioning quasi-market for employment services. Admittedly, a market has been established with a relatively large number of service providers and purchasers; but the market is really more an expansion of an already-existing market than establishment of a quasi-market from scratch. And in any case, we are not able to evaluate the efficiency of this market at present, neither in terms of cost-effectiveness nor employment effects. There has been such a high level of information asymmetry and so many transaction costs connected with establishing the market, and as a result both transparency and freedom of choice has been reduced in the market. Consequently, the authorities have been forced to introduce regulation, both to make the quasi-market work better on its own premises, and to reduce unacceptable outcomes of the contracting-out model. We will look into that in more detail in section 3.3.

3.2. Better services?

The quasi-market model is assumed to lead to more individually tailored services, using more innovative methods and tools, and benefiting also from closer contact with business enterprises. Some have expressed fears that quasi-markets lead to creaming and parking. In the following, we will have a closer look at these expectations.

Freedom to choose methods and innovation

In the light of the great expectations that contracting out would lead to more innovative methods, experiences in both Australia and Holland can only be described as a disappointment for the authorities. The general impression is that, in spite of the freedom to choose their own methods, providers hardly ever come up with innovative solutions. Rather than developing new methods and innovating services, the providers' primary focus is on survival, and they are not willing to take any risks unless the outcome is considered certain. In Australia, ever-stronger regulation of services plays a part in this as well. And there can no doubt that the choice of payment model is an important factor in both countries. The risk of investing in innovative methods that cannot be guaranteed to produce the quick results demanded lies mainly with the providers. And the providers find the risk involved in not sticking to beaten path to be simply too big.

In Denmark, the methods used by providers have also been highly influenced by the way external providers have been involved in the delivery of employment services. In practice, it turns out that external providers have been used mainly to "relief" the PES of administrative tasks. That is, as extra hands to help out with the contact periods. One consequence of this "resource strategy" is that when it comes to methodology, the focus has largely been on minimising costs and not maximising effects (Rambøll 2004). Once the employment minister's action plan takes effect, this will change as external providers can no longer be used to just handle purely administrative tasks (such as contact periods). However, at the same time, the payment models will be changed in a much more effect-oriented direction, and providers will be forced to finance jobseekers' activities themselves (instead of referring them to activities paid for by the authorities). This is not likely to make development of innovative methods any easier, as the providers will have to take over most of the risk.

Instruments in employment services and the use of education

As for the tools used by providers, what providers primarily aim for is motivating and preparing the jobseekers through encouragement, job search and job training activities. It is characteristic that providers in Australia and Holland use formal education and training to a very limited extent. However, it is difficult to say whether these more expensive tools (educational activities) are disregarded because of inherent traits of the contracting-out model, or as a consequence of the general political shift towards a work-first strategy. Both might explain it, so perhaps it is the old chicken-or-egg discussion. Nevertheless, contracting-out models have some inbuilt dilemmas when it comes to improving the skills of the unemployed. When responsibility for finance lies with the provider, there is a clear tendency towards under-investment, educational investments being long-term, uncertain and cost-heavy, which collides head-on with the demands facing providers to deliver swift employment effects. In both Australia and Holland, the lack of investment in upgrading the skills of jobseekers has turned into a political discussion issue. In the form of discussions about lack of opportunities for reintegration of the weakest jobseekers (Holland), and in connection with the lack of qualified labour to meet the requirements of the labour market, and the needs and interests of employers (Australia).

Just as in the two other countries, it is difficult to isolate the extent to which changes in the tools used can be attributed to the increased involvement of private providers in Denmark. In our data collection of experiences, the activities used most frequently by Danish providers are largely the same as the ones used by providers in Australia and Holland. Unless educational activities are defined as a specific selection criterion, or the authorities take over responsibility for the finance of education and training (as was the case initially in Denmark), experience seems to suggest that a quasi-market will lead to under-investment in education. This runs against the original intentions (at least when it comes to methodology), and will probably prove politically unacceptable in the long run, as the political debate in Australia and Holland would seem to hint.

Business networks and job matching

When investigating the methods and tools used by providers, it is striking that neither in Australia, nor in Holland or Denmark have business networks been used to directly match businesses' recruitment needs with reintegration of jobseekers. It is surprising that, in general, the big recruitment firms and temp agencies have chosen not to enter this new market. On this background, it must be concluded that there is a strong supply-side orientation in employment services, and that contrary to what might have been expected, involvement of the business community remains very weak. One explanation could be that providers have deliberately chosen a strategy to seek to prepare jobseekers to make contact with businesses themselves (self-help). Another explanation could be that some providers do not wish to jeopardise their ordinary business areas. The demand-side has been sought activated mainly through agreements or direct purchase of jobs (most notably in Australia). In this context, we have often come across the concept of 3 or 6-month jobs and 1-day jobs. Neither in Australia nor in Holland have we been able to find any statements of the quality or duration of the employment offered. The only statements available show the employment effects, as employment after 13 or 26 weeks. The strong supply-orientation, combined with the weak business networks, creates an additional problem. It becomes increasingly difficult to meet the needs of the labour market by means of employment policy, which is a serious problem especially in a situation when businesses increasingly demand highly skilled labour.

Effect focus and staff organisation

In line with the intentions underlying the tendering model, providers especially in Holland and Australia have a very strong focus on effects. The providers organise their delivery of services to produce effects, among other things by cultivating a business culture with a strong focus on effects. Paradoxically, this effect focus seems to be strongest in Australia where competitive elements are weakest. The reason is that it has enormous consequences for providers if they are not among the providers whose contracts are automatically renewed for another three-year period (ie, if their star-rating is not high enough). Furthermore, in Australia, bonus payment is the norm for the providers' staff, whereas this is not allowed by the Dutch purchasers. The same strong focus on effects has not been found among Danish providers; perhaps because they have mainly been given administrative tasks (contact periods), combined with a wish (and necessity) to appear as trustworthy partners in the eyes of the AF.

The competences of traditional case management are not the competences private providers are looking for; they tend to clash with the need to focus on effects. Consequently few of the former PES employees have found employment with the private providers in Australia and Holland. The reasons stated are that they have a problem with the prioritising of jobseekers, keeping their focus on work-first and effects, and that there are fewer services targeting weak groups. However, in Denmark hiring former AF employees has not been a problem. The explanation is probably that Denmark, in contrast to the other two countries, still has a PES system operating parallel with the private providers. And what is more, a system that also functions as a purchaser. Having good personal relations with the AF system is therefore a benefit for the providers.

It is not only the former PES employees who experience problems working in the quasi-market. Both Australian and Dutch providers report very high rates of staff turnover (among other things due to market fluctuations), and many employees leaving the industry altogether. This trend can be seen in Denmark too, as uncertainties in the market lead to high staff turnover and problems building up and developing competences among staff in this field. There is a difference in the educational level of the staff in Denmark, Australia and Holland. The level is generally speaking lower in the other two countries than in Denmark, where staff often has a university degree.

To sum up, the contracting-out model has proved to result in more competition (and market fluctuations), and it increases the focus on immediate employment effects. This is reflected in the way the private providers organise their operations; eg, cultivating a "business culture" oriented towards producing effects. These characteristics are most pronounced in the full-scale models of Australia and Holland. Another characteristic of the contracting-out model is that the traditional case management competences of staff from the public systems seem not to match the requirements related to the shift towards increased focus on effects. The next question must then be: which competences are required to match the shift in policy content? The answer seems to vary from country to country. But the general impression is that fluctuations in the market plus high staff turnover make any long-term development of staff competences difficult.

Creaming and parking

In both Australia and Holland, extensive creaming and parking of jobseekers is a fact. As was the case above when discussing methods and tools, this is to a very large extent due to the risk being offloaded onto providers, with performance-related pay and full responsibility for finance of activities. In Holland, this effect is accelerated further by price competition in a downward spiral, and by allowing providers, in certain cases, to refer jobseekers back. The tendering model all but forces providers to engage in creaming and parking. Whether this reflects the political intentions, as providers in both Australia and Holland claim, is not possible to answer unambiguously based on our analyses. There are also signs that creaming and parking can reach politically unacceptable levels. In Australia public regulation has been introduced to counter creaming and parking, and in Holland there is mounting public criticism of the providers, both because of creaming and inadequate services for weak groups of jobseekers.

In the Danish debate, creaming and parking as a problem is not on the agenda. It could be, of course, that creaming and parking is not practiced to the same extent as in Australia and Holland, or that the authorities simply do not know enough about how providers carry out their work, or that creaming and parking in the Danish context is taboo. Based on the interviews carried out in Denmark, we have found indications that all three explanations have some validity. But it is also evident that the very open prioritising of target groups found among Australian and Dutch providers does not happen to the same extent in Denmark. Creaming and parking seems to be less common here, compared to the two other countries. However, there is a risk that it will become more widespread with the new central payment model of 25% commencement fee and 75% performance-related pay. Increased performance pay carries the inherent risk of more open and generally accepted classification of target groups into investment-worthy and (weak) investment-unworthy jobseekers.

It is a common experience in Denmark, Holland and Australia that quasi-markets have difficulties in catering to the needs of the jobseekers least ready for ordinary employment. Creaming and parking of the “weakest” among jobseekers is almost unavoidable within a framework of market-economic logic, as employment outcomes of activities are uncertain and these jobseekers have a host of complex problems requiring long-term and cost-heavy initiatives. It can be concluded that avoiding creaming and parking calls for extensive public monitoring and regulation.

3.3. De-bureaucratisation and simplification of public regulation?

The advocates of contracting out argue that quasi-markets in employment policies create less bureaucratic and more responsive delivery of employment services. In the following we will test this assumption by analysing experiences in the three countries. We do so by analysing the procedures for initial assessment of jobseekers (the referral and profiling process), the methods for paying service providers (payment models), and the types of subsequent public regulation implemented to improve the functioning of the quasi-markets.

Initial assessment and referral

The outcome of the initial assessment is strongly linked with the design of the payment model. If payment goes up in line with the target group’s distance from the labour market, as is the case in

both Australia and Holland, the authorities will have an interest in underestimating the target group's distance from it, whereas the providers will have an interest in overestimating this distance. Providers therefore often complain that the target groups referred to them are too "weak" compared with the public target group definitions. At the same time, the financial risk is offloaded onto providers, who are bound by contract to take a certain number of jobseekers, often practically overnight, whereas the authorities themselves are under no obligation to refer the number of jobseekers agreed in the contract. To prevent mutual distrust, the authorities go to great lengths to set objective and transparent assessment criteria.

There is even a tendency towards automation of the assessment process, based on such objective criteria. In Australia they use a web-based questionnaire (JSCI), and Holland also uses standard questionnaires and interviews (Kansmeter and Kwint). In Denmark, there is an "assessment toolbox" (a brochure preparing the jobseeker, a labour market portal of income source history, a job barometer, and a dialogue guide). The assessment process is used to profile the jobseeker into the right target group category. Target groups are then offered to the market, and jobseekers eventually referred to a provider. This assessment process is cost-effective, but unfortunately it also makes it difficult to identify the individual jobseeker's real barriers to (re)integration on the labour market. Quasi-automated and standardised assessment means that jobseekers are quite often reluctant to divulge information felt to be sensitive or very personal but nevertheless vital for correct target group categorisation and subsequent referral.

In spite of all the efforts to professionalise and standardise the assessment process, it is telling that practically all providers submit the jobseekers referred to their own screening to ascertain their qualifications and needs. In Holland, for example, this means that first the jobseeker will go through the CWI's assessment process, then a new process at the UWW or the local authority; and finally, the provider's own process. In Australia it is first Centrelink and then the private provider. So the public assessment fails to fulfil the needs of the private providers adequately, and therefore they choose to reassess jobseekers. Their assessment will probably be based on more subjective criteria such as motivation, not measured in the public assessment tools, and on the provider's own or more or less arbitrary target group categorisation. It is a characteristic of the Danish system that even though authorities have also sought to standardise and objectivise the assessment process, the outcome of the AF's assessment process does not have the same far-reaching consequences for providers in Denmark as in the two other countries, among other things because of the design of the payment models and measurement of performance.

Payment models

As mentioned, generally speaking both Holland and Australia rely heavily on performance-related payment models. The implication of this is that the inbuilt behaviour-regulating incentives encourage providers to go for short-term employment effects. The philosophy is that providers will thus opt for the shortest possible route back into employment. They will tend to focus on getting the jobseeker ready (as quickly as possible) for the labour market (including perhaps a few short job-search or skills-upgrading courses), and on motivating (disciplining) the jobseeker to find any job as soon as possible. And of course (if possible) refer them to job openings. There is thus a clear link between incentives for providers to deliver immediate effects and an orientation towards the "work-first" strategy.

A problem faced by all quasi-markets for employment services is that it implies offering jobseekers short-term activities only, which are difficult to tailor to the multiple and complex problems “weak” jobseekers typically have. Also, service providers motivated by financial incentives will be reluctant to invest in a jobseeker whose “yield” is far from certain. Consequently, differentiated payment models have been designed, which give providers a stronger financial incentive to try something extra for the weakest among the jobseekers. Australia and Holland have chosen two different roads to achieve this end.

Australia offers a generally higher payment for weak groups. The major part of this payment is performance-related and falls due when a successful outcome has been achieved, especially 13 weeks’ employment. The aim is to reduce creaming. But at the same time, a major part of the financial risk involved is offloaded onto providers, who therefore have a strong incentive to divide the jobseekers into “investment-worthy” of “investment-unworthy”. Even if some groups of long-term unemployed may be found still to be “investment-worthy”, the Australian payment model cannot be said to have found a viable solution of the problem of creaming. Holland instead relies on higher subsidies for operations for weak jobseekers (no cure – less pay), which on the other hand increases the risk of parking. It is difficult to imagine an optimal model that is able to simultaneously solve the problem of parking and creaming. To remedy the flaws, a number of other steering instruments are used, in addition to the payment models

Another important condition for a payment model to be well-functioning is that the prices set are realistic, irrespective of whether they are set by the authorities beforehand (Australia), or by the providers in their tender bids (Holland). In Australia providers complain that the prices set by authorities are too low, thus underestimating the real costs incurred by providers when delivering a particular service. This could be due to either a deliberate wish to provoke costs reductions, or the reason could be that authorities genuinely do not know the real costs involved in reintegration of the unemployed. In any case, providers react by shadowing the minimum prices set by authorities for fear of being disqualified in the race for contracts. The provider winning the contract must then afterwards try to find cost reductions to find the equilibrium between expenditure and income. In Holland the same tendency towards a downward spiral of prices can be observed. Price seems to be the most important parameter for awarding contracts in the tending rounds. Here the main problem is that providers do not know beforehand the authorities’ real unit costs, and they are therefore finding it difficult to make a realistic bid. Providers are left to rely on second-guessing, and just as in Australia, to subsequently introduce cost cuts to adjust expenditure to income. The same phenomenon is seen in Denmark.

Denmark, however, has so far been a market characterised by considerable regional variation in payment models, which creates an in-transparent market. And it makes it difficult to make general comparisons with Australia and Holland. However, it is our evaluation that on average the Danish market, up till now, has been characterised by relying less on performance-related pay. The new centralised payment model brings the share of payment related to performance (75%) at least on par with Australia and Holland, even exceeding it in some areas. Preliminary experience from the regions seem to suggest that the higher the performance-related share of pay, the fewer bids from external providers, and the higher the likelihood that providers incorporate their estimated financial risk in the price submitted (Rambøll 2004: 5). This indicates that external providers (not least private consultancies) are indeed motivated by financial incentives and adjust their behaviour to the way the payment models are designed.

Experiences from Australia and Holland show that the intention to instill strong financial motives in providers by means of performance-related pay can lead to politically unacceptable byproducts in the form of creaming and parking, under-investment in methods and services, etc. Over time the composition of payment models therefore tend to undergo changes to redress possible imbalances between financial incentives and the risk offloaded onto providers. In the final section, we are going to look into other forms of public regulation initiatives to alleviate such latent, politically unacceptable problems. It does seem odd that Denmark is heading towards a considerably stronger element of performance-related pay and offloading of risk onto providers. There are strong indications that this trend will lead to exactly the same situation as it did in the other two countries and can only be expected to create exactly the same kind of accompanying problems. Problems which will, over time, grow politically unacceptable and will have to be redressed by modifying payment models, and not least, by introducing more public regulation.

Regulating to reduce market-inherent problems

Even though the intention behind the contracting-out model is to make it as close to a real market as at all possible, it seems that public regulation is nevertheless vital; on the one hand to actually create real market conditions, and on the other to prevent politically unacceptable consequences inherent in the market model, such as creaming and parking.

In particular in Australia this has led to considerable re-regulation of the quasi-market, both setting up strict rules for the activities of the providers (contact regimes, jobseeker account, case managers, no right to refer jobseekers back, etc), but also extensive monitoring and evaluation. Paradoxically, this all leads to widespread re-bureaucratisation, the exact opposite of the original intention behind choosing the quasi-market model. This tendency is less pronounced in Holland, where it seems to be a deliberate political choice to leave the market to regulate itself. But the problems – or the imperfections - of the market: creaming, parking and inadequate services are nevertheless evident in the Dutch context as well. The response to the problems has been a host of changes to the tendering conditions and criteria. And what is more, there seems to be mounting pressure for public intervention in Holland. As a minimum, in the form of considerably stronger monitoring and evaluation of the activities and outcomes of providers. In general, there is a tendency towards development of “market bureaucracies” (Sol 2005: 170), mostly in the Australian case.

A particular characteristic found in both countries is an almost institutionalised lack of trust between public authorities and providers. The public authorities, according to the providers, distrust providers, whom they suspect by definition of thinking of profit maximisation only (and short-changing the authorities); and the providers feel that they are being increasingly hemmed in by regulation of every minute detail, under constant surveillance and robbed of the autonomy to organise delivery of services. In this connection it was quite a paradox to learn that providers in both Australia and Holland crave for more partnership and dialogue (which they define as characteristic of a real market), whereas the authorities are bending over backwards to create what they think characterise a “real” market, namely clear and transparent market conditions.

Finally, we would like to draw attention to a tendency towards de-politisation of the field, which is evident in several ways. Due to governance being based on output and outcomes, what actually happens in the market for employment services is less visible than it used to be. As an Australian civil servant put it, political interest in the area is limited to a brief period every three years when the contracts are up for renewal. Basically, this can be politically convenient as changes and cuts in

employment services are curtailed off from political criticism and kept out of the public eye. There can be no doubt that this helps reduce political controversy around the services delivered by a quasi-market model. On the other hand (as has happened in Holland), media stories about inadequate employment services can lead to mounting pressure to secure more political insight into the activities and conduct of providers.

The trend described: first establishing and developing a sufficiently free market, followed by re-regulation to remedy the unintended, market-inherent byproducts has no direct parallel in the Danish quasi-market. Partly because Denmark has not introduced a full-scale model, and partly because the Danish experience must be said still to be in the early stages. Nevertheless, characteristics similar to the other two countries can be found, along with developments specific to Denmark only. At the overall level, public regulation in Denmark shares many of the characteristics of the Dutch model, in that so far the system has been based on considerable decentralised freedom to organise the involvement of private providers. Politically it has been a success criterion to obtain a certain volume, with less interest at first in regulating in detail the means to achieve this end. And the strategy has been successful: the initial target of 15% has been surpassed. The widespread freedom of action has, however, also led to many very different models for involvement of private providers. From a governance point of view, the employment minister's action plan can be seen as a reaction to a number of tendencies also found in the two other countries. The centralised payment model and the tighter monitoring and control of the use of external providers can be seen as attempts to rein in the high degree of freedom granted to the regions at the outset. This is also an expression of a wish on the part of central authorities to be more in "control" of the involvement of providers. Contrary to this, the action plan wants the purchasers to grant more freedom to the private providers so that they can "make a difference". That is, when it comes to the actual services to be delivered, less public steering of providers. For instance, external providers are no longer to carry out only operational task. In this connection it must be expected that Denmark will find itself in the same dilemma as Australia and Holland, where focusing on effects goes hand in hand with freedom to choose methods, but also lack of insight into the activities and services delivered by the providers. As we stated above, there is a risk that this can lead to implementation being shrouded in political invisibility. It is, however, our evaluation that there will never be the same level of invisibility in Denmark as in the other two countries. Among other things due to a deep-rooted tradition for focusing on employment policy in Denmark; not least the trade unions can be expected to keep a watchful eye on the services delivered to their members. The trade union movement is a much strong player in Denmark; and in addition some trade unions are themselves providers in the market. It is, for example, clear that the employers' organisation, DA, fully agrees with the logic of governance on the basis of output, measuring and evaluating services delivered by providers only on the basis of outcomes and effects, whereas the LO is finding it much harder to let go of the control of the content and activities of employment policy. There can be no doubt that the trade unions are facing a hard task trying to keep the content of employment services in focus, because governance by contractualisation relies on outcomes and effects only, without taking into account the quality and content of services delivered. What matters is that targets are met, not how the outcomes were achieved by the providers. Implementation of employment policies will probably not be as shrouded in invisibility as it is in Australia and Holland, because the trade unions can be expected to act as advocates for the majority of insured jobseekers, thus maintaining some focus on quality as well.

This leads us to the last of our observations on the situation in Australia and Holland: that the tendering model, according to providers, has created an almost institutionalised lack of trust

between public authorities and providers. We did come across a few examples in Denmark of providers expressing a wish for more partnership based on trust, but the overall picture in Denmark looks very different from the other two countries. One explanation is no doubt that the majority of tasks carried out by private providers have been administrative tasks, which requires a good deal of coordination between the providers and the AF. And instead of relying on standardised national measurements and evaluations, practically all purchasers use regular, informal meetings and dialogue with providers for mutual exchange of experiences and alignment of interests. It could be argued that the need for coordination and monitoring is solved by means of a culture of cooperation and dialogue. The importance of the Danish tradition for involving relevant labour market actors at many levels should not be underestimated, not least the role traditionally played by the labour market organisations (Larsen 2005).

Whether it will be possible to preserve this culture in the wake of the employment minister's action plan is, however, an open question. On the one hand, it shifts the involvement of external providers away from administrative tasks to delivery of services where they, as the action plan puts it "*will be able to make a difference*", and on the other introduces a much more competitive performance-related payment model. This last-mentioned initiative brings the model close to a pure tendering model, which, as has been seen in Australia and Holland, tends to hamper partnership and cooperation based on mutual trust. Such ideas of partnership, dialogue and cooperation are much more characteristic of a preferred-provider model than of a tendering model. The aim of a tendering model is to create fair and equal conditions for competition and transparency. The preferred-provider model requires a high degree of trust between purchaser and provider, whereas the tendering model, as we have seen it in Australia and Holland, easily leads to institutionalised lack of trust. Combining the advantages of the two models in one is mission more or less impossible.

4. Conclusion

In spite of the differences in the institutional history and design of quasi-markets in Australia, Holland and Denmark, there are a remarkable number of similarities in the implementation and outcomes of the market structure. We have found that the contracting out of the former public employment service encounters a number of similar dilemmas and challenges in the construction and maintenance of a “real market”, and has a number of similar implications for the governance as well as policy substance of employment policies. Across the three countries, the official political intentions behind contracting out employment services have been, above all, to make the much criticised public employment services systems cheaper and better by tendering (primarily) for-profit providers in the delivery of employment services.

The first main objective for policy-makers and central bureaucrats is to set up an attractive market structure with easy access and exit through transparent and objective tendering criteria. At the outset, all three countries managed to establish relatively free markets with many providers. Over time, however, there seems to be an increase in public regulation, reining in the free market conditions. There is also a trend towards a concentration of providers, growing larger and fewer in numbers. These trends are most notable in the case of Australia, who has the longest experience, but the trend can also be seen to a lesser extent in Holland and Denmark, although the recent popularity of individual reintegration agreements in Holland has meant an “explosion” in the number of providers, and more user choice for clients.

During the process of “market creation”, the ongoing tendering rounds and subsequent monitoring and supervision of market behaviour creates substantial transaction costs. There are clear indications that the freer the market, the higher the transaction costs. So the strategic choice here is to decide what level of costs is acceptable. However, there is no standard model to fall back on for such calculations. Designing a market is an ongoing process.

Experiences suggest that even if there is some room for free user choice it can hardly be applied as a driver to improve the quality of services. Often choice is exercised on the basis of idiosyncratic factors and not the quality of the provider. It is also debatable whether the individual jobseeker can be expected to possess the knowledge and capacity necessary to make an informed choice, leading to rejection of the least qualified and selection of the provider with the best outcomes. Furthermore, there seems to be a trade-off: the more freedom of choice the individual jobseeker is given, the higher transaction costs. However, the relationship between provider and jobseeker does indeed change, turning into a sort of customer-business relation. Often jobseekers express great satisfaction to be serviced by private providers rather than public authorities.

There is still little valid and systematic knowledge on the outcomes and effects of shifting to quasi-markets in employment policy. This makes it difficult to conclude whether quasi-markets are indeed “better and cheaper” than the old public system. There can be no doubt however, that contracting out results in a fundamentally different employment services system.

The great expectations that contracting out would lead to more innovative methods has so far – despite a few exceptions to the rule – been a disappointment for the authorities in all three countries. Rather than developing new methods and innovating services, service providers fight to survive on the market, and are reluctant to take risks unless the outcome is considered certain. Providers struggle to motivate and prepare the jobseekers through encouragement, job search and job training

activities, which means that formal education and training is used only to a limited extent. When responsibility for financing activities lies with the provider, there is a clear tendency towards under-investment in long-term and uncertain instruments, and a clear orientation towards work-first approaches. Contracting-out is accompanied by a strong supply-side orientation in employment services, and contrary to what might have been expected, involvement of employers and business networks among service providers remains weak. This makes it increasingly difficult to meet the needs of the labour market, which is a problem especially in a situation when businesses increasingly demand highly skilled labour.

Furthermore, it is a common experience in all three countries that quasi-markets have difficulties in catering to the needs of the most disadvantaged jobseekers, which has major barriers to (re)enter the labour market. Creaming and parking of jobseekers is almost unavoidable within a framework of market-economic logic, as outcomes of activities are uncertain and these jobseekers have a host of complex problems requiring long-term and cost-heavy initiatives. Avoiding creaming and parking calls for extensive public monitoring and regulation. So even if the intention behind contracting-out is to create a “real market”, public regulation is nevertheless vital; on the one hand to actually create real market conditions, and on the other to prevent politically unacceptable consequences inherent in the market model, such as creaming and parking.

In summary, we find that quasi-market models have difficulties in living up to the preconditions for a well-functioning market, as well as political expectations. The efficiency gains and cost-savings, which are spurring the introduction of quasi-markets, are still largely unknown and undocumented. Instead it is quite clear that a quasi-market model creates a new type of employment policy, and new conditions for steering and governing the labour market and employment policy. Clouded in the “technical” language of improved efficiency and effectiveness, such changes are often neglected and depoliticised.

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