

Oliver Bruttel\*

**Contracting-out the Public Employment Service and the  
consequence for hard-to-place jobseekers: Experiences from  
Australia, the Netherlands and the UK**

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*Abstract*

*The contracting-out of reintegration services is a major trend in the reform of the Public Employment Service. Australia and the Netherlands are certainly the most exposed models of such a privatisation, while the UK runs relatively large-scale projects, of which the Employment Zones are the most important. Given the enthusiasm of government to contract-out social services in general, the paper will explore the experiences of the three countries with a focus on the reintegration of hard-to-place jobseekers, i.e. those jobseekers with several barriers to employment. We will focus on several issues. Firstly, we will give a brief overview over the institutional set-up including recent changes in the three countries. Secondly, we will analyse the incentive effects of the payment structures and the potential of creaming within the contractual arrangements. Thirdly, we will investigate developments in the changes of the service delivery by private providers. Finally, we will present quantitative evidence on the impact of the new programmes on the target group under consideration.*

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\* Contact address: Wissenschaftszentrum Berlin für Sozialforschung (WZB), Reichpietschufer 50, D-10785 Berlin, Germany, E-mail: bruttel@wz-berlin.de

# 1 Introduction

The contracting-out of public employment services is an international trend. At the moment, only Australia and the Netherlands have gone the full way towards contracting-out all reintegration services. The United Kingdom has not chosen such a radical change but implemented *Employment Zones* in some of the most deprived areas, in which private providers are contracted to take care of long-term unemployed.<sup>1</sup> This paper compares the contracting-out experiences in Australia, the Netherlands and the UK Employment Zones.

Contracting-out of active labour market policy measures is not a completely new phenomenon. Training and job creation programmes, in particular, have been contracted to private providers in many countries for a long time. However, in recent years the contracting has been extended to the placement and reintegration functions of the PES and thus touched upon the core *raison d'être* of the Public Employment Service. This new development is not well researched yet. In particular, there are only very few international comparisons available. Struyven and Steurs (2004) compare the Australian and the Dutch experiences using the quasi-market framework by Le Grand and Bartlett (1993). Grubb (2003) also contributes a short comparison. A collective volume edited by Sol and Westerveld (forthcoming) on contractualism in employment services will offer a first cross-country collection of articles. This paper enriches this comparative line of research and concentrate in particular on the group of hard-to-place clients. We will also discuss governance problems with the new arrangements from the theoretical perspective of principal-agent theory. Hard-to-place clients are defined as those jobseekers that face multiple barriers to employment. In general, they are long-term unemployed and require case management assistance. However, they do not comprise those clients for whom the distance to the labour market is that far that they are better treated in other than employment programmes.

The paper is organised as follows. The next section will give a short overview over the institutional set-up in the three countries. The governance mechanisms, in particular the role of monetary incentives will be discussed in section 3. Section 4 will discuss the services delivered by private providers and the work practices of the providers. In section 5, we will present first quantitative evidence on the performance of private providers. The paper will conclude with some general remarks on the use of private provider for the delivery of reintegration services.

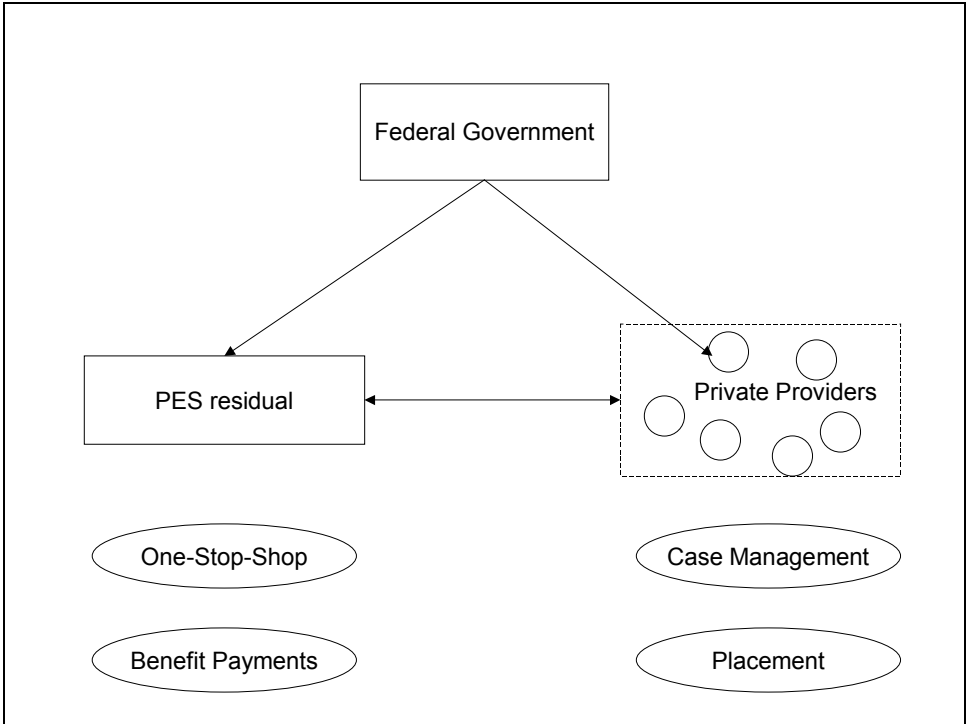
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<sup>1</sup> Besides the Employment Zones, the Private Sector Lead New Deal Areas are the second major form of the use of private providers to deliver public employment services.

## 2 The institutional set-up in Australia, the Netherlands and the UK Employment Zones

This section will give a brief overview of the country-specific institutional set-up. While there are differences in the exact set-up and legal responsibilities, Figure 1 shows the principal design of these privatised regimes. In general, we see a split of the responsibilities for benefit administration and payment on the one side and job placement services on the other. The PES residual is often responsible for controlling the first, the private providers for the latter service. In some cases, the residual PES may also provide self-services facilities and assistance for the job-ready jobseekers.

Figure 1: Basic structure of privatised PES



### 2.1 Australia

Australia introduced its contracting-out regime, called the *Job Network*, in 1998. The public one-stop shop for social benefits *Centrelink* takes care of the (tax-financed) unemployment benefit payments, profiles the jobseekers using the *Job Seeker Classification Instrument* (JSCI) and refers them to a private provider. The private providers are contracted by the *Department for Employment and Workplace Relations* (DEWR) centrally, even though there are separate contracts for each of the 137 *Employment Service Areas* (ESAs). Contract periods usually last around three years. The selection of providers is based on two criteria:

the capacity to deliver services (40%) and the capacity to achieve outcomes (60%). The capacity to deliver services is mainly an input-related factor (e.g. staff qualification, methods used, suitability of the office), the capacity to achieve outcome is mainly a quantitative indicator that takes into account the past performance. Prices are set administratively and are thus no selection criteria for new providers. Since July 2003, the third contract has been running (ESC 3).<sup>2</sup> In the first two contract periods, there were three major services to jobseekers: Job Matching, Job Search Training and Intensive Assistance. Depending on the barriers to employment identified during the profiling, jobseekers were eligible to one of the three services. Since the advent of the third contract, this service distinction has been abolished in favour of a continuum of services. All jobseekers follow the same track, starting with job search training and some minor counselling. Only after twelve months a period of *Intensive Support Customised Assistance* (ISca) starts. However, about 20% of newly registered jobseekers are classified as “highly disadvantaged” and referred directly to this *Intensive Support Customised Assistance* period. Besides the general services, to which most of the clients are referred, there are also specialist providers that have expertise on certain groups of clients (e.g. people with hearing impairments or Aids). The providers face a mixed funding model. On the one side, they are paid for the outcomes they achieve (Table 1). On the other side they receive fixed payments for each service they deliver (Table 2).

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<sup>2</sup> ESC = Employment Services Contract. ESC 1 lasted from May 1998 to February 2000, ESC 3 from March 2000 to June 2003, ESC 3 since July 2003 (until June 2006).

Table 1: Outcome payments in the Job Network

Duration of unemployment (in months)	Payment type	Interim payment (after 13 weeks)	Final payment (after 26 weeks)
4-12	Intensive Support Outcome	550 A\$ (363 €)	
13-24	Intensive Support Outcome	1.650 A\$ (1.089 €)	825 A\$ (545 €)
	Intensive Support Intermediate Payment	550 A\$ (363 €)	550 A\$ (363 €)
25-36 or highly disadvantaged	Intensive Support Outcome	3.330 A\$ (2.198 €)	1.650 A\$ (1.089 €)
	Intensive Support Intermediate Payment	550 A\$ (363 €)	550 A\$ (363 €)
36 months and more	Intensive Support Outcome	4.400 A\$ (2.904 €)	2.200 A\$ (1452 €)
	Intensive Support Intermediate Payment	1.100 A\$ (726 €)	1.110 A\$ (726 €)

Source: DEWR (2002b). Outcomes are in general defined as a reduction of benefits by 100%, intermediate payments by a reduction of 70% or educational outcomes (e.g. placement into a training course). 1 A\$ = 0,66 €.

Additionally, providers have a *Job Seeker Account* at their discretion, which is a budget that varies due to the status of “highly disadvantaged” and locational disadvantage between A\$ 900 to A\$ 1575 (€ 600 to € 1040) for the first period of Intensive Assistance Customised Assistance and between A\$ 500 to A\$ 875 (€ 330 to € 580) for the second period. The funds can only be used for expenditure for the job seeker (such as training, clothes, mobile phones). On top, there is a training account of up to A\$ 800 (€ 530) is available for mature age and indigenous jobseekers. Since the public vacancy database depends exclusively on input from the providers (and employers), providers are paid a job placement fee (between A\$ 165 (€ 110) and A\$ 550 (€ 365)) if a jobseeker is placed into a vacancy that was listed on the national vacancy database by the provider.<sup>3</sup>

<sup>3</sup> The fees are: A\$ 165 (€ 110) for Job Search Support Only Eligible Clients (e.g. not receiving unemployment benefit), A\$ 275 (€ 180) for Fully Job Network Eligible Clients (all jobseekers receiving unemployment benefit), A\$ 385 (€ 255) for Fully Job Network Eligible Clients with an unemployment duration of at least 12 months (or classified as highly disadvantaged) and a bonus if Fully Job Network Eligible Clients are placed into employment that provides a minimum of 50 hours paid employment (within 10 consecutive days).

Table 2: Service continuum in the Job Network ESC 3

Type of service	Duration of unemployment (months)	Service content	Fees
Job Search Support	0-3	New referral interview (45 min), re-referral interviews (20 min)	80 A\$ (53 €) (total for both interviews)
Intensive Support: Job Search Training	4-6	100 hrs job search training, 30 minutes interview	700 A\$ (462 €)
Intensive Support Reviews	7-12	Interviews after 7 and 10 months (30 and 40 min. respectively), parallel: Mutual Obligation	90 A\$ (60 €) (total for both interviews)
Intensive Support: Customised Assistance (Phase 1)	13-18 (or direct referral for highly disadvantaged jobseekers)	Total of 12 fortnightly contacts with a total of 10.5 hrs (average), case management, use of Job Seeker Account	800 A\$ (528 €)
Intensive Support: Job Search Reviews	19-24	Interviews after 20 and 22 months (30 min each), mutual obligation	70 A\$ (46 €) (total for both interviews)
Intensive Support: Customised Assistance (Phase 2)	25-30	3 - 12 contacts with a total of 6.25 hrs (average), use of Job Seeker Account	475 A\$ (314 €)
Intensive Support – Job Search Reviews	31-42	Interviews after 38, 40 and 42 months with a total of 1.5 hrs (average)	100 A\$ (66 €)

Source: DEWR (2002b). Fees (in particular for Intensive Support Customised Assistance) can be up to 50% higher for highly disadvantaged jobseekers.

## 2.2 Netherlands

The Netherlands has introduced a similar system with respect to the division of labour between the public and the private sector on Jan 1<sup>st</sup> 2002. However, the new institutional design is more far-reaching since it includes a general reallocation of responsibilities between the public and the private sector (Sol 2001; Struyven and Steurs 2002). The public Centres for Work and Income (CWI) are the one-stop shop (profiling, data collection, easy-to-please clients and vacancy database).

The jobseekers are profiled using the *Kansmeter* and a more in-depth interview technique called Kwint (Qualification intake).<sup>4</sup> Jobseekers are classified into four streams, with stream 1 containing jobseekers that are job ready and stream 4 containing those that have multiple (often non-vocational) barriers to employment. Stream 1 clients are expected to return to the labour market within six months and are serviced by the CWIs, while the others are referred to either a municipal case manager (if they are social assistance eligible) or a case manager by the social insurance body (UWV) (if they are eligible for unemployment benefit (WW) or disability benefit (WAO)). These case managers in turn refer them to private providers.<sup>5</sup> In 2002, 183.000 persons received WW, 977.000 WAO and 384.000 WW. We will only focus on the UWV contracts in this paper, as this is the Public Employment Service replacement rather than the municipalities market.<sup>6</sup>

Private providers are selected in a one-stage tender (was two-stage in 2002) on the grounds of experience, offered outcome rate, price and method. Contracts are tendered in tranches within six regions based on target groups (e.g. there are five tranches with 150 clients each for jobseekers above 50 in region 1). There are five target groups for WW-clients (jobseekers with social-economic problems, jobseekers older than 50 years, jobseekers Phase 2, jobseekers Phase 3 and 4 and jobseekers from ethnic minorities), and around 17 for WAO-clients (of which some only consist of one hundred jobseekers nationwide!).

In the first two contract periods (2001 and 2002), providers were contracted on a product basis. Depending on a perceived jobseeker's needs the private providers suggested a range of products (e.g. diagnosis, agreement on an action plan, training course, assessment centre training, post-placement support) and was paid for these products partly at the time of delivery, partly at the time when an outcome was achieved. For most unemployment benefit clients the rule was around a fifty-fifty split (i.e. 50% of the price was paid on delivery, the other 50% when an outcome was achieved), even though more difficult-to-place target groups would induce a higher fixed component. This rather complex system, which involved a high degree of administration, was abolished in the contracts starting from 2003 on. Now, providers offer a total price that consists of three parts: action plan, trajectory and post

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<sup>4</sup> From 2005, this system is planned to be replaced into one that consists of two streams (A and B) only. A clients remain with the CWI, while B clients are referred to UWV and municipalities (as is currently done with Phase 2 to 4 clients). However, A clients can be flexibly referred at any time to UWV and municipalities in case it emerges that they have more barriers to employment than thought of at the first profiling. The idea is that profiling in the new system will not only take place at one point in time, but over a longer period in order to get to know the problems better.

<sup>5</sup> For a description of the rather complex institutional set-up of the Dutch social security system see Struyven and Steurs (2002).

<sup>6</sup> For an analysis of the municipalities market see Batelaan et al. (2003), Koning (2004: 29) and Sol and Hoogtanders (forthcoming).

placement. At the first stage, providers receive a (totally input-related) payment for the agreement of an action plan. The main part of the total payment is the price for the actual traject, of which the first half is paid after six months, the other half is paid after an outcome is achieved. Finally, there is a payment for post-placement assistance. Recently, the UWV has increased the proportion of “no cure, no pay” contracts in particular for easier-to-place clients.

### **2.3 United Kingdom<sup>7</sup>**

Contrary to Australia and the Netherlands, the Employment Zones in the UK cover only 13 (originally 15), generally very deprived areas with high unemployment rates, and focus on long-term unemployed only. Jobcentre Plus refers jobseekers that are unemployed for longer than 18 out of the last 21 months to private providers. The current Employment Zone contracts that started in October 2003 and April 2004, respectively and have a contract duration of five to seven years. There are two kinds of Employment Zones. In single provide zones, one provider is contracted to deliver the services for all jobseekers in this areas. In multiple provider zones, up to four providers were awarded a fixed market share. The case management has three stages. In Stage 1 (four weeks) the private case manager and the jobseeker agree on an action plan. In Stage 2, the private providers take over the jobseeker completely (including benefit payments) for 26 weeks. After these 26 weeks, a jobseeker for whom no placement was achieved returns to Jobcentre Plus and is only eligible for another Employment Zone period after another 18 months unemployment. However, during a period of 22 weeks, providers can still work together with the jobseeker in a so-called Follow-On period. If they manage to place the jobseeker, they can still claim the outcome fees. The providers are paid 300 £ (425 €) for the first four weeks and receive an amount at the beginning of the 26 period that is equal to the average unemployment benefit payment for 21 weeks. In turn, however, they have to pay the unemployment benefits to the jobseeker for a maximum of 26 weeks. All other payments are outcome-based (400 £ (565 €) for a placement and 2400 £ (3385 €) or 3600 £ (5075 €) for a 13 week outcome).<sup>8</sup>

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<sup>7</sup> For a detailed analysis of the UK Employment Zones see Bruttel (2004).

<sup>8</sup> Figures refer to Single Employment Zones. In Multiple Provider Zones, the fees for 13 week outcomes are 2000 £ and 3000 £, respectively.



### **3 Governance mechanisms**

The aim of the new contract regimes in all three countries is an increased focus on outcomes combined with a high degree of flexibility for providers how they want to organise their services. The increased focus on outcomes is most visible with respect to the payment structures that symbolise the desire to steer providers' behaviour through incentive contracts. The main problem related to this is moral hazard. Moral hazard means that the agents (i.e. the private providers) use the information asymmetry in their favour and behave opportunistically, while the principal (i.e. the government) cannot perfectly observe the results (Salanié 1997). The conflict between principal and agent is one of interest and objective functions. While the private providers are assumed to maximise their profits, the government is best thought of applying a cost-benefit-analysis in which (in its simplest form) it trades off unemployment benefits and reintegration costs. Given the differences in the objective functions, the government needs to employ mechanisms that overcome the moral hazard. We will look at the major parameters of the incentive mechanisms employed to achieve this goal.

#### **3.1 Outcome-oriented payment structure**

In general, fees are split into a fixed commencement component and an outcome-related component, which is only paid after 13 and/or 26 weeks of sustained employment. For Australia, Table 3 shows that the outcome component increases with longer unemployment duration. Only during the first twelve months, the proportion of the outcome payment is higher which is due to the fact that there is hardly a commencement fee at this time. Furthermore, the 13 weeks outcome attracts the major proportion of payments.

Table 3: Outcome payments in Australia

	ESC 1			ESC 2		ESC 3			
	Level 1	Level 2	Level 3	A	B	3-12	13-24	25-36 <sup>b</sup>	36+
All figures in €									
<u>Payment structure</u>									
Commencement fee <sup>a</sup>	900	1350	1800	646	1273	450	1020	1365	1485
(Jobseeker Account)							(540)	(300)	
13 weeks outcome	900	1350	1920	1508	2972	330	990	1980	2640
26 weeks outcome	720	1320	1800	643	1286	0	510	990	1320
Total	2520	4020	5520	2798	5531	780	2520	4335	5445
<u>Distribution (in %)</u>									
Commencement fee	35,7	33,6	32,6	23,1	23,0	57,7	40,5	31,5	27,3
13 weeks	35,7	33,6	34,8	53,9	53,7	42,3	39,3	45,7	48,5
26 weeks	28,6	32,8	32,6	23,0	23,3	0,0	20,2	22,8	24,2

Source: For ESC1 und 2 see (Productivity Commission 2002), for ESC 3 see DEWR (DEWR 2002b) and own calculations. Remarks: (a) For ESC 3 it was assumed that the jobseeker is placed at the end of a period of the continuum (e.g. after 3 months, 12 months, 24 months or 36 months. The commencement fee for 25-36 months, for instance, does also all payments made in the periods before. For 36+ we have assumed a placement at 48 months. (b) This category does also include (highly disadvantaged jobseekers).

In the Netherlands, prices for individual contracts or target groups are not published. The average price is around 4.700 € per trajectory (Struyven and Steurs 2003). For “no cure, less pay” (as we have pointed out above) there is a fixed price for the action plan agreement, a price for the trajectory itself and a post-placement support price. Except for the action plan and 50% of the price for the actual trajectory itself, the payments are outcome-related. Furthermore, there is an increasing tendency to a “no cure, no pay” policy. In recent contracts, clients classified as Phase 2 by CWI, for instance, do only attract a payment if they are placed. Note that there is not even a small input-related payment. In addition, there are speed and placement bonuses which also act as incentives. The faster a jobseeker is placed, the higher the bonus. Depending on the target group, this bonus is between 250 € and 750 €. <sup>9</sup> The placement bonus depends on the type of employment contract a jobseeker is placed into (and is the same for all target groups). A placement into a permanent job is rewarded with € 750, an employment contract for at least one year with € 500, and € 150 if a contract that was initially signed for only six months is extended for at least another six months.

<sup>9</sup> For target group Phase 2 clients, the provider receives 500 € for a placement within three months and 250 € within six months (after the signing of the action plan). For Phase 3 and 4 clients, providers receive 750 € if the client is placed within nine months, 500 € within twelve months and 250 € within 15 months.

Table 4, finally, shows the payment structure in the Employment Zones. For the understanding of the table, it is important to note the system of Employment Zones, in which providers are paid the unemployment benefit for 21 weeks up-front in Stage 2 and are in turn responsible for payments to the client during a maximum of 26 weeks in this stage. If they place a client at any time in Stage 2 they can keep the residual amount as profit. If they need more than 21 weeks, they have to deal with an extra burden. During that time, the Employment Zone providers do also have the secretary of state authority such that they can stop payments independently.<sup>10</sup> A system, which makes the providers responsible for the payment of unemployment benefit, is often seen as the one with the strongest and best incentives (Dykstra and Koning 2004).

*Table 4: Outcome payment in the Employment Zones*

All figures in €	Placement after one day in Stage 2		Placement after 21 weeks in Stage 2		Placement after 26 weeks in Stage 2	
Stage 1	450	5,7%	450	8,1%	450	9,0%
Stage 2	2282	29,1%	0	0,0%	-543	-10,8%
Placement fee	600	7,7%	600	10,8%	600	12,0%
13 weeks outcome fee	4500	57,5%	4500	81,1%	4500	89,9%
Total	7832	100,0%	5550	100,0%	5007	100,0%

Source: DWP (2003b), own calculations.

It is interesting that there is evidence for the Employment Zones that around 20% of clients have been promised a reward if they achieve a sustainable employment (Hales et al. 2003). One expert interview revealed a systematic approach in which the provider paid clients £ 400 if they found a job (and kept it for 13 weeks) within four weeks after starting stage 2, £ 350 within eight weeks, £ 300 within twelve weeks etc. Additional £ 50 were paid if clients found the job themselves. Thus providers hand over some of the incentives to the jobseekers.

The fact that fixed and outcome-related payments are combined in all countries shows the trade-off between optimal incentive contracts and the risk aversion of the providers (Gibbons 1998; Sappington 1991). In the field of social services, it is not at least the fact that the cooperation of the client is a major input factor, which the provider can only partially influence. Beside this, many (especially small) providers have pointed out that a pure outcome payment exposes them to a serious cash-flow problem because the costs incur up-front while the payments are lagged by many months in some cases. The Netherlands try to overcome this dilemma by paying 20% of the fees in the “no cure, no pay” contracts in

<sup>10</sup> In this case, jobseekers have to re-apply for Jobseeker Allowance at the local Jobcentre Plus. During this procedure, the validity of the payment stop is controlled by Jobcentre Plus.

advance. If providers do not place their client, they have to repay this money. If these “no cure, no pay” contracts are really more efficient is doubtful. Some providers in the Netherlands have indicated that they have increased the prices in response to the new principle in order to accommodate the higher risk. In addition, small providers may not be able to survive on these contract conditions given capital market constraints on borrowing.

### ***Definition of successful outcomes***

The definition of successful outcomes is similar in all three examples (Table 5). In Australia, the outcome payments are most consequently linked to the reduction in unemployment compensation. Taking the minimum wage of € 6,80 and the Newstart Allowance of € 490 per months, however, this comes to a minimum working time of 18 hrs in a 20-day month and is thus similar to the Netherlands and the UK. Self-employment is also accepted as an outcome (and is proven by the stop of benefit payments).

*Table 5: Definition of successful outcomes*

	Australia	The Netherlands	UK
Kind of employment	Has to be enough to reduce unemployment benefits by 100%	At least half of the possible working time (i.e. for jobseeker receiving WW at least 19-20 hrs per week)	Minimum of 16 hours per week
Duration of employment	First payment after 13 weeks, second payment after 26 weeks	Payment after two months if a contract for at least six months can be presented	13 weeks
Wage subsidies allowed	Yes	No	No

Source: Oliver Bruttel. For Australia, there is also an intermediate outcome (including educational outcomes) (see Table 3).

13 and 26 weeks have internationally emerged as the major milestones. The rule in the Netherlands that the full outcome payment is paid after the probation period can be explained by the strict employment protection that makes dismissals in the months after the probation periods difficult. The emphasis on employment (and self-employment that is not discussed here) reflects the work first philosophy of the labour market policy in the countries.<sup>11</sup> The problem that progress such as increased employability, better motivation or more stable personal environment is not rewarded has been criticised (e.g. Jobs Australia 2002).

<sup>11</sup> For work first see Theodore and Peck (2001).

### **Earmarked payments**

The aim of the contracting-out was not at least the increased flexibility of providers to use the funds available. In the Netherlands, this has recently been highlighted by the removal of product-based contracting and the use of lump-sum payments to providers for the whole reintegration process. Interestingly, Australia recalled such a policy after the first two contract periods. On the one side, there was evidence that only 11% of Intensive Assistance customers took part in further training and a mere 3% were collecting work experience (DEWR 2001). On the other side, the expert interviews indicated that some providers have had profit margins of up to 20% and more. The Jobseeker Seeker Account may be seen as a reaction to this development because funds can only be spent on the jobseeker and are lost otherwise. Recent inquiries have indicated, however, that the Jobseeker Account is only used very limited. For the current year 1 July 2003 to 30 June 2004, providers have used only 14% of the money until the beginning of this year. The Department has reacted by encouraging providers to use the money and by reducing the administrative burden when using the money. In the UK, the funds are not earmarked and the providers can use the money how they want to. In the UK and Australia it seems as if a large part of the money is spent on short-term practical equipments (such as suits or mobile phones) rather than training or education.

### **3.2 Creaming and Parking**

For the Public Employment Service the major problem resulting from the incentive structure is creaming and parking. Because the whole idea of contracting-out is build around incentive-induced behaviour, there are serious consequences if incentives are not designed well.

An optimal contract would reward providers on the basis of their impact on the situation of a jobseeker. The higher the impact, the higher the payment. Taking  $Y^1$  as the income after intervention and  $Y^0$  as income without intervention  $\Delta_i$  is the net impact of the provider's intervention.

$$\Delta_i = Y_i^1 - Y_i^0$$

The uniform payment structure implicitly assumes that  $\Delta_i$  is constant for all clients  $i$ . Since providers are paid on the crude placement results, they are encouraged to assist those that are easiest to place independent if a provider's service makes any difference (Heckman et al. 2002). Profiling is generally seen as a possibility to avoid such creaming by making homogenous groups. As we have seen from the discussion, client groups in the Australia are only defined by the length of unemployment duration (and 20% highly disadvantaged), in the Netherlands by five target groups for WW and 17 for WAO clients, and in the UK as in

Australia by unemployment duration. It becomes obvious that such target groups are not suitable to address the problem of homogenous groups. In general, profiling remains a problem. In Australia, the *Jobseeker Classification Instrument* is used for this profiling, in the Netherlands, the CWI uses the *Kansmeter*. Both are based on questionnaires. In the Netherlands, clients may also be profiled in more depth by a structured interview (*Kwint*). Both systems have been criticised in the past for being inaccurate (Productivity Commission 2002; Vos et al. 2003). For Australia, the criticism has also focused on the way the profiling is done. Major problems were that clients did not reveal their true situation because benefit assessment and profiling were done in the same interview, the limited time frame (around 15 minutes on average) and insufficient training of the staff.

### **3.3 Information and control mechanisms**

Obviously, incentives can only be one instrument to steer private providers' behaviour. Other instruments, such as performance benchmarking and monitoring have to complement these incentives. Performance benchmarking compares the results across providers controlled for exogenous factors, such as labour market conditions and personal characteristics of clients. Doing so, it allows for some ex post correction of creaming. However, again, only observable factors can be taken into account.

In addition to information mechanisms, control and monitoring can be seen as a last set of instruments to counteract creaming and parking. However, the reduction of rules is a major reasoning for contracting-out (Mulgan 1997). Thus, the prescription of services as it happened in ESC 3 in Australia is actually thwarting the very fundamental reasoning. Its occurrence, on the other side, shows that the black box for providers is not suitable either.

Monitoring can constitute an alternative to a high density of regulations. In Australia, monitoring is done by a mix of desktop monitoring via the integrated computer system and visits to the individual providers. Desktop monitoring means the control is done by checking the data on the web and looking for irregularities. A risk management tool in which providers and each of their sites are assessed according to the risk to fail to deliver the services properly accompanies the whole system of monitoring. Following this assessment, the number of monitoring visits is fixed and may vary from one in a year to up to four and more if it is a new site from a new provider or if problems have occurred in the past. In the near future, this risk assessment is enhanced by an electronic tool that alerts the contract manager whenever there are irregularities with a provider's site, e.g. if a client have not had an appointment with the provider for more than four weeks. Parallel to this monitoring, 5% of the providers are audited (i.e. scrutinised in greater depth) per year (Commonwealth Ombudsman 2003).

In the UK, the monitoring is also done by visits to the providers. However, due to the small number of only three providers in the first contract and seven providers in the current round, monitoring can still take place in a more informal and personal way that this is the case in a country-wide system with hundreds of providers like in Australia. Monitoring is, however, focused on claimed outcomes. Thus, clients for whom no outcome has been claimed will not be part of the monitoring.

In the Netherlands, monitoring is still in the early stages. On the one side, the government is still favouring a self-regulation by the industry. Borea, the industry's peak organisation has developed a *Keurmerk* (Quality Mark) that includes yearly audits by external (but private) certification companies. Additionally, UWV meets every three months to discuss written reports by the providers and to crosscheck the data from both sides. The latter is needed because there is no integrated system and most communication is done by paper work or floppy disk. There is also some quality regulation through the client because they have to countersign the three-month reports of providers that are handed in to UWV.

### **3.4 Governance through choice**

Governance has so far been constrained to the government, but there is also the opportunity to allow clients to govern by choice. In the UK, there is no choice in either the Single Providers Zone or the Multiple Provider Zone. In the latter, jobseekers are assigned randomly. However, some choice might be introduced at later stages in the Multiple Provider Zones. Little choice is also available and exercised in the Netherlands. However, from 2004 on, individuals can go to any reintegration provider in the country, set-up a reintegration plan and sent it to the UWV, which decides whether to confirm the plan (and the prices agreed on). In how far this new opportunity is actually used, must be seen. In Australia, where choice is given to the jobseeker, only around a third of the Intensive Assistance clients in ESC 2 have chosen their provider.<sup>12</sup> More than half of the jobseekers who exercised their own choice did this on the basis of the location of the provider, for only one fifth did the reputation play a role. Following this pattern, there is an increased clustering of providers around Centrelink offices. From ESC 3 on, the Star Rating will be available on the individual site level, which might increase the choice based on reputation. Before ESC 3, Star Ratings were only available on regional level.

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<sup>12</sup> See Productivity Commission (2002: 8.3) for more on this issue and the data inconsistencies between Centrelink and DEWR.

## 4 The services delivered

One of the key arguments for contracting private providers was the expectation that private providers are able to deliver better services. As the Australian Minister of Employment, Amanda Vanstone (1996), put it when introducing the new regime: The unemployed people can expect to receive “more flexible and customised assistance in their search for work. For those receiving intensive assistance, in particular, assistance will be far better tailored to their individual needs and circumstances; no longer will clients be referred to compulsory training courses of little relevance or benefit to their vocational needs.” The competition between providers should further increase the innovation in the sector to search for new models of service delivery.

In all three countries, the expert interviews at the provider level revealed that the work routine is far more flexible than it used to be or is in the Public Employment Service. This evidence of an increased flexibility is supported by research elsewhere (Considine 2001; Joyce and Pettigrew 2002). In the British Employment Zones, private case managers, for instance, have a budget at their own discretion that ranges between 300 £ (420 €) and 1.000 £ (1.410 €). Following the positive experience in the Employment Zones, Jobcentre Plus has recently introduced the so-called *Adviser Discretionary Fund (ADF)* that allows a discretionary spending of up to 300 £ (420 €) for ND 25+ clients. However, different to the Employment Zones, individual case managers are made more accountable for the allocation of this money. As a Jobcentre Plus business manager pointed out, Jobcentre Plus as a public agency is far more accountable for the spending of the money than private providers are (see also Mosley 2003). Informality manifests itself also as part of service delivery (e.g. cup of coffee for clients), office size, design and location (e.g. in old barns) and the language used (sometimes very informal). With small providers, offices can be very small indeed. It is also notable that many of the private providers have flat hierarchies as a consequence of their small size which allows them to react more flexible on changes in client flows or co-ordination problems.

However, while politics expected a high degree of innovation and differentiation, a convergence towards homogenous and very generic services can be observed (for the Netherlands see Arents et al. 2004). For the Netherlands (Arents et al. 2004) as well as for Australia (DEWR 2001) the strong focus on outcomes as also lead to a decrease in schooling and training for the jobseekers. In addition, it does not leave any space for innovation because money must be earned in the first instance. In the Netherlands, the UWV wants to counteract this tendency by offering *vrije ruimte* (free space), which means that 10% of the total contract volume is reserved for innovative projects not subject to the strict financing rules of the general contracts.



What can be observed is the increasing importance of group work. For most providers, group work constitutes a major component of their service model. They argue that it is useful for two reasons. On the one side, it allows jobseekers to establish networks with other jobseekers, which are not looking for the same job but still have useful contacts. On the other side, it creates peer group pressure. If jobseekers see the commitment and success of other jobseekers, they are encouraged, too. Moreover, such group sessions are also less cost intensive for the provider because less staff can service the same number of clients. Caseloads for case manager are at around 60 to 150 clients in Australia, 40 to a 100 in the Netherlands and a maximum of 50 in the UK.

For most providers, case management reflects the fast return to employment. This attitude follows the incentive structure, which is determined by the work first attitude of the governments. Thus for the providers, the placement of clients is a top priority. To place the clients, providers are marketing their jobseekers to potential employees. The aim is not to collect vacancies, but to find the right vacancy for a jobseeker or as one Australian provider put it: "If you are low-skilled, a list of vacancies does not bring you a job. These people need to be marketed."

Private providers depend on the outcome payments of the government. Thus, they try to motivate their staff by passing these incentives to them. In Australia, about 80% of the providers have implemented performance targets as a component of their human resources policy (Jobs Australia and NESAs 2002). From the expert interviews, similar patterns emerged for Great Britain and the Netherlands. The performance of individual staff can have a direct influence on the wage through bonus payments per placement, in annual wage increases or internal promotion. In addition, team motivation in form of corporate or team events, such as dinners for the best team in the office or Christmas parties, are common in many private employment agencies. An average of one placement a week is seen as a minimum target per case manager. Such performance targets have the consequence, of course, that employees who cannot deal with such targets leave or have to leave the providers in the short- or medium run. As one provider put it: "You do not have the luxury to keeping them on-board". Moreover, there is shift in the qualifications of staff, too: „This not about the social-good-element, but it is about payments." In the transition from the Australian *Commonwealth Employment Service* to its public successor in the private market *Employment National*, some staff did actually refuse to work for the latter because they did not want to work with such a philosophy (Ranald 1999). In a broader perspective though, these developments are not specific to the contracting-out of public employment services but are characteristic for most industries.

## 5 Performance of private providers

The crucial and ultimate question for any contracting regime in employment services has to be the outcomes achieved for jobseekers. Evaluation of labour market programme effects is not straightforward (Schmid et al. 1996). For our purpose, we will look at two methods. The first one focuses on individual transitions from unemployment to work of jobseekers (Martin and Grubb 2001). Most descriptive statistics offer only gross effects. The main interest, however, is on the difference between treatment and non-treatment which, of course, is not possible to measure for an individual who is either treated or non-treated. By using (natural) experiments or matched comparison groups, it is possible to construct a counterfactual and to estimate this net impact. Besides the microeconomic studies, macroeconomic (aggregate) impact studies that also take into account the side effects on other groups and the economy as a whole are a useful tool (Koning and Mosely 2001)

Only the Employment Zones provide a case in which research has been conducted that compares the outcomes of private delivery with the counterfactual of Jobcentre Plus outcomes (Hales et al. 2003; Hasluck et al. 2003). Because Employment Zones only operate in some regions, researchers were able to construct comparison samples in similar regions with similar clients. Given the economic record of the UK in recent years, long-term unemployed can be seen as a group of mainly hard-to-place clients. We will present this evidence first and continue with some findings from Australia. For the Netherlands no comparison is yet available even though research into net effects of the new programs has started recently (Heyma et al. 2003).

In the UK around 40% of the participants of Employment Zones are placed into employment of which around 80% achieve a 13 weeks outcome (i.e. Employment Zones achieve a reintegration rate (13 weeks) of 32%) (DWP 2003a). The study by Hales et al. (2003) is based on a cohort survey of participants in Employment Zones and a similar group of jobseekers in comparison areas. Two waves of interviews were conducted, the first in autumn 2001, the second in summer 2002. Table 6 presents the main results with respect to the net effects of Employment Zones. Net effects in this context means the effects net of the counterfactual treatment in the Jobcentre Plus New Deal Program. Thus, this is not the difference to a situation without treatment. While in autumn 2001, the net effect was around 10% for all jobs, it became insignificant in summer 2002. However, it was still positive and highly significant for jobs with 16 hours and more. A likely explanation for this is the fact that providers concentrate on 16 hrs plus jobs because they can only claim a full outcome fee if they place clients into such jobs (Hales et al. 2003).

Table 6: Net effect of Employment Zones

	Autumn 2001		Summer 2002	
	Employment Zone	Comparison group	Employment Zone	Comparison group
Employment total	34%*	24%	55%	51%
Employment more than 16 hrs a week	28%*	17%	32%*	24%
Weighted observations	2809	1555	17272	975

Source: Hales et al. (2003). (\*) significant at 99%, no (\*) means significant below the 90% level.

The Employment Zone jobs had a lower qualification profile. 48% of all placements went into “operative and assembly occupations“ and „routine, unskilled occupations“. The public sector was underrepresented with respect to Jobcentre Plus placements (21% vs. 34%). In both, Jobcentre Plus and Employment Zones placements were also into jobs in which little training was provided. Hales et al. (2003: 97) summarise that „all-in-all, there were probably few opportunities for those in work to progress towards better jobs within the organisations where they obtained their first jobs. [...] Equally significant in this respect is the evidence that when people lost their job, they tended to revert to being unemployed, rather than having accumulated additional 'employability' which enabled them to make a more rapid return to work the next time the need arose.“ Having in mind this caveat, which applies to work first programmes in general, Hales et al. (2003: 139) conclude that “the Zones were substantially more effective in helping participants into work than we estimate would have occurred if the programme operating had been New Deal 25 Plus”. They see the increased flexibility as the main reason for the relative success of Employment Zones.

Hasluck et al. (2003) support these findings by their research that is based on longitudinal studies using administrative data. They estimate the outflow from unemployment from 1996 to 2001 and use a dummy variable for the Employment Zones introduced in April 2000. They find a (partially highly) significant effect for the Employment Zones. In particular, the increased outflow rate of the target group is not associated with a lower outflow rate of other groups of jobseekers. In the second part of their study, Hasluck et al. compare the take-up rate of employment between Employment Zones and comparison areas. For jobseekers that were unemployed for more than 18 months at the start of the Employment Zones (i.e. in April 2000), the difference is 14%, for those only becoming unemployed for longer than 18 months after April 2000, the difference is even 32%. Both effects are very significant. The program thus seems to assist people more with relatively shorter unemployment duration. Finally, Hasluck et al. find evidence that participants in Employment Zones are less likely to return into unemployment.

While the evidence for the Employment Zones, which are limited programmes for long-term unemployed, speaks in favour of contracting-out, there is no such comparison for Australia. The research in Australia is also impeded by the fact that the government does not release any raw data for independent evaluations. Thus, there are only government reports or reports using departmental evaluation result (DEWR 2000, 2001, 2002a; OECD 2001; Productivity Commission 2002).<sup>13</sup>

For Intensive Assistance, around 40% of clients were placed into an employment (for at least three months) on average between June 2000 and June 2003. For Job Search Training these figures were 41,1% and for Job Matching 66,7%. For Intensive Assistance, the reintegration rates increased from 35,0% (June 2000) to 46,2% (June 2003), for Job Search Training from 37,9% to 42,5%. Job Matching decreased slightly from 68,2% to 66,4%. Table 11 gives an overview of the 3-months outcomes for Intensive Assistance depending on the unemployment duration of jobseekers. The longer a jobseekers is unemployed, the lower the probability of a successful transition into a job. The same is true for other groups, such as jobseekers older than 55 years, jobseekers with a low educational background, disabled and indigenous jobseekers (DEWR 2001).

*Table 7: 3-months outcomes for Intensive Assistance for different groups of jobseekers*

	IA 0-6 <sup>a</sup>	IA 6-12 <sup>a</sup>	IA 12-24 <sup>a</sup>	IA 24-36 <sup>a</sup>	IA 36+ <sup>a</sup>	IA total
2000	41,2%	37,7%	36,0%	33,1%	28,4%	35,0%
2001	45,3%	40,6%	39,5%	37,4%	31,2%	38,5%
2002	49,0%	44,1%	42,8%	39,1%	33,6%	42,0%
2003	51,1%	50,2%	48,6%	44,6%	37,2%	46,2%

Source: DEWR (various years), own calculations. Remarks: (a) The figures indicate the jobseekers' duration of unemployment in months.

Junankar (2000; 2002) offers a longitudinal perspective on the comparison of the Working Nation programme, which was the high-profile and cost-intensive programme of the Labor government from 1996 to 1998, and the Job Network. By indexing long-term unemployment at 100 at the start of the program, he follows the development over the following years and observes that long-term unemployment fell stronger under the Working Nation (i.e. the mid-1990s) than under the Job Network. This is an interesting observation, even though it does not take into account the fact that Working Nation started from recession when many of the long-term unemployed had less employment barriers than those long-term unemployed in a boom period. Many commentators make comparisons with single programs under Working

<sup>13</sup> See Martin and Grubb (2001) and the Productivity Commission (2002) for criticism of such a policy.

Nation, such as the wage subsidies program Job Start, the job search assistance in Job Clubs or the job creation program New Work Opportunities. Such comparisons, however, are questionable due to difference in program specification, target groups and data quality (OECD 2001).

## **6 Conclusion**

Using private providers to deliver public employment services has gained more and more importance during the last couple of years. Australia and the Netherlands, two countries with very different social-historic developments and institutions have chosen to contract private providers to take care of most of their jobseekers. The UK has gone a first step towards privatisation by using Employment Zones. The Tories have already indicated they would like to see the Australian Model being implemented in the UK, too (Finn forthcoming). While contracting is in line with the ideas of New Public Management and has affected many public services (Walsh et al. 1997), the contracting-out of public reintegration services is a rather new development.

In this paper, we have addressed the effects of this contracting-out with a focus on the hard-to-place clients. Because outcomes rather than processes are in the centre of interest, outcome-based payments for providers have gained importance in all countries. However, to avoid creaming and parking which are both to the detriment of hard-to-place jobseekers, a governance-mix is necessary, in which financial incentives are complemented by performance benchmarking, control and monitoring. Choice can also be an important advantage of a contracting regime. However, clients with a low educational background may have their problems to exploit this option. Guidance is therefore needed for them in particular.

With respect to the services, product differentiations has not occurred in the way expected but there is rather a convergence between providers. Nevertheless, the flexibility with respect to the treatment of individual clients is well-documented. The low level of sustainable investment into training has been highlighted as a severe shortcoming. Group sessions are becoming more and more important as are incentives for employees (and clients!). Finally, regarding outcomes, research on the Employment Zones show that private providers achieve more employment outcomes than Jobcentre Plus does. From Australia, a steady increase in the achieved outcomes has been observable. However, vulnerable groups do not share this increased performance. However, it is important to note that they perform below average in most programmes.

To sum up, there is scope for private providers in the delivery of public employment services. Nevertheless, there must be safeguards to make sure that services are delivered equitably to all jobseekers, not only those which earn the highest profit margins for the providers.<sup>14</sup> It is the further development of efficient contract management regimes that is needed to exploit the advantages of private provision while ensuring that all jobseekers are given access to the public employment services they need to be reintegrated into the job market and society. It is thus important to separate the question of private delivery of public services from the political question of the kind of public employment services to be delivered.

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<sup>14</sup> It is worth to highlight that creaming and parking are no phenomena restricted to private providers. Public Employment Services can be affected by the same effects, which is very often in current debates.

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