



**REFORMS IN DUTCH ACTIVE LABOUR POLICY
DURING THE LAST 20 YEARS: AN EVALUATION**

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SUMMARY

Since the late 1980s the institutional framework of Dutch Active Labour Market Policy has been changed almost continuously. The most ambitious reform was the attempt to create a market for reintegration activities with the role of the central government reduced to that of financier. Implementation of reintegration activities was completely left to private agencies. This reform was made from the rather naive thought that then 'the market would do the job'. The results were rather disappointing, mainly because the quality of reintegration services, the degree to which job entry chances of clients are increased or other improvements of their labour market position haven taken place, is not observed. Owing to this market imperfection the competition between providers led to a race to the bottom, resulting in low prices and poor quality services. Recently, in reaction to the poor results public agencies have increased their involvement in the implementation of reintegration activities again. Another development is that clients are given more opportunities to influence the reintegration services applied to them, which seems to improve the results.

A second major reform concerns the budget allocation system for social assistance benefits. The new system provides a considerable incentive for municipalities to reduce the number of beneficiaries by intensifying and improving their policies. Municipalities are not allowed to change the entitlement criteria for social assistance benefits and the benefit level. There is evidence that this change has actually diminished the total number of beneficiaries. In the new system a statistical model indicating objective needs, determines the budget a municipality receives for financing its social benefits. Municipalities that spend more on benefits than they receive have to pay the difference from their own resources. However, these municipalities tend to blame the model for this situation instead of poor performance. As municipalities have a strong lobby in politics a number of additional measures have been taken that compensate some of the municipalities for the losses. So, while the new financing system is effective in principle, it tends to be weakened in practice.

With the recent merger of the remnants of the old Public Employment Service (CWI, the system of employment offices) and the social insurance organization (UWV) a type of Public Employment Service has emerged that shares some features with a traditional PES. At the local level 'job centres' have been established, in which CWI-UWV cooperate with municipalities in the field of job placement, which is increasingly a public activity again. The benefit payment process and the reintegration process are now more integrated than ever before in The Netherlands. The role of the market mechanism and that of financial incentives are weakened again, and the decentralization process has stabilised.

The lessons that can be learned from the Dutch experience that it is not advisable to organize ALMP from one single principle. It is good to involve the private sector, but only to a limited extent; public agencies should stay in charge. Financial incentives for public agencies can be effective, but it is difficult to get support for it among the agencies involved. It might be better to measure the results, to identify good practices and to start a dialogue with poorly performing agencies in order to induce them to use the good practices. The old centralised organization structure is not very attractive, but too much decentralization and regionalization is not good either. Although a mixed system may be seen as neither fish nor flesh, it might work better than a system develop from one leading principle.

Key words: public policy, privatization, outsourcing, unemployment, social insurance

1 INTRODUCTION¹

In this paper we analyse the institutional changes that took place in Dutch active labour market policy (ALMP) since the late 1980s. This period was one of permanent change. We give a description of the changes that took place and analyse their impact on the effectiveness and the efficiency of the policies. By active labour market policies we understand job matching activities, job counselling, training, placement subsidies and sheltered employment aimed at reducing or preventing unemployment and unfilled labour demand. In the Dutch context it has become customary to use the term ‘reintegration activities’ rather than ALMPs, because the services provided to clients are highly individualised. Strange enough job matching activities by the still existing network of public employment offices are not seen as reintegration activities. Explicit definitions are lacking. By and large ‘ALMPs’, ‘reintegration activities’ and public employment services mean the same thing.

Until 1991 a directorate-general of the ministry of labour was completely responsible for the design and implementation of active labour market policies. The implementation structure was highly centralized. There were 64 regional employment offices with the mere task of implementing the measures according to the rules that were issued at the central level. At the time such a model of the Public Employment Service (PES) could be found in many countries in continental Western Europe and was also taken over by many countries in Central and Eastern Europe after the fall of communism and the transition to a market economy.

If we compare the present situation in The Netherlands with the one in 1991, five major changes have taken place in the organization of Dutch ALMP. First, the responsibility for reintegration of disadvantaged unemployment jobseekers was largely transferred from the Public Employment Service to the organizations that are responsible for social benefits: UWV (for social insurance based benefits) and municipalities (for social assistance benefits). The network of employment services remained, but its task was largely reduced to job matching. Second, the role of the private sector in the implementation of active policies was strongly enhanced. Particularly reintegration pathways for disadvantaged groups were at some point almost completely outsourced to private reintegration companies. And third, for municipalities the budgeting system for social assistance (one of the two types of unemployment benefits) was changed. Financial incentives were introduced to stimulate municipalities to reduce the number of beneficiaries. Of course they were not allowed to change the entitlement criteria or the level of the benefits. All these reforms implied a strong decentralization of ALMP, which might be seen as the fourth change. National measures were abandoned: UWV and each individual municipality could develop its own policies. As municipalities became responsible for the reintegration of unemployment people with a social assistance benefit, this also implied a strong regionalization of ALMP, the fifth major change. Earlier during the reform process, regionalization already occurred when the original PES obtained a tripartite

¹ A preliminary version of this paper was presented for the 5th ECPR General Conference, Potsdam, 10 september 2009, section ‘Policy Arenas and dynamics of welfare state rescaling, panel 2: rescaling labour market policy.

structure and regional boards of the PES were given greater autonomy. However, the tripartite PES was only short-lived.

Why did these drastic changes take place? The first reason is disappointment with the results of active labour market policies. Particularly employers and employers' organizations were critical of the Public Employment Service in the 1970s and 1980s. One might question whether the motives for this criticism were entirely pure. At least partly it had to do with the fact that the PES prioritized disadvantaged jobseekers, while these groups are not popular among employers. In defence of the PES, one could argue that from a societal point of view it makes more sense to help disadvantaged jobseekers than jobseekers that are perfectly able to help themselves. However, there was some truth in the criticism in the sense that scientific evaluation studies of active labour market policies tend to show that the effects of these policies are relatively small.² It is even questionable whether the savings on unemployment benefits obtained as a result of the use of active policies are sufficient to cover the costs of these policies.³ On the other hand, is there an alternative to these policies? One might argue that with the help of other policies the labour market can be made more flexible, which reduces the level of structural unemployment. However, even with a flexible labour market unemployment may strongly rise during recessions. We see this again in the current economic crisis. In such a situation alternatives for ALMPs hardly exist. So, from this point of view it is more logical to look for ways to improve active policies in stead of abandoning them altogether. A further justification for the latter is that there is huge variation in the outcomes of evaluation studies: some studies show poor results, but others are much more positive (De Koning and Peers, 2008). These differences may at least partly be due to differences in design features and implementation strategies. So, there is reason to think that changes in design and implementation can lead to better results.

The second reason for the changes is the general trend in society since the 1980s to be critical towards government intervention in the economy. This tendency has led to a considerable reduction in government interference in the economy. Services like telecommunication, postal services and public transport that used to be carried out by public organizations are now either completely privatized or, when the state is still financially responsible, outsourced to the private sector. So, enhancing the role of the private sector in active labour market policies was part of a more general tendency. And recently we can observe a similar mechanism in the opposite direction. Owing to the current economic crisis a more critical attitude towards capitalism has developed. There is a certain disappointment with the market mechanism as a general co-ordinating principle. Further privatization of public services is not so obvious anymore. With respect to Dutch ALMP we even see a partial return to implementation by public agencies.

In the paper we start with a description of the changes that took place since the second half of the 1980s (section 2). Then, in section 3, we look more closely at the experiences with private sector involvement in ALMP in the Netherlands (section 3). Why did the idea to establish a market for reintegration services fail? In what ways is the involvement

² See the following review studies: de Koning and Peers (2007), Heckman, Lalonde and Smith (1999) and Kluve (2006).

³ In a recent evaluation of reintegration policies by the Dutch ministry of labour on the basis of existing studies the conclusion is even that the costs outweigh the benefits if the effect on leisure is taking into account (Ministry of Social Affairs and Employment, 2008).

of the private sector successful? As we indicated in the previous paragraph disappointment with the results of the private sector has led to reinforcement of the role of public agencies. However, in the past poor results by public agencies was the very reason for promoting private sector involvement. How can public agencies be stimulated to increase their effectiveness and efficiency? To that end the government has introduced a new budget allocation system for social assistance benefits that provides financial incentives to municipalities to reduce their number of beneficiaries by making better policies and improving the implementation of the policies. Section 4 treats this system and its implications in detail. The recent merger of the Social Insurance Institution (UWV) with the remnants of the old PES (the system of employment offices, later called CWI) implies that the tendency towards decentralization has stopped, at least temporarily. Owing to this merger for the first time in the Netherlands one organization handles both the benefit paying process and the job matching process for people with a social insurance based benefit. The merger and its implications are treated in section 5. The final section, section 6, contains the conclusions and discusses the options for the future.

2 REFORMS IN ALMP IMPLEMENTATION SINCE THE LATE 1980S

Table 1 gives the most important changes that have occurred in the organization structure of ALMP since the second half of the 1980.

The first important change took place in the late 1980s when municipalities became responsible for a scheme offering subsidized labour in the public sector for long-term unemployed youth (TV-GWJ; for an evaluation see De Koning et al, 1988). This scheme set the tone for the more ambitious employment measures that were introduced later during the 1990s and that were also to be implemented by the municipalities. Examples are the so-called Melkert jobs (after the minister that introduced them and the Law on activating the unemployed.(WIW; for an evaluation see Governmental working group 'The future of labour market policy', 2001). The main reason for it was that municipalities were also by far the most important providers of subsidized jobs. However, when municipalities became involved in schemes for subsidized labour, it triggered them to develop a wider range of employment services. For example, there was a limit to the funding available for subsidized labour. Hence, at a certain point there had to be an outflow from the schemes in order to place new cohorts of clients. Therefore, transition from subsidized labour to regular jobs became an important issue. As the clients involved often had a low profile in the labour market, employment offices were generally not very successful in placing these people in regular jobs. This induced some municipalities to involve private employment agencies for that task. So, one might argue that owing to the fact that municipalities became responsible for subsidized labour, a parallel public employment service gradually developed since the late 1980s.

Table 1 Institutional changes in Dutch ALMP since the late 1980s

Period	Institutional change	Decentralisation	Regionalization	Role of the private sector	Incentives for public actors involved in ALMP
Second half 1980s	Municipalities became responsible for the implementation of some active measures, particularly schemes for subsidized labour	Was the first step towards the development of a parallel public employment service	The schemes involved were national schemes offering little opportunity for regional policy making		
	Private agencies became involved in the implementation of ALMPs			The PES outsourced about one-third of its training activities to private agencies Temporary Work Agencies were involved in the implementation of placement subsidy schemes	
1991	New Employment Services Act	Regional boards of the PES were given quite some autonomy	Autonomy regional boards implied some diversity in regional policies	Job placement by private agencies was officially allowed, but remained confined to job mediation; the involvement of private agencies in implementation of ALMPs remained small	Legalising private employment services was supposed to increase competition between public and private agencies, thereby creating incentives for better performance of the PES
1997	Revision of the 1991 Employment Services Act	Responsibilities for reintegration of disadvantaged groups shifted to social insurance bodies and municipalities	Limited effects on the regional diversity of ALMP as initially the PES was the only provider	Decision that the role of the private sector in the implementation of reintegration activities will be enhanced. Decision that the role of the PES will gradually be reduced to job mediation	Principal-agent relations between government and PES (job mediation), between municipalities and social insurance bodies on the one hand and the PES on the other hand (re-integration of difficult-to-place clients)
2000	First tender procedure launched by social insurance bodies in view of outsourcing reintegration activities to private agencies			Reintegration activities by private agencies start in 2001 Role PES diminished	

Period	Institutional change	Decentralisation	Regionalization	Role of the private sector	Incentives for public actors involved in ALMP
2002	Introduction SUWI (new implementation structure for ALMP)	Merger of the existing social insurance bodies into one body (UWV), implying a partial reversal of the trend towards decentralisation	Municipalities start developing their own (local/regional) reintegration policies	Part of PES dealing with reintegration of disadvantaged groups privatized and has to compete with other private reintegration agencies for reintegration contracts. Remaining part of PES becomes Centre for Work and Income, a public agency dealing with job matching only Municipalities start issuing tender procedures to outsource the implementation of reintegration activities to private agencies Some municipalities offer clients the opportunity to choose between different providers	Principal-agent relationship between government at the one hand and CWI en UWV on the other hand (both are independent administration bodies) No clear incentives for municipalities
2004	New budgeting system for social assistance Municipalities no longer obliged to involve private agencies Introduction of Individual Re-integration Agreements (IROs) by UWV	Increased the number of implementing agencies enormously		Renewed role of public agencies in the implementation of municipal reintegration UWV sticks to outsourcing, but strengthens the role of its own staff in the reintegration process Puts UWV clients more in the position of demander	Strong financial incentive for municipalities to reduce the number of beneficiaries
2007	CWI, UWV and municipalities obliged to work together			Cooperation between UWV and municipalities in outsourcing of reintegration activities leads to monopsony power and weakens the position of private providers Role of private agencies in job placement diminishes	
2009	Merger of CWI and UWV	Reduces the number of public actors	Centralized structure of CWI/UWV at odds with local responsibility municipalities	Reinforces the tendency to increase the role of public actors in the implementation as the employment offices are now part of UWV	

In 1991 the New Public Employment Services Act came into power. This act brought along a number of important reforms:

- 1) The Public Employment Service was separated from the ministry of social affairs and became a tripartite organization run by the ministry together with the social partners;
- 2) The PES was given a more decentralized structure with 28 regional tripartite bodies receiving a considerable degree of freedom. They could not only choose their own policy mix of national measures, but also, within certain financial constraints, develop and implement their own regional measures;
- 3) Private agencies were allowed to provide job mediation services on a commercial basis. Until that time job mediation was officially a state monopoly.

The expectations of the 1991 act were high. There was high hope that the tripartite structure would lead to a greater commitment of employers with the objectives of the PES. The result, many people believed, could be a better balance between serving the needs of employers and helping disadvantaged jobseekers. Giving more power to the regional level was expected to lead to a better adjustment of ALMP to regional needs. By allowing private agencies to offer job matching services two positive effects were expected. First, the expectation was that owing to this change the total volume of employment services would increase. The second positive effect anticipated was that private agencies offering employment services would be in a competitive position towards the PES, which would stimulate the PES to improve its performance.

The tripartite structure was evaluated in 1995 (BEA (1995), de Koning et al (1995), de Koning en Dercksen (1995). The conclusions were quite negative. The tripartite structure was originally presented as collaboration between equal partners, but in reality this was not the case. The ministry of social affairs and employment still provided almost all of the funding. Like all government expenses, expenditure of the tripartite PES had thus to be judged by the government and by Parliament on rightfulness and effectiveness. Furthermore, politics wanted to have a say in the objectives pursued by the PES. This led to the situation where the ministry had three different, conflicting roles: being a supposedly equal partner in the PES, formulating the overall goals of the PES on behalf of the political system and judging the results achieved by the PES. Tensions within the PES board were the result, with each member pursuing its own goals. It did not lead to compromises but to endless delays in policy development. At the same time the role of the experts in ALMP and employment services within the staff of the PES was reduced.

In the evaluation reports the increased power of the regional bodies came out relatively favourable. The inertia at the central level was partly compensated by initiatives at the regional level. Owing to these regional initiatives a certain diversification of public employment services developed that were designed to meet local needs.

The third reform, giving more room to private agencies, had no immediate effect. The reason for this was that although job mediation by private agencies was officially forbidden, in reality temporary work agencies were doing it for some time already. Companies were simply using temporary work as a hiring device. In many cases companies were looking for a permanent worker, but hired a temporary worker for a couple of months or so to monitor the worker's performance. In case of satisfactory performance the worker was then given a contract of longer duration or even a permanent contract. Both the government as well as most unions accepted this practice. For many unemployed jobseekers it was an alternative for the PES as a search channel. From business surveys it appeared that the number of 'placements' by TEMP agencies

was comparable with the official number of placements by the PES (Arbeidsvoorziening, 1991). For firms TEMP labour as a hiring device has the advantage of flexibility. Furthermore, TEMP agencies are more inclined to take employer requirements as their starting point. For those reasons employers are prepared to pay for the services of TEMP agencies, even if they can get services for free from the PES. Hence, the new act did not change the situation. The law simply confirmed what had already developed in reality. The competitive pressure on the PES did not increase, as private agencies were not subsidized, while the tripartite PES was still completely state-financed. On longer term, however, it was an important step, because it would have been difficult to involve private agencies in the implementation of ALMPs if job mediation by private agencies was not officially allowed.

Following the evaluation of the tripartite structure a new Employment Services Act came into effect in 1997. According to this act the tripartite structure was abolished and the PES was transformed into a 'Zelfstandig BestuursOrgaan' or 'ZBO' (Independent Administrative Body). This is a public organization that is made responsible for the implementation of specific public services, but is not part of the government. The relationship between the government and a ZBO is one between principal and agent. The government defines in detail what the ZBO has to do for a given budget and sets targets for the ZBO. Such a business-like relationship was believed to improve the results. The introduction of ZBOs, also in other parts of the public sector, was part of a development that became known as New Public Management, which was inspired by contract theory. Also the decision, some years later, to outsource implementation to private agencies fits into this framework of thought (Sol, 2000).

The second important change brought about by the 1997 Employment Services Act was that the bodies responsible for unemployment benefits were made responsible for the reintegration of difficult-to-place clients. The tripartite structure had led to a greater weight of employer requirements in the job mediation process. Furthermore, the board of the PES had decided that the number of placements was to be the main performance indicator of the PES. Both factors implied that disadvantaged groups only got limited priority in PES activities. However, the latter formed most part of the group of unemployment beneficiaries, accounting for a considerable amount of money spent on unemployment benefits. It was believed that putting the bodies that are responsible for unemployment benefits in charge of reintegration would be more effective.⁴ Reintegration was defined as the activity aimed at bringing back to the labour market unemployment persons with low chances of finding a job on their own or through routine job mediation. Reintegration could thus consist of job counselling, training or placement in a subsidized job, in addition to job mediation.

There are two bodies responsible for unemployment benefits: a) Social insurance bodies (SIBs, later merged in one organization, UWV), sectoral organizations dealing with unemployment insurance benefits, and b) municipalities, dealing with social assistance benefits (meant for those not (or no longer) entitled to an unemployment insurance benefit). A considerable part of the PES budget was transferred to these bodies. What was left was only sufficient to finance the job mediation structure. At first instance the SIBs and the municipalities were obliged to outsource the implementation of reintegration activities to the PES. However, gradually the role

⁴ The fact that representation of employers in the board of the PES led to a greater focus on employers' requirements in the job mediation process could have been expected in advance. However, the expectation was that fulfilling the needs of employers would create goodwill among employers, who would then be more willing to hire jobseekers belonging to disadvantaged groups. In the evaluation of the 1991 Act no empirical support for this assumption (also known as the slipstream theory) was found.

of the PES in reintegration was reduced. First, the SIBs and the municipalities were allowed to involve private agencies in the implementation of reintegration activities. And then the department within the PES dealing with reintegration was privatised. From that time on SIBs and municipalities were obliged to outsource implementation only to private agencies using tender procedures. The PES, now called Centre for Work and Income, was left only with the job mediation infrastructure, and was to play a limited role.

The SIBs launched their first tender procedure in 2000. The winners of the contracts started their reintegration activities in 2001. At the time national schemes for subsidized labour still existed and initially most municipalities stuck to these national measures. However, later national measures were abandoned and also municipalities started issuing tender procedures.

In 2004 the Work and Social Assistance Act came into power. One of the major changes brought about by this act was that municipalities receive an individual budget from which they have to finance social assistance benefits. Until 2004 the central government paid 90 percent of these benefits with no limitation as to the number of beneficiaries ('open end financing'). Under the new budgeting system municipalities receive a budget based on the number of beneficiaries a municipality 'of that type' is expected to have. On how the budget is determined we come back in section 4. The implication of this budgeting system is that an incentive is introduced to reduce the number of beneficiaries. If a municipality spends less on benefits than the budget it can keep the difference and use it for other purposes, but if it spends more it has to pay the difference from its own resources. This incentive, of course, was the very reason for introducing the new system.

Together with the introduction of the new budgeting system, the obligation to outsource reintegration activities to the private sector was lifted. Municipalities could now choose between in-house implementation and outsourcing. Job placement was increasingly done in-house, often in cooperation with the local CWI agency.

The change in budgeting system did not apply to the UWV. This has to do with the fact that social insurance is financed from the contributions of companies and workers; it is not taxpayer's money. Therefore, the government cannot impose a budgeting system on UWV that might lead to financial penalties for UWV. Because the government provides UWV with a budget for re-integrating UWV clients it has a say in how this budget is spent. Targets are agreed between the government and UWV. Furthermore, the government still requires that the implementation of re-integration activities be outsourced. However, UWV is now giving more priority to the management of the job placement process and is much more in control of it than during the early tender procedures. Another important change is that in many cases the choice of the type of re-integration services and of the provider is done in close consultation between UWV job coaches and clients. Most of the latter opt for small agencies to support them in the job placement process.

Although UWV and municipalities are responsible for different types of benefits, there are many transitions between the two clients groups. Unemployment insurance benefits are temporary and once they expire, people have to rely on social assistance benefits. In practice, it meant that UWV did not do a lot for clients that were expected to go to social assistance soon. Municipalities, on the other hand, often placed their clients in subsidized jobs for half a year. Then the latter were entitled to a social insurance benefit so that they could be 'transferred' to the UWV for some time. This did not exactly strengthen the labour market position of the clients and in the end everybody was worse off, the clients in the first place. Gradually, cooperation between UWV on the one hand and CWI and municipalities began to develop. In many cities job centres exist that coordinate job placement activities for CWI, the municipality

and UWV, using the CWI infrastructure. The central government requires cooperation between the three, although it does not prescribe how.

At the start of 2009 UWV and CWI merged. It means that for the first time in the Netherlands job placement and payment of social insurance based benefits are part of the same organization. It will probably reinforce the role of public agencies in the implementation of ALMPs.

3 PRIVATIZATION

3.1 A NEW PARADIGM FOR PUBLIC POLICY

In the 1970s it became clear that the Keynesian approach was not the right answer to the economic problems occurring at the time. High government expenditure appeared to be the cause of the problems rather than the cure. Economists like Lucas (1976) could also explain theoretically why the Keynesian recipe did not work. Their basic point was that government interventions led economic actors (households and firms) to adjust their expectations, implying that the real economic effects of the interventions were short-lived. From this type of reasoning it was, for example, possible to explain why government expenditure to reduce unemployment below the 'natural' level would in the long run only produce higher inflation.

Ideas like this gave rise to the belief that the role of the government should be limited as much as possible and that the market mechanism should be the normal coordinating mechanism in the economy. Perhaps this was a naive belief in the market principle, but at the time it had important implications. In the Netherlands like in many other countries services like telecommunication that used to be produced by public providers have been privatized. However, even the new neoclassical economists acknowledged that owing to public interests and market imperfections not every type economic type can be completely privatized. The following possibilities can be distinguished:

- 1) a good is completely privatized with free access of new providers and free prices, but the government or an agency acting on behalf of the government is supervising the market to safeguard that the market is working properly. For example for telecommunication a special public agency has been established that monitors this market and can take measures against violations of the free market principles;
- 2) The government remains responsible for a public service, but outsources implementation to private providers by using tender procedures, implying competition between potential providers;
- 3) the government subsidizes demanders. A reason could be that the government believes that without the subsidy some social groups are not able to buy enough of the good. Vouchers are a possible way of subsidizing product demand.
- 4) The government subsidizes producers of a certain product, because without the subsidy potential providers are unwilling to enter the market. The latter may be due to high investment costs combined with uncertain revenues.

Each of these options have been used in Dutch ALMP and will be discussed below.

3.2 REGULATING PRIVATE EMPLOYMENT SERVICES?

As we have discussed in section 2, private employment services even existed during the time that they were officially forbidden. The fact that agency labour was often used as a hiring device was tolerated. Since 1991 the official ban on private employment services was lifted, although it did not have much effect in practice. A license system was introduced for private providers of employment services, because there was still some fear for negative side effects. However, this license system was abandoned in the revised Employment Services Act of 1997.

Today a considerable number of jobseekers find a job through private online recruitment and job-search sites. Furthermore, specialized agencies exist that assist companies in their recruitment mostly for higher skilled personnel. In most cases there appears to be no reason for regulation. There is only a certain call for regulation with respect to TEMP agencies for foreign workers. Cases of exploitation of the latter workers are frequently recorded.

3.3 ATTEMPTS TO CREATE A MARKET FOR REINTEGRATION

Examples of public-private cooperation in ALMP can be found in many countries. Australia and The Netherlands are among the forerunners in this area. A comparative analysis of this type of co-operation in Australia, The Netherlands and Great Britain was made by Struyven (2007). He stresses the quasi-market nature of the systems employed and the need for regulation. Bruttel (2007), on the other hand, uses the theoretical framework of contract theory to analyse public-private cooperation in reintegration. His conclusion is that in principle the PES as a whole could be outsourced. In our analysis of the Dutch case we will show that both approaches are valuable for understanding the different phases of the reform process in the Netherlands. During the first phase a serious attempt was made to create a market for reintegration services with a minimum of government intervention. This attempt failed mainly owing to a market imperfection that is neither treated by Bruttel nor Struyven, namely the fact that service quality of reintegration services is basically unobserved.⁵ We will explain this point below. In the second phase of the reform the (public) organizations responsible for reintegration are more inclined to weigh off the pros and cons of outsourcing compared to in-house production. This is in line with Bruttel's approach, although we are, on the basis of eight years of Dutch experience with public-private cooperation in reintegration activities, less positive than Bruttel about what private agencies can contribute to effectiveness and efficiency in reintegration.

First step: a market with public agencies in demand

Gradually, in government circles the idea developed that the market mechanism should apply as much as possible to reintegration activities. Markets tend to function properly if there are many actors on both the demand and the supply side. Given the fact that the responsibility for active labour market policy with respect to unemployed social assistance clients was transferred to the municipalities one could argue that there were several hundreds of demanders. Each

⁵ We see this as the main factor. A second factor may be that in case of services like reintegration services for disadvantaged groups the intrinsic motivation of the staff providing the services is critical. When financial incentives for providers are translated into financial incentives for the staff, the latter may lose this intrinsic motivation and may start acting on the basis of success indicators that only reflect gross results.

municipality received a budget for buying re-integration services for its clients. One organization, UWV, became responsible for unemployed people with an insurance-based benefit. Its clientele is similar in size as all municipalities taken together. Also the UWV received a budget for re-integration. The UWV and, initially, the municipalities were obliged to buy the re-integration services from external re-integration firms using tender procedures as prescribed under European law. Many private re-integration firms have sprung up to satisfy the demand. Price formation was free. Each provider could set its own prices and the public bodies in demand for the services were free to pay any price. The idea was that the public agency would hand over groups of clients to private providers and that the latter would deal with the reintegration from there. Private agencies offered the 'product' reintegration and municipalities and UWV were the buyers. Then, as the central government thought, the market could do its job. The government believed that under these conditions a market for reintegration services would develop with efficient prices and high quality services. Competition among providers was expected to keep them sharp en to stimulate the development of innovative approaches. The fact that the demand for reintegration employment services was divided over many demanders would avoid monopsonistic behaviour among them.⁶ So, this market could be largely self-regulatory.

This proved to be a naive idea. What happened was mainly competition on price level leading to low prices and low quality services. One might ask the question: what is 'quality' in this respect? The quality of reintegration services can be defined as the degree to which the services improve the labour market situation of the clients. The problem is that the latter effect cannot be directly observed. If a client makes use of employment services one cannot observe the situation without this use, or vice versa. In practice, the organizations in demand tended to use a simple indicator: the percentage of participants that found a job not later than six months after ending participation in the reintegration activities. This became more or less the standard success indicator. However, this figure does not tell us anything about the effect of the services on the re-employment probabilities of clients. Many evaluation studies in many countries have shown that a considerable percentage of participants in active measures would also have found a job without participation. Or put in a different way: the net effects are relatively small (see the references mentioned in section 1). Some studies even found that re-integration measures were counter-productive, prolonging rather than reducing unemployment duration. There is some evidence that net impacts are higher the more disadvantaged a client is.⁷ In that case gross placement results may even give a completely wrong picture of the net effects.

Another drawback of the indicator mentioned is that it reflects short-term results. Owing to this short-term orientation the re-integration process became focussed on placing clients in a job as soon as possible. Such a strategy may imply that the clients involved are soon unemployed again. Measures that take time like vocational training were abandoned, because they delay the job placement process. The possibility that measures like vocational training may be more effective from a longer term perspective was ignored. This was reinforced by a strong supply-side orientation. Labour demand and skills shortages did not play a direct role in ALMP anymore.

⁶ However, UWV was good for a considerable part of demand. From the viewpoint of a reintegration market it would have been better if the merger between the social insurance institutes into UWV had not occurred.

⁷ Or perhaps it is a U-shaped relationship, because there is a probably also a category of clients with severe social, psychological and/or health problems that cannot be helped by ALMPs.

As large groups of clients were handed over to re-integration agencies, client management became the responsibility of these agencies. Hence the latter were more informed about the clients than the principal (UWV or a municipality). Owing to this situation of asymmetric information creaming was wide-spread (De Koning et al, 2008). Agencies tended to concentrate their placement efforts on clients with a relatively high profile in the labour market. Furthermore, often the contracts between the principal and the agent offered the latter the possibility to send clients that could not be placed owing to lack of motivation or to inability back to the principal. It is likely that the creaming had a negative effect on the net impact of the reintegration activities. On the basis of net impact studies that have been carried out before and after the reform, there is no evidence that the latter has increased short-term net effectiveness (De Koning et al, 2008). And it might have reduced long-term net effectiveness.

It is also questionable whether implementation by private agencies increased efficiency. The competition between the agencies led to the use of cheaper reintegration instruments, but the latter may also have been less effective, at least from a long-term perspective. Furthermore, organizing the tendering process and monitoring the output of the agencies laid a heavy burden on UWV and municipalities. As far as detailed information about the tender procedures is available there is reason to doubt that they were carried out in such a way that the best provider was likely to be selected. After a detailed evaluation of the first two procurement rounds Dykstra and de Koning came to the conclusion that UWV simply lacked the knowledge and the experience to organize the tender procedures in a professional way. There is similar evidence regarding the municipalities (De Koning et al, 2008). Gradually the handling of tender procedures was improved. However, this experience has only partially paid off. Situations where a large number of clients is handed over to a private reintegration agency have become less common (see the discussion further on about the renewed role of public providers and individualised arrangements).

It is difficult to judge the results of different providers. If one provider promises a higher placement rate than the other, it does not necessarily imply that the latter will have worse results in practice. In theory the former may only place clients that would have found a job anyhow (zero net effect), while the latter concentrates on the clients that are really in need of help. Providers concentrating their efforts on clients that are difficult to place may reach a lower number of placements, but a higher added value. High promised placement figures also mean little because the realised numbers will depend on the state of the business cycle, which is hard to predict.⁸ So, the promises concerning output made by providers in their proposals mean very little.

Also ex-post it is difficult to judge the results achieved by providers. One could think of carrying out a statistical analysis by which the placements results of different providers are corrected for differences in client groups and local labour market circumstances. But such an analysis requires a lot of data and effort. And it is uncertain whether good performing providers will continue to do so in the future, making such an exercise less interesting for the principal.

A different approach is to pay providers according to the results achieved. In many cases providers received a fixed sum per client, with a bonus if placement rates exceeded a certain threshold (De Koning et al, 2008). However, this system also suffers from the fact that placement results depend strongly on the business cycle. Furthermore, such contracts imply the

⁸ According to Kluge (2006) en De Koning and Peers (2007) net effectiveness is probably higher in situations of high unemployment.

need for careful monitoring of the results and a precise definition and measurement of the results, which adds to the administrative burden. Many municipalities did not apply the contracts in practice (De Koning et al, 2008).

Economic theory assumes that actors behave rationally. Consumers, for example, are supposed to maximise their utility. However, it is questionable whether municipalities behave in that way. To some extent local elections may provide an incentive for local politicians to increase the quality of services. However, it is unlikely that the public has any idea about the performance of local ALMP. Developments in local unemployment will primarily reflect national changes, making it difficult to estimate the influence of the local administration. Hence, one may doubt whether the local administration is really stimulated to perform optimally. In the next section we discuss a new financing system for social assistance that attempts to provide such a stimulus.

Outsourcing: a more realistic approach

Both UWV and municipalities have concluded from their experiences that they must be in control of the job placement process. The decision as to what type of services a client gets needs to be made by the public agency. Increasingly, client management, diagnosis and choice of instruments are done by public agencies.

However, the role of public agencies in the re-integration process is gradually moving beyond the management of the reintegration process. Increasingly, municipalities refrain from outsourcing job placement to private agencies, but do it in-house, in cooperation with the local employment office. As the employment offices network is now part of UWV, it can be expected that the latter will follow a similar road as the municipalities.

Private agencies still play an important role in the system. But municipalities tend to involve them in the reintegration process for specific parts only like training and gaining job experience. It must be said that a considerable number of 'private' providers are affiliated with the social firms that offer sheltered employment for disabled persons. These firms hold narrow ties with municipalities and are heavily subsidized by the government.

3.4 CLIENTS AS DEMANDERS

In the system as described the public agencies act on behalf of their clients. One might argue that strictly speaking the latter are the ones in need of the services and should therefore be the demanders. So, instead of providing funding for reintegration to public agencies, who then involve their clients in reintegration activities, it is also possible to give the subsidy directly to the clients. With the subsidy the latter can then buy employment services from private agencies. The main reasons to subsidize this demand is that many unemployed persons do not have the financial means to buy the services from their own income and that at least a part of them do not benefit from employer-financed employment services. Then a voucher system would be one of the options. This would come very close to a true market for employment services.

However, there are three arguments for a role of the public agencies: First, not all clients may be in need of help in the job-search process or there may be differences in the degree to which they need help. It seems important then, that a public agency (or a private agency acting on behalf of the public actor) judges the necessity of the subsidy. Without such a judgment, high deadweight can be expected. A second reason for government interference is that clients may be unable to judge what types of services are effective means to help them. And finally clients may not be

motivated to engage in re-integration activities, while the UWV or the municipality is of the opinion that participation in a measure is eminent. Only a public agency is in the position to put pressure on unwilling clients by imposing sanctions.

In the Netherlands client involvement has been increased in two ways:

- 1) UWV gives clients that are considered to be capable of doing so, the opportunity to design their own re-integration pathways and to choose their own providers. This is called *Individuele Re-integratie Overeenkomst (IRO)* or *Individual Reintegration Agreement*. According to an evaluation study IRO contributes to the motivation of clients and to the quality. According to Schrijvershof et al (2008) the effects of IRO in placement results are positive;
- 2) Some municipalities offer clients the opportunity to choose between different providers. However, we know nothing about the effects of it.

3.5 SUBSIDIZING PROVIDERS

A different way of intervening in the market for public employment services is to subsidize the providers. In the Netherlands two examples can be given.

The first example refers to the training institutions that came under the former PES. These were specialized in vocational training for the unemployed. Special features of these institutions compared to official schools were that trainees could enter a training program at any time during the year and that training content was adapted to individual needs and earlier acquired skills. At the end of the 1990s, when the old PES disappeared, these training institutions were integrated in the official school system and consequently lost these special features that are essential for training the unemployed. Owing to this development there is a current lack of vocational training opportunities for the unemployed, particularly in fields like engineering and construction. High investment costs, fluctuations in demand for technical training and low government priority for training make it difficult for private training providers to offer training programs in these fields.

The second example concerns the earlier mentioned firms offering sheltered employment for handicap people. In The Netherlands almost one hundred thousand handicapped people (more than one per cent of the labour force) work in these firms. But since a number of years the government stimulates employment for this group in regular companies. To compensate the latter for lower productivity the government gives a subsidy to the employers and pays for job coaching. The latter is implemented by private agencies. However, at the moment it is still a small minority of the handicapped that is placed in subsidized regular employment with job coaching.

4 INCENTIVES FOR MUNICIPALITIES

A new budget allocation system for social assistance

The very reason for privatization is that the market mechanism gives incentives to providers to produce highest quality services at the lowest price, while public agencies lack such an

incentive. However, we have seen that the privatization of ALMP implementation is not a success story. To some extent this failure can be attributed to the fact that the responsible public actors lack the incentives to organise the outsourcing to private agencies in a proper way.

After 2000 the idea was raised to give financial incentives to municipalities in order to stimulate them to improve their reintegration policies. Until that time the central government paid 90 per cent of the money spent on social assistance benefits, irrespective of the total amount spent. Under the new system municipalities receive an individual fixed budget that depends on their characteristics. If the municipality was spending less on benefits it could keep the difference, but otherwise it had to pay the difference. So, the municipality has an incentive to reduce the number of beneficiaries. However, it cannot change the entitlement criteria; which are still determined by the central government. It can only increase the effectiveness of its policies (which not only include ALMPs but also preventive policies and sanctions in case of abuse).

The individual budget is based on a mathematical model that relates the budget to a number of characteristics of the municipality that are supposed to determine the municipality's expenditures on social benefits, while at the same time being independent from the municipality's policies. For example, if municipality A has a lower educated population than municipality B, then A will, other things being equal, have a higher percentage of beneficiaries than B. So, the model computes the expected expenditure of a municipality with a certain set of characteristics. The characteristics contained in the most recent version of the model is included in the annex. The model was developed by APE. The most recent published version can be found in Vemer et al (2007).

Does the model adequately reflect the objective need of municipalities?

The system only works if the model is capable of giving a good measurement of the budget needed by each municipality to cover the social benefits for its inhabitants. If the model is wrong municipalities with good policies might be punished while inefficient municipalities might be rewarded. As one might expect, from the very beginning this point was stressed by municipalities that received a budget that was lower than their expenditure. Many of them claimed that the model did not contain one or more objective factors that were relevant for their municipality. Although the model has been adjusted several times, this criticism continued.

Before the model was developed the ministry of social affairs and employment specified a number of requirements for the model, namely:

- 1) The explanatory factors in the model (which are also denoted as 'distributive factors') must be 'objective' in the sense that municipalities can hardly affect them by municipal policies;
- 2) The explanatory factors in the model must be plausible;
- 3) The model must be transparent, meaning that both the model specification and the estimation technique can largely be understood by non-specialists;
- 4) The coefficients ('weights') of the explanatory factors must be stable over time;
- 5) The redistribution effects of the model (changes in budgets compared to the old system) must not be too big;
- 6) There must be recent data with respect to the explanatory factors;

- 7) The model must not be sensitive for mergers between municipalities.

Requirements 1), 2), 6) and 7) seem fair. The other requirements are subject to criticism. Particularly bad is the requirement that the model and the estimation technique for the coefficients must be understandable for non-specialists. It means in practice that the model is linear and that OLS is used as estimation technique. However, it is unlikely that a linear model is adequate. Spijkerman, De Koning and Van der Steen (2005) estimate the linear model for different subgroups of municipalities like different population size groups. Their statistical analysis strongly rejects the hypothesis that one linear model applies to all municipalities. So, there is something wrong with the set of explanatory variables included in the model or the linear functional form is inadequate (or both).

Several studies (including Spijkerman, De Koning and Van der Steen (2005)) have looked at the explanatory variables in the model. Given the available data it is probably not possible anymore to improve the statistical 'fit' of the model further by changing the set of explanatory variables.. What could be a problem is that to a large extent the selection of factors was guided by the wish to maximize the (adjusted-) R-squared. This wish followed from the requirement that the redistribution effects caused by using the model must not be too big. It should be noted that, for example, a R-squared of 0,90 can give rise to (some) very high residuals. However, an estimation strategy aimed at maximizing the R-squared can lead to misspecification. It leads to smaller residuals, but it may also imply that the model does not give an unbiased estimate of the true objective financial needs for social assistance benefits of municipalities. Then the redistribution effects could give the wrong signals: efficient municipalities may be punished, while inefficient ones may be rewarded.

What was the reason for requiring that the redistribution effects must not be too big? Officially, a good fit was seen as a sign of a good model. However, this is nonsense. A model with a R-squared of, say, 0,90 can be a good model, although it will definitely produce some big residuals. May be the ministry feared that the municipalities would not accept a model producing big residuals, as this implies that a relatively large number of municipalities will find themselves in the position that the budget is not sufficient to cover expenditure.

A major drawback of the model is that it assumes that the residuals completely reflect differences in policy effectiveness. Basically, the model comes down to the following equation:

$$(1) \quad s_m = \alpha_0 - \bar{p} + x_m' \alpha + (p_m - \bar{p})$$

where:

s = expenditure on social assistance benefits;

x = set of objective factors influencing s;

p = the effect of municipal policies on s;

\bar{p} = average effect of municipal policies;

m = index for municipalities.

The assumption is that $(p_m - \bar{p})$ can be seen as a stochastic variable with zero mean and constant variance. In that case the equation can be estimated by OLS. However, this only leads to good estimations if:

- the policy variable is independent from the x-variables. This is highly unlikely;
- there is no other source for error than variation in policy effects. This is also unlikely.

There are several ways of avoiding the problems indicated above. First, models exist with two types of error terms, with one error indicating variation in policy effects and the other ‘white noise’. This is the type of model used for estimating production function when only information about realized production is available while the model is specified in terms of production capacity (‘frontier production function’, see for example Kumbhakar and Knox-Lovell, 2000). There are also non-parametric versions of this method, which are also known as data envelopment analysis. Second, one could try to measure the policy variable and include it in the estimation equation.

It is also questionable whether the policy variable can be treated as exogenous. To some extent this could be solved by estimating the model with data over a number of years using panel data methods. Although many of the objective factors in the model do not vary much of time, it is possible to use a mixed method that is also capable of estimating the coefficients of the time-invariant factors.

How the model is used

Although the model does not account for random factors affecting social assistance the relevance of these factors is acknowledged in the way the model is used by the ministry. First, a minimum and a maximum have been fixed with respect to the redistribution effect. For each municipality the difference between budget and actual expenditure cannot be higher than 10 per cent of actual expenditure. Hence, the impact of incidental factors on expenditure has limited consequences for a municipality. Second, for small municipalities the budget is determined on the basis of historical expenditure. The reason is that incidental factors can have big effects for these municipalities.

From the beginning on municipalities for which expenditure exceeded the budget have protested against the outcomes of the model. Some have claimed that the model is inadequate and does not contain all relevant factors that are generally of influence on expenditure. Others have argued that factors specific for their municipality (and therefore by definition not included in the model) played a role. As the organization representing all municipalities has a strong political lobby, the ministry continuously has had problems with the application of the model. An additional act has been introduced that compensates municipalities for overspending under certain conditions.

Evaluation of the results

The purpose of the new system is to reward efficient municipalities and to punish the inefficient ones. But is that also how the model works out in practice? One way to find this out is to investigate whether the municipalities that have received a reward are more active in the field of ALMPs and other policies than the municipalities that are punished. If this is the case one could

argue that the model is 'plausible'. Such studies have been carried out (see for example Visscher et al, 2004) and indeed point to this conclusion.

A different approach is to test whether the introduction of the system has had a reducing effect on social assistance expenditure by municipalities after controlling for other factors affecting expenditure. Stegeman Van Vuren (2006) find empirical evidence in support of this hypothesis.

On the basis of these results we conclude that on average the model works out well. This does not rule out the possibility that the outcomes are unfair for some municipalities. However, it is questionable whether any other system is better. Under the old system more is spent on social assistance benefits than necessary. In one way or the other this goes at the expense of municipalities or at least civilians in municipalities that are more efficient than the average performing municipality.

5 THE PUBLIC ACTORS INVOLVED IN ALMP: RE-UNIFICATION AND COOPERATION

The reforms in the institutional framework of ALMP implied that the responsibility for ALMP was dispersed over many actors. Until the second half of the 1990s the PES was largely responsible for ALMP, but since 2001 the responsibility was divided over UWV, the network of employment offices (CWI) and more than 400 municipalities. Recently, a process of re-unification and intensified cooperation is taking place. CWI and UWV have merged. Furthermore local CWI/UWV offices are obliged to cooperate intensively with their counterparts among the municipalities. In this section we discuss two issues related to these changes: 1) the fact that the benefit-paying process and the re-integration process are now more integrated than ever before in the Dutch situation, 2) the tension between the national character of CWI/UWV and the requirement of the central government that on the local level CWI/UWV and the municipalities involved have to develop a coordinated labour market policy.

Integration of the benefit-paying process and the re-integration process

Owing to these developments integration has taken place between the benefit-paying process and the job placement process. Traditionally, the two processes were almost completely separated in the Netherlands. The old Public Employment Service had nothing to do with the provision of benefits. Employment offices only informed the bodies responsible for social benefits (municipalities for social assistance and social insurance bodies for social insurance) whether clients were registered as unemployed. These bodies on the other hand had nothing to do with ALMPs and employment services. At the end of the 1990s this situation partly changed as the bodies responsible for social benefits were given the responsibility for the reintegration of their disadvantaged clients. With the recent merger of CWI and UWV and the intensified cooperation between CWI/UWV and the municipalities the number of clients for which the two processes fall under the same organization has increased further. So, after many years the Dutch take over the recommendation of the OECD (.....) that the two processes should be integrated.

However, it is questionable whether integration of the two processes is a sufficient condition for better results. It is also critical that the organization involved feels a pressure to make use of the opportunities of such integration. If one organization deals with both benefits and reintegration, it is possible that two separate departments take care of the tasks without any cooperation between the two. It is critical that the organization feels the urge to do something with the fact

that the two processes take place in one organization. The new budget allocation system for social benefits provides an incentive to municipalities to reduce the number of beneficiaries. It is likely that to a large extent the reduction was achieved by a stricter application of the rules. Municipalities put more effort in preventing abuse of benefits by clients. As we have argued earlier in this paper a budget allocation system is difficult to implement for the CWI/UWV organization. However, it might be possible to introduce incentives in a different way. The CWI/UWV organization could be given a more decentralized structure and the regional offices could be compared on the basis of their results. If the results were published, making good and bad performers visible, this might in itself form an incentive for the bad performing offices to improve their results. Similar to the municipalities the regional benefit paying and reintegration processes should be under the same leadership.

Coordination between the public actors

CWI/UWV is a national organization with a network of local agencies. It works according to national principles with respect to things like: ict, data definitions, procedures for outsourcing, monitoring and evaluations of results, etc. This has the advantage that not every regional agency has to invent the wheel. With respect to municipalities this is different. Each one does it its own way. There is some exchange of experience but only to a limited extent. The advantage is that municipalities are able to adjust their services completely to the local situation.

CWI/UWV on the one hand and municipalities on the other hand are obliged by the government to work together. This makes sense as many transitions of clients between the two happen. From the client's point of view it is not logical that a change in type of benefit also alters the reintegration strategy for the client. But also with regard to employers co-operation makes sense. Companies do not like it when several organizations approach them with the purpose of placing disadvantaged groups. Hence, coordinated placement efforts yield better results. This is the philosophy behind the job platforms that have emerged throughout the country. Private temporary work agencies are often involved in the local network organization.

Given the national character of CWI/UWV, how could the cooperation be shaped? Municipalities are afraid that they have to deal with a partner that is much more powerful than themselves. This is a real thread. Therefore, it might be recommendable that the ministry imposes on CWI/UWV that their regional agencies have a certain freedom in using some of its resources (keep in mind that the resources for reintegration are funded by the ministry). We have argued earlier that such a regional structure may also be used to introduce incentives in the organization. However, it is also important that CWI/UWV has resources for national measures. It must be able to make arrangements with sectors in the field of job placement and vacancy filling. Regional offices must not have the autonomy to refuse participation in national initiatives.

6 CONCLUDING REMARKS

Active labour market policies tend to perform relatively poorly. However, it is not so easy to simply stop using them. Alternative policies for re-integrating disadvantaged groups in the labour market hardly exist. The only effective measure would be to reduce social benefits and minimum wages considerably. Then for the lowest educated employers could offer wages that are in accordance with the productivity of this group. Furthermore, the individuals involved would have a stronger incentive to accept job offers. However, such a measure is unacceptable for countries like The Netherlands as it would imply a large group of working poor.

Furthermore, although unemployment would be lower than it is now, it will not completely disappear. Hence, considerable numbers of people would be subjected to severe poverty. One could even argue that the negative social effects of such a situation would outweigh the positive effect on employment. Hence, it is no surprise that governments tend to continue with ALMPs.

In stead of abolishing ALMPs governments try to improve them. There are different ways of doing this. First, within ALMP a shift may occur from poorly performing measures to better performing measures. Second, the design of measures may be altered to make them more effective. In this paper we have concentrated on a third option: improving the effectiveness of ALMP by reforming the implementation structure. Two types of reforms were given special attention: involving private providers in the implementation process and introducing financial incentives for public agencies.

Champions of the market mechanism claim that outsourcing the production of public services leads to higher quality and lower prices of the services when tender procedures are used and private providers have to compete for the contracts. Owing to the fact that the demand for the service provision was divided over many municipalities, it was also believed that providers did not have to fear market power on the demand side. However, UWV had half of the market, so some concentration of power existed.

The high hopes of the involvement of private providers were not fulfilled. The fundamental reason is that the quality of the service ‘reintegration’ is not observed. The quality can be said to be higher the higher the net effect of the service on job entry chances. In theory it might be possible to organize implementation in such a way that providers could be judged on performance. Random assignment of clients to different providers would be an option. However, from a practical point of view this is very difficult. What happened in practice is that the principal used simple indicators like the percentage of clients getting a job without comparing client characteristics. It is even questionable whether municipalities really looked at the outcomes. Organizing the process was already a difficult task. Providers were inclined to concentrate on short term results. So, if a person got a job it may have been shortlived.

A different reform was that the budgeting system for social assistance benefits was changed. Before 2004 municipalities could simply declare most of the money needed to pay for the benefits from the central government, independent from the amount of money needed. According to the new law a municipality receives a fixed budget for paying social assistance benefits, depending on the municipality’s characteristics. If the municipality spends less it can keep the difference, but if it spends more it has to pay the difference from its own resources. There is evidence that this new budgeting system has led to a reduction in the total amount spent on social benefits. However, municipalities that spent more than the budget obtained were able to organize an effective lobby in politics. An increasing number of those municipalities are compensated for presumed exceptional circumstances giving rise to the high expenses on benefits.

It is clear from the Dutch experience that involving the private sector in the implementation of ALMP does not create miracles. May be the results would have been better if the responsible public actors had managed the process better. Here the ‘process’ refers both to the tendering process and the implementation process. If the public actors know their clients and use past outcomes of measures to develop a clear understanding of what placement results may be expected for specific groups of clients under specific labour market conditions, outsourcing of job placement activities might work. However, this requires a skill level from the public agencies that might not be realistic. Furthermore, implementation by private agencies may more of or less automatically implies a strong supply-side orientation in ALMP. From a practical

point of view it is difficult to make contracts according to which private agencies are paid on the basis of long-term results. The longer the period the more a person's labour market position is influenced by other events than his participation in an ALMP, which makes it difficult to make the agency accountable for the outcome. It would also require a very demanding monitoring system. Hence, it is not surprising that systems in which implementation of ALMPs is largely done by private agencies the latter tend to be judged on short-term results. This is not only the case in the Netherlands, but also in Australia. However, this means that vocational education is not an attractive option for the agencies. What we see is that vocational training of any substance is almost absent in current ALMP. At the same time there is a structural shortage in a number of occupations, particularly in technical occupations. The system is not capable of taking these shortages into account. It neglects the demand side of the labour market.

Although too much emphasis on the private sector in ALMP implementation is not good, private agencies can still play an important role. By involving private agencies one avoids the existence of big public agencies with excess capacity in periods when the need for ALMPs is less. Furthermore, private agencies may bring in specific skills and qualities that are not needed all the time. However, the public agencies that are responsible for the clients should be in control of the process and should manage it from a broader labour-market perspective than just finding a job for clients as soon as possible. Job placement by private agencies is only useful if the agency has a large network among employers. Only Temporary Work Agencies and a number of internet sites match this criterion. The local job platforms, basically extensions of the former employment offices, often cooperate with TEMP agencies and internet sites.

The public role in the implementation of Dutch ALMP is increasing again. However, it should be noted that disappointment with the old Public Employment Service was the very reason for privatization. Public agencies lack the stimulus created by the market mechanism. The new budget allocation system for expenditure on social benefits is an example of an alternative way of stimulating good performance in the public sector. Municipalities are financially rewarded if they reduce the number of beneficiaries below the average level of other municipalities with similar characteristics, and punished if the number is higher than average. There is evidence that total expenditure on social assistance benefits has fallen owing to this new system. It should be noted that such a macro reduction leads to a reduction in the total budget available. Hence, the effect of the system will be temporary and in some way can be seen as a race to the bottom. A drawback of the current system is that it reinforces the short-term orientation of municipalities. It might be better to compare the budget with average expenditure taken over a number of years. A more fundamental problem is that the ministry cannot simply impose its will on municipalities. The government needs the cooperation of municipalities in various fields. Owing to this the Organization acting on behalf of the municipalities (VNG) holds a powerful position. It has been able to persuade the ministry to develop an arrangement that under some conditions offers compensation to municipalities that spend more than they receive.

An alternative to financial punishment and reward is to measure the relative efficiency of municipalities, to publish the outcomes -which in a sense also is a reward for good performers and a punishment for poor performers- and to organize a dialogue with the municipalities. What do good performers differ from bad performers? How do good and bad performers explain their relative performance? How can poor performers learn from good performers? In measuring relative efficiency state of the art models and methods should be used. This means that the current criteria for the model must be revised.

Such a method could also be applied by UWV in comparing the performance of its regional reintegration and job matching activities. As UWV and municipalities tend to cooperate more and more, it will be more difficult to compute performance for these two actors separately. One

of the issues in the cooperation between municipalities and UWV is whether labour market policy should be completely independent from central coordination. The problem is that UWV is a national organization with certain standardization, while each municipality has its own way of doing. In our view a balance has to be found between coordination and regional freedom. Regional agencies should be enabled to choose their own mix of policy instruments and to some extent also to develop their own measures. However, it does not make sense that every region invents the wheel. Some standardization of instruments is good. It makes it easier to take action at a national scale. This might be needed in case of sectors experiencing labour shortages. In that case some kind of coordination between regional policies may be efficient. Furthermore, it is recommendable that there is a common monitoring and evaluation system making it possible to compare the results achieved in different regions. In the regional cooperation UWV may bring in the national component in ALMP, while municipalities may represent the local specificities. As long as the two are more or less in balance, this might work.

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APPENDIX: LIST OF OBJECTIVE FACTORS IN THE BUDGET ALLOCATION MODEL FOR SOCIAL ASSISTANCE

The following factors are included in the budget allocation model:

1. Percentage of low-income households 15-64 years of age;
2. One-parent households 15-44 years of age as a percentage of one-parent households 15-64 years of age;
3. Migrants as a percentage of the population 15-64 years of age;
4. Rented houses as a percentage of all houses;
5. Regional client potential;
6. Number of insurance-based benefits during the first quarter of the year as a percentage of the population 15-64 years of age;
7. Regional participation rate;
8. Share of trade, hotel and catering and agriculture in regional employment;
9. Regional employment growth;
10. Regional employment rate.