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Developing Effective Employment Services

David Fretwell
Susan Goldberg

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ABSTRACT

The basic purpose of employment services is to expedite the exchange of labor between employers and job seekers. The goal of these services is to promote labor mobility, productivity, and improvements in social welfare. Fretwell and Goldberg find that employment services can pay for themselves. However, they say that not all countries will benefit equally from such investments. The returns are lower where the informal sector dominates an economy and where a country is small and informal networks are easier to establish. Also, when an economy is stagnant, and the demand for labor is depressed, these services are not as effective and other interventions may command a greater priority.

The authors distinguish between "core" and "support" employment services. Core employment services offer an array of active placement services to help individuals assess their labor force capabilities, and initiate self-directed job searches. Support services, in turn, include incomes support and additional activities that add value to human capital, such as retraining, and are intended to enhance the productivity of job seekers.

Fretwell and Goldberg push for the opening of markets to private employment services to lower pressure on public budgets and provide a wider array of options for a diverse range of clients. However, they also defend the public sector's role in delivery of core services based on evidence that these services are cost-effective; help ensure services are provided to unemployed, low-income, and semi-skilled clients who often fall outside the interests of the private sector; and help administer support programs including unemployment benefits.

The authors recommend that a balance be maintained between decentralization of service delivery and the need to promote national policy coordination and labor mobility. And in countries which encounter high unemployment during periods of structural adjustment the capacity of private financing of employment services will be stretched and inequities will arise. Under such conditions, where the longer-term benefits of adjustment are shared by the population at large, financing from general revenues will improve both efficiency and equity.

FOREWORD

Labor markets play an important role in the response of an economy to external shocks and structural adjustment. This role is connected with two major issues surrounding the difficulties encountered in achieving a quicker supply response in transitional and developing economies. The first is that of equity. The impact of structural adjustment, particularly the distribution of real wage and employment cuts, on labor force groups creates social costs that can threaten the political sustainability of the adjustment process. The second is that of efficiency. How well labor markets perform their allocative role is central to achieving a quicker adjustment of employment and production to the realignment of prices.

The Education and Social Policy Department is addressing these issues in a series of employment and labor market studies. The series is concerned with highlighting economic and social policies that impede the competitive performance of labor markets and produce rigidities slowing the pace of structural adjustment. It is also concerned with identifying effective strategies to manage the social cost of labor reforms and enhance the political sustainability of the adjustment process. As part of the series, the paper responds to these issues by examining public and private employment services and the role of the state in labor market intermediation. The paper reviews cost-effective strategies for carrying out the intermediation function.

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A. Employment Services: A Definition and Policy Framework

Employment services play an important role in many countries, as an essential ingredient of labor market policy. Such services promote labor mobility and productivity and improve social welfare. Countries differ in their employment service policies and programs, with the differences primarily dictated by the level of development of the formal sector of the economy. Some countries provide only basic, core employment services, while others also offer a broad range of supporting employment services, including training and employment generation.

The basic purpose of employment services is to expedite the exchange of labor. Employment services do this by identifying job openings, by helping job seekers to assess employment opportunities and to find jobs, and by matching job seekers with employers. This chapter discusses a range of such employment service policies and programs both in the private and in the public sectors.[1] The mix of public and private policies, strategies and programs in each country will reflect its culture, economy, financial resources, and judgement of policy matters. Ultimately the test of a country's expenditure of public funds on employment services are what it can afford compared with other pressing needs. The most important purposes of public employment programs are to assist people who are out of work and to raise incomes.

In most countries the public regards employment programs not as entitlements, but as investments. Thus they should produce measurable returns both for the people who participate in them and for taxpayers. This view requires that such programs provide evidence that investments are justified. The pressure for evaluation and justification becomes greater during periods of economic adjustment, when social programs must compete for funds with other programs that may have clearer outputs and stronger constituencies. The need for justification of employment services is a recurring theme in this chapter. The chapter is divided into five sections: definition and policy framework; review of core policies and services; review of support policies and services; examination of general organizational and administrative issues which affect both core and support programs and private employment services.

1/ Throughout the chapter the term "employment services" (ES) refers generically to private and public services, while "PES" refers explicitly to public employment services.

Historical Development

Although some basic services first appeared in Europe as early as 1900, employment services (ES) came into being to meet the need for organizing complex and dynamic industrial labor markets. The development of ES paralleled the World Wars and the Great Depression. These events, which brought major changes in the labor force and caused massive displacement of labor, had a direct and lasting impact on ES policies and programs. The core service was, and remains, job placement bringing together the buyers and sellers of labor. As national placement services matured, corollary and highly useful related activities or services were added. Initially these added functions included occupational analysis classification, labor market information, aptitude/interest assessment, and employment counseling. They were followed later by more active programs. Today employment services are found throughout the world. One indicator of the spread of employment services is the number of countries that have signed related Conventions of the International Labor Organization. As of June 1, 1991, 68 countries have signed 1948 Convention #88 on Free Public Employment Services, and 41 countries have signed the 1949 Convention on Fee-Charging Employment Services.

Core and Support Programs

Core employment services historically started with a simple matching of demand and supply. Today, however, these programs include a broad range of active placement services designed to help individuals assess their labor-force capabilities, develop new skills, and initiate self-directed job searches. The end goal of employment services is to enable employers to identify and to hire workers who are equipped to perform their job, and to help individuals find their first jobs, change jobs during their career, and if they become unemployed find new jobs.

Support programs are also part of the Public Employment Service (PES) in many middle income and developed countries. Support services include activities beyond core services, such as active employment programs (retraining, employment promotion including micro-enterprise development) and passive income-support programs (unemployment benefits, social welfare, social security programs).

This chapter deals primarily with the operation of core programs and the administration of support programs.

Justification of Employment Services

Because employment services help to promote a country's economic development and improve social welfare, private and public investments in these services are justified both on economic and on social grounds. The justification varies by country and type of program. In some cases, investments in ES may not be warranted at all, for example in economies with small formal sectors and with substantial cyclical or seasonal employment. In general, however, they can be justified on several grounds:

Employment services are important to the political economy of adjustment. In cases when structural adjustment results in an temporary drop in labor demand, public investment in employment services sends a message that the government is committed to supporting its people during these periods of stress. Such support may help ensure that economic reform is not slowed or aborted by social and political unrest.

Employment Services are cost-beneficial. Studies have shown that core labor exchange services, as well as such related programs as job search training, job counseling, and industrial adjustment services for communities experiencing mass layoffs, are cost-beneficial. Public investments in these programs provide positive rates of return, primarily because they shorten periods of unemployment, but also because they reduce demand for community services, generate tax revenues, and increase worker productivity.

Private services do not respond fully to the needs of adjustment. While the private sector provides core labor exchange services successfully to some segments of the labor force, for example, the employed, and white collar and skilled workers in cities, experience shows that equity considerations justify public support of employment services for other segments of the labor force, for example the longer term unemployed, and low or semi-skilled workers.

The whole is greater than the sum of parts. Different employment service programs reinforce each other. For example, when payment of unemployment benefits is linked with job search training through the employment service, duration of unemployment benefit payments is reduced. When core labor exchange services are linked with retraining, both the job placement and the retraining programs become more cost-effective. This is not to say, however, that Public Employment Services must provide retraining, or pay unemployment benefits, although most PES do provide unemployment benefits. The unemployed, who are the primary clients of the Public Employment Service, must have immediate access to services that can help them to reenter the labor market, because the longer the duration of unemployment the more difficult the re-entry to the labor market, and the greater the possibility of becoming a long-term recipient of social assistance.

Active Versus Passive Approaches

It is useful to differentiate between active and passive approaches to labor intermediation, because the approach taken has a major impact on the way employment services are organized, implemented, and financed, as well as on their cost-effectiveness. Most countries have both active and passive measures. Research in OECD countries has shown that effective employment programs combine active and passive measures (US Department of Labor 1986). Active measures seek to rapidly redeploy labor and develop new skills and employment opportunities for workers. They are usually closely integrated with broader economic development efforts. Passive measures help reduce the short-term costs of economic adjustment to individuals, enterprises, and communities by providing income support and maintenance programs.

Active programs include employment services but are not limited to them. The programs' rapid redeployment and screening functions include collecting and disseminating labor market information, employment counseling, and job search training, all of which promote mobility, assist workers to find jobs and employers to find qualified workers. Other active measures are generally intended to improve worker productivity, promote investment, and facilitate mobility. These functions include

traditional skills training, custom training to support new investment, related education and life skills training, and assistance for small enterprise development and other job creation schemes.

Passive income support programs aim to reduce poverty. These programs may include unemployment benefits, family and maternity allowances, social welfare payments, pensions, and protection of health benefits during unemployment; as well as related programs such as wage subsidies and relocation allowances to encourage geographic mobility.

Countries differ substantially in their investments in these two types of measures. OECD studies have shown that the success and cost-effectiveness of active and passive measures depend on an individual's education level, age, gender, previous employment and tenure, as well as on local economic conditions. Linkages between measures are important, as no single action is likely to be effective by itself. Combining measures (e.g., unemployment benefits with job search training) can increase the program's overall impact. Active measures often need support mechanisms in order to be cost-effective - for example, employment counseling and assessment before training, and small business technical assistance with provision of capital can enhance program effectiveness. Assistance should be targeted to meet the needs of particular groups.

Perhaps most important, programs must be displayed in such a manner that, as Scherer (1990) writes: "the reform process is not aborted by social unrest, individuals do not become dependent upon an overly generous social safety net, and the social costs of adjustment do not become burdensome to the state and ultimately individual citizens and enterprises."

Although employment policy has always recognized the need to provide incentives that encourage change by workers and employers, such incentives have not always been put into practice. For example, national labor market expenditures among many industrialized countries are still dominated by income maintenance programs, particularly unemployment compensation. It is being increasingly recognized, however, that a social program that does nothing more than spend public funds passively will have no long-term effect. Public spending must be viewed as an investment.

Synopsis of Policy Issues

Balance of Services. There are considerable differences among countries in employment service policy and programs. These differences are largely a function of differences in the level of development of the formal sector economy. A key factor in determining the type of employment services that a country has is whether or not the country has income support programs, chiefly unemployment benefits. This factor creates a very different demand for provision of services and must be recognized in discussing the design of employment services.

Countries without income support measures usually provide only core employment services, for example, a labor exchange. Employment services do not generally become involved in administration of other active programs, such as retraining, as these are often handled directly by other institutions and/or ministries. These countries are usually less developed and qualify for International Development Association financing, as in countries of Sub-Sahara Africa, or in Bangladesh.

Countries with income support programs usually offer a broader range of core employment services, including more extensive employment counseling and intensive assistance for special groups such as handicapped and migrants; other active support programs, including administration and perhaps delivery of training and employment promotion services; and a range of passive income support programs, including unemployment benefits, social welfare, and social insurance. Once a country begins income support programs it usually also begins other active employment assistance programs in recognition of the fact that passive programs alone are not a good long-term investment. Currently, most countries in Central and Eastern Europe countries are moving from having only core employment services to having a range of employment assistance, because they have started income support programs.

Organizing and Financing Public Employment Services (PES). A country's approach to organizing and financing its PES is affected by many factors, including the types of core and support services provided (OECD 1984:35). There is a trend toward creating quasi-independent and autonomous

bodies, as in Germany and Poland, and away from maintaining the PES as an integral part of a Government Ministry, as is the case in Zimbabwe and Romania.

The basic advantage of integration of PES within a government ministry is that it provides for better coordination between the program and labor market policy, while the advantage of the more autonomous PES is that it strengthens non-governmental institutions and can promote greater flexibility in operations (these options are discussed in more detail later in this chapter). Finance of core job placement functions and other active employment programs is usually from general government revenue, while financing of passive income support programs may be from the state budget and/or insurance or payroll levies, including both employer and employee contributions.

Private versus public employment services. Private and public agencies can provide parallel core placement services. Private agencies seldom administer unemployment benefit programs, however, and often target their services to a different segment of the labor market than the PES, for example, towards white collar workers and people who are employed but looking for alternate employment. Some countries, for example, the United States and United Kingdom allow private fee-paying placement services to operate in a free-market approach. Other countries, for example, Germany, regulate such services. Still other countries have laws that do not allow such services to operate at all, for example, Turkey, Egypt, and Ethiopia. There has been considerable debate about the liberalization of placement services, as restricted in ILO Convention #96. The monopoly of the PES is being challenged in many countries (World Association of PES, 1992). Even though public employment services have widened their field of competence and can serve a segment of the labor market effectively, private intermediaries are increasing in number and importance (EEC/ILO 1991:73).

Public Employment Services cannot fill all market needs. Therefore, there is a need to reevaluate the relationship between private and public service providers with a view toward creating a judicious management of the public/private mix. Creation of such a mix is essential if the advantages of having both systems are to outweigh the disadvantages (OECD 1988:9).

Integration of Core and Support Programs. The linkage between core placement services and the administration of support programs such as unemployment benefits is, perhaps, the most contentious and complex aspect of employment services (OECD 1988:13). Developing countries do not face this issue because they are likely to have only core placement programs. Middle income countries, however, increasingly confront decisions as additional support programs are developed. Turkey faces such problems, as do most of the countries in Central and Eastern Europe.

Two striking features that emerge from the study of the integration of these services are: the frequent changes in structure that occur and the rather different cultures of the two services. Placement services and other active services need to be dynamic and responsive to local economies, and are thus mostly concerned with building "positive access". Income support measures are highly regulated, and part of their responsibility is to control fraud, and thus are concerned with applying "negative access".

Some countries with mature PES systems retain integrated services (UK, Australia, Germany); others have organizationally separated core and support functions (Canada, U.S., Ireland). It is difficult to identify an overall trend. Indeed, several countries, for example, Canada have moved back and forth between integrated and separated approaches. The advantage of having all programs administered by the PES is that this approach promotes administrative coordination and assures that clients receiving income support have direct and immediate access to placement and other active programs. In addition, as support programs are created, the existing PES network can provide a ready-made administrative vehicle to organize services. For example, in Romania the PES administers all programs, including the existing placement and social security functions as well as the new unemployment benefit and other proactive employments programs.

The disadvantage of such an approach is that, centralizing program operations sometimes reduces flexibility. In times of recession, when unemployment increases, the majority of resources and staff are often shifted to operate income support programs, and other programs suffer or are shut down as a result, as happened in Poland in late 1991.

In most countries the PES usually operates support programs at first. Then, as support programs mature, they may be separated from the PES administratively, although not necessarily physically. This shift and organizational separation appear to be affected by several factors, including the need to separate financing of income support programs from core placement and active employment programs, as Hungary has recently done; an increasing shift to decentralize and get the PES out of the business of operating active training programs, as has been done in Sweden and the UK and has always been the case in the U.S. and Canada; the recognition that there are different skills needed to administer/operate income support vs. active programs; and finally recognition that if all programs are under one administration in times of high unemployment, local PES office resources may be shifted to income support programs to the detriment of active program operation.

In the United States, a General Accounting Office report (1989) on the U.S. Employment Service found that PES offices that operated in a different place from the Unemployment Insurance (UI) office had 21 percent higher placement rates than offices that were co-located with the Unemployment Office and shared the same manager. Employers said that people often think of PES as an "unemployment" office that provides compensation to laid-off workers. As a result, they said that some people do not think of PES as a place to find a job. From a public relations viewpoint, the separation of PES and UI offices recognizes the PES as an "employment office" and may make the office more attractive to employers and job seekers.

B. Core Programs

In both developing and developed countries core programs are the mainstay of employment services. In many developing countries economic restructuring is shifting the role of labor offices from traditional "matchmaker," between jobs offered by government-run enterprises and available local labor, to providers of a broad range of employment services. In addition to the labor exchange function, these new functions include enhanced labor market information, client assessment and counseling, labor mobility programs, and administration of other active and income support programs.

Labor Exchange Service

The labor exchange service involves listing job vacancies from employers and obtaining information of individual job seekers, then matching the two. This was historically the starting point of most employment services. The first question developing countries should ask is "at what point should we invest in ongoing public employment placement service, or should this service be left to the private sector"? Not all countries need employment services. Employment services generally serve the formal sector labor market. If this market does not exist or, is very small or seasonal in nature, or if there is no demand for labor, it is questionable whether investments should be made in developing public services (U.S. Department of Labor 1963).

The first employment programs may be limited in scope, serving seasonal agricultural needs, or certain sectors, as in Mali, where the Government Directorate of Personnel has such a service to hire public workers. Without an active labor market, private services will not emerge. Or, if private services emerge in a limited demand market, that is, dominated by the informal rural sectors, they may take the form of "labor contractors." If a country decides to have a public employment service, a series of questions arise. These include (a) what initial and extended services should be provided; (b) what types of clients can be expected to use them; (c) will labor exchange programs be cost effective; and (d) what is the role of a public versus private service?

Linking the ES more closely to the job market is essential to a viable labor exchange service, often referred to as "Job Development". This linking can be accomplished most effectively using the mass media and directly contacting employers (UK Employment Service 1990). Identification of specific vacancies can also be combined with more formal and short-term qualitative approaches to collection of labor market information.

Client Assessment and Counseling

Because of the danger of mismatching demand and supply, employment services are increasingly venturing into areas other than simple job-matching services. Improved employment

counseling, including the provision of information about education and training opportunities to an increasing number of job seekers, is a particularly important additional service (OECD 1984). A European Communities report recently stated that "counselling and advice is now seen to be a key factor, not just in helping the individual, but also in making programs more cost-effective through better targeting of the expenditure" (Commission of the European Communities 1990).

These new programs include assessment of interests and aptitudes, provision of general occupational information, related education and training information, and job specific information. Initial work in this area was dominated by traditional psychological testing procedures, which often required a trained psychologist to administer and interpret. Increasingly, however, simpler client-administered print and automated systems are replacing the earlier approach, based on the need to reach more clients and their favorable response.

The advent of micro-computers has also helped support direct client use and has allowed rapid and economical updating of information. These computer systems have been developed extensively in Europe and North America by both the public and the private sectors. In such systems information services are provided on a low-cost subscription basis to a variety of institutions, including schools, and private enterprises.

A report on the U.S. Public Employment Service (General Accounting Office 1991) concluded that local offices that offered self-service information had 20 percent higher permanent placement ratios. A 1980 study by SRI of data from a pilot study on the use of counseling in the U.S. state employment services found that, with the need and quality of counselling controlled for, positive impacts were found for clients receiving two or more counselling sessions. In Canada an evaluation of job counselling in PES offices (Employment and Immigration Canada 1989) found that the significant impact of counselling was on the level of job satisfaction if the clients received two or more counselling sessions.

In 1091 in the U.S., 6.1 million "career seekers" gained access to computer-based career information systems at 13,742 sites. The need for this counselling and job information is highlighted, particularly for first-time job entrants, by the following trends identified in a national survey in the U.S. in

1988: (a) 62 percent of workers now in the labor force said they had no career plan when they began their first full-time job; (b) the costs of recruiting and training workers are substantial; (c) and the public cost, let alone the lost productivity, of unemployment benefits and retraining for those who "browse" in the job-market is considerable (e.g., in Canada one fifth of unemployment benefits are paid to recipients aged 16 to 24).

Job Search and Job Clubs

Job search training helps clients define their job objectives and discover employment possibilities. Training can range from several hours to several weeks. Job clubs, an extension of this concept, focus on helping the long-term unemployed find jobs through activities ranging from building resume writing and interviewing techniques to providing stationery, postage and other practical aids.

Job Club programs have been launched in several European countries -- Hungary, Belgium, France, Ireland, the UK and the Netherlands -- as well as in North America. Initial assessment shows that these clubs have been successful in re-employing the long-term unemployed -- the percentage of participants obtaining work range from 8 percent in Ireland to 73 percent in a small pilot project in the Netherlands (Commission of the European Communities 1990).

A recent survey of the existing literature entitled "Does Training Work for Displaced Workers?" examined the results of Canadian, Australian and US training programs. This study found that job search training is cost effective, recommending that it should be the core of any adjustment assistance offered to displaced workers (Leigh 1990). The evidence is conflicting as to which type of client, whether short- or long-term unemployed, benefits most from job search and job club activities. These programs are more cost-effective than skill training but cannot be expected to substitute for skill training during periods of structural unemployment.

Relocation Assistance

The use of job mobility programs among displaced workers was less than anticipated by policymakers in all countries studied (OECD 1984, 88). These programs include paying the costs of fares for job search, providing lodging allowances and household removal expenses, and making a contribution towards the cost of house sale and purchase. The evaluation evidence strongly suggests that mobility assistance is a difficult, often paradoxical area for policy makers (OECD 1984, 88). Displaced workers need new jobs, which may not exist in the local economy, while local governments do not want to see their tax base eroded by a shrinkage of their labor force. Thus most countries emphasize re-employment locally, coupled with attempts to revitalize the local economy. Relocation is a last resort for policymakers in most displaced workers' communities as it is for the workers themselves.

A Swedish study (Bjorklund 1986) evaluated the cost-effectiveness of mobility programs on three levels -- new job versus old job, new job versus old job including the mobility grant and cost of the move, and all of this plus the tax aspects. The study showed some gain for movers in the first case (although it dissipated after five years), none in the second case, and a net benefit from a societal standpoint in the third case.

Lack of labor mobility, which is a serious issue in many countries is attributed chiefly to a shortage of affordable housing. The problem is exacerbated both by the fact that in some countries labor force skills are narrow and based only on limited general education and by the lack of a national labor exchange. High labor force participation rates, which may constrain the mobility of for two-income earner households, and scarcity of demand for labor tend to diminish the rate of labor migration within a country. Lack of local infrastructure to support the development of new industries also inhibits migration. Ministries of Labor cannot solve all these problems, but government employment programs can help broaden labor force skills and strengthen national labor exchange mechanisms.

Industrial Adjustment - Advance Notice

Some countries undergoing economic restructuring are enacting new advance notice regulations related to mass layoffs. Evaluations of worker adjustment programs indicate that providing advance notice of a plant shutdown or large layoff, backed by other guidance and employment services, is a useful first step in promoting smooth adjustment (OECD 1984, 88).

Longer periods of notice are preferable to shorter periods since the evidence suggests that notice of only two to three weeks has negligible effect on shortening duration of unemployment of displaced workers (OECD 1984). Such short notice does not appear to be sufficient time for communities, government agencies and workers to prepare for dislocation. A Conference Board report concluded that a displaced worker program's single most important resource is a functioning plant, and a period of longer notice preserves this important social support through the early part of the transition process (Berebeim 1986). Most middle income countries have labor code provisions for advance notification. However, in some, they may impede economic transformation because they require notice so far in advance, for example, 24 months in Yugoslavia.

The requirement of giving advance notice to individual workers cannot be responsible for high unemployment rates in Europe in the 1980s. Such practices have been in place in Europe for most of this century, through good economic times as well as bad. Data on 10 OECD countries show no evidence that advance notice deterred employers from hiring. Little evidence exists on the cost of requiring notice, however, although the U.S. Department of Labor task force on dislocated workers found "no evidence that the productivity of the work force is adversely affected during a notification period" (U.S. Department of Labor 1986).

In the United States a recent evaluation of implementing the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) found that in most states policymakers felt that the advance notice requirements under the recently enacted Worker Adjustment and Retraining Notification Act (WARN) "increased their knowledge of dislocations and increased their ability to respond rapidly to these events" (Dickinson 1989). The U.S. task force on dislocation concluded that advance notice is good

employer practice when coupled with a comprehensive employment services program, with the caveat that advance notice may not be possible in all situations, especially in small firms (US Department of Labor 1986).

Industrial Adjustment - Mass Layoff Services

The need for employment services to cope with mass layoffs is increasingly recognized in countries as a necessary consequence of the concept of advance layoff notice. Resources and expertise often do not exist at the national level, however, to provide leadership, while local institutions are unable to provide services, particularly in response to repeated mass layoffs. Large numbers of layoffs strain the resources of local employment offices to register the unemployed and make benefit payments. Evaluation shows that employment services work best when delivered at the site of the displacements and when offered as long as possible before the shutdown or layoff date (US Department of Labor 1986). Rapid response can lead to early assessment of the needs of the affected workers, giving time to respond with the most appropriate services.

Successful employment programs for mass layoffs transfer authority to the local level and give the employer and the local community responsibility. The most effective programs for dislocated workers are those in which employers and workers are directly involved in the design and delivery of services (US Department of Labor 1986). The Canadian Industrial Adjustment Service (IAS), is an example of the type of unit required to bring the needed services to the plant level. The IAS is a small unit that, on request, provides staff as advisors to firms and communities experiencing worker dislocations. Essentially, IAS encourages local employer and community involvement to open up the informal job network to displaced workers (Employment and Immigration Canada 1991:17). From 1971 to 1981, the labor-management committees set up with IAS assistance found 66 jobs for every 100 workers affected by plant shutdown, usually within a year. IAS served 36,000 displaced workers in fiscal year 1982-83 with a budget of $3.9 million supplemented by $6.1 million from private contributions for a unit cost of $171 per worker. A special survey found that IAS assistance reduced the jobless spell by

an average of two weeks, which means that the program virtually pays for itself with reductions in unemployment compensation outlays (Employment and Immigration Canada 1984).

In Hungary the 1991 Employment Law requires that all employers with at least 30 workers who intend to reduce staff by 25 percent or by not less than 50 workers within a 6-month period shall give government and worker representatives three months' notice and establish a committee to assist with carrying out the layoff. In Japan in 1959 the Coal Mines Law was enacted to provide special assistance to miners when large numbers were displaced by high prices and low efficiency. The law provided for special mobility assistance, extended employment counselling, retraining, employment promotion, and extended unemployment benefits.

Participation of employers in IAS-type programs also alerts workers to the seriousness of the layoff problem, which may inspire them to begin looking for another job sooner. A common problem for adjustment policy is that workers refuse to believe that the plant will actually close, or that they will be laid off. One of the most compelling reasons for introducing special measures to help displaced workers is the damage done to a local community when the sole or dominant employer disappears and few alternative jobs exist. Such a possibility highlights the importance of involving the local community in identifying needs and developing job opportunities.

An OECD conference panel report cited the features of government schemes directed at local communities that have proved helpful. The report said that the focus of these schemes should be on the most vulnerable labor markets to help ensure that public funds are directed to areas of greatest need; that the programs should involve local associations, organizations, trade unions and employers, and the local and central governments in a flexible structure, working together to solve practical labor problems; and that public funds provided to the most affected areas demonstrate the broader community's involvement and strengthen efforts to resolve difficult adjustment problems" (OECD 1985).

Labor Market Information

Having current labor market information is essential to monitoring changes in employment and anticipating labor supply needs under different economic conditions. This information is not available in many developing countries. The ES both provides and uses such information. The ES uses labor market information in three major ways: employment counselling; determining priorities for training programs for clients; and advising employers on labor demand and supply. The ES helps develop labor market information through administrative records, short-term qualitative surveys, and regular employer and household surveys.

Administrative Information. All ES labor exchanges and unemployment benefit records provide a source of administrative information on short-term labor demand and supply. Because of poor labor market penetration, and the fact that job vacancies may represent labor turnover as opposed to new employment, this information must be used with caution. The labor exchange does provide a fairly good indication of hard-to-fill jobs and excess supply.

Short-Term Qualitative Information. Some PES agencies, for example, in Sweden and Hungary as part of their job development activities, conduct regular qualitative surveys of selected employers for short-term labor market analyses. These are an excellent supplement to labor exchange data. PES agencies in the United Kingdom and United States publish related regular labor force summaries that combine the results of PES administrative data and informal and formal qualitative surveys. They also publish local labor market reviews for employers and employment/training institutions.

Regular Employer and Household Surveys. A few PES, for example in Germany are legally required to carry out a comprehensive labor market and research program, to survey the employment situation, and to provide employment statistics. In many countries, however, central statistical agencies conduct regular employer and household surveys for medium-term labor market analyses, providing data on such things as occupational employment by sector, occupational wage rates and mobility (see Goldfarb and Adams 1993).

Client Targeting

Employment programs must be carefully targeted to be cost-effective. Evidence from several countries for displaced worker programs suggests that the type of targeting strongly influences the degree of participation in the program, the overall program cost, and the timeliness of the assistance (OECD 1984).

When assistance is offered too broadly, as in a sector-based approach, the costs mount. On the other hand, too narrow targeting may exclude workers who need assistance. Regardless of the targeting scheme, declaring a group of displaced workers as eligible for special assistance raises problems of equity in the treatment of the unemployed. Permanently displaced workers, particularly those living in relatively small communities with undiversified industry structures, experience sizable losses and adjustment difficulties (OECD 1984:40).

Most developing countries have limited capabilities to monitor, target, and evaluate the cost-effectiveness of the allocation of resources to particular client groups. If countries are to improve targeting, they will need to define more clearly the intended recipients of specific programs. A key element of any successful targeting program is an analysis of client characteristics, program records, and evaluation data. Automation is critical to the success of any large scale and comprehensive targeting and evaluation system.

Users of Employment Services

There are two types of users of ES: employers who list job vacancies, and individuals who are looking for work. With regard to employers, few public employment services can claim to list more than one third of job vacancies (normally referred to as the penetration rate). If employers do not use the ES, however, where do they look for labor? In general, along with using private and public ES, employers use a variety of other recruitment channels such as advertising, applicant initiative, references from existing employees, schools, and consultants. Among major industry groups the penetration rate of the PES varies from 6 percent in mining to 30 percent in manufacturing, and from 8 percent for skilled

workers to 30 percent for unskilled workers. Direct application by workers and job leads obtained from relatives and friends account for most new hires (OECD 1965).

TABLE 1

Measures of Penetration

	PES Share of Vacancies %	Vacancy Fill Rate %
Australia	25	79
Canada	13	79
Finland	30-40	50
Germany	32	68
Ireland	NA	65
Turkey	NA	95*
U.K.	33	75
U.S.	NA	49

Source: 1992 World Bank Data from Labor Ministries
*about 1/3 of the unemployed register at the labor exchange.

There are several reasons that the penetration rate of the PES is low and segmented. Due to its historic development, the PES is usually located in the unemployment office, a fact that tends to obscure the role of the PES. The PES is usually part of the civil service and thus may have difficulty in attracting and keeping quality staff. For equity reasons, the PES must serve the hard-core unemployed, who often lack skills. Finally, poor screening of clients by the PES can damage employer acceptance of PES services. No countries require employers to hire PES referred labor, but several such as Sweden for example, require all employers to list vacancies with the PES, while others, such as Turkey, require only public sector vacancies be listed. In some countries, for example, Egypt, workers must be registered at the PES before they can be employed by an enterprise. However, the regulation may be ignored by

employers even when penalties are applied. The recruitment methods in the UK are summarized in Table 2 to illustrate the mix of methods often found in developed countries.

TABLE 2

Employer Recruitment Methods in the UK
1982

Source of Recruitment	Manual Occupation %	Non Manual %
Public Employment Service	30	15
Local Newspaper	12	26
Private Employment Agency	1	7
Informal Contacts	47	31
Others*	10	21

Source: UK Employment Service, Report on Survey of Employer's Recruitment Practices, London, 1990

*National Careers Service, Trade Unions, notice boards, non-commercial agencies, etc.

With regard to individuals, in general the PES serves those individuals at lower skill levels and with limited education, while private employment agencies serve the better skilled and better educated. This trend appears to be common in developed and developing countries alike. The PES primarily serves job seekers who lack other means of finding work, or for whom other methods have failed and for whom private services may be largely unavailable. Like employers, individuals use a variety of methods, which are listed in Table 3, using the Netherlands as an example.

Because so few employers or workers use the PES, one might question whether investments in PES are worth their cost. Most research and country policies, however suggest the need for the continued support of PES. The PES is most effective in helping employers fill low-wage high

turnover positions and in helping individuals who have substantial trouble finding work on their own, particularly low-skilled workers. This conclusion has been reached in a number of countries, including the United States (Jacobson 1991). In particular, the use of the PES is associated with swifter reemployment of the long-term jobless (Katz 1990). The PES is best at placing workers with little previous work experience and low prior earnings" (Jacobson 1990) and for particular client groups, including the economically disadvantaged and women (Johnson, Dickinson and West 1985).

TABLE 3

Channels by Which Jobs Were Found
In the Netherlands (1990)

Find Channel	Workers' Search Channel %	Job Seeker Search Channel %
Advertisement	30	
Job-Application		34
Looking		29
Approach to Employer	18	12
Family	15	12
PES Office	4	10
Temporary Employment Agency	10	7
Asked by Employer	11	2
Other	11	4

Source: Labor Market Survey, Netherlands Ministry of Social Affairs and Employment, 1991.

Evaluation

Evaluation studies (Johnson, Dickerson and West 1985) indicate that ES programs can be cost-effective but that their impact varies by sub-program and client group. Most evaluation studies

have been done on PES. In evaluating PES, the focus has been placed inappropriately on placement, rather than on how well the PES reduces joblessness, increases earnings, and reduces unemployment and welfare payments (Jacobson 1991). A study evaluating labor market and social programs, "a critical review of all Panel reports suggests that the role of formal evaluations and monitoring exercises has been disappointingly small in reaching useful insights respecting the usefulness of particular measures and reaching conclusions as to what measures work best and which are not particularly worthwhile from an output perspective" (Nathan, OECD 1991:33).

Investment in core public employment service programs should be looked to as an important component of an overall employment strategy. The PES can pay high dividends with selected clients compared with passive income support or other proactive programs such as retraining. In many countries, however, it is difficult to determine the effectiveness of different programs with different client groups because evaluation techniques are underdeveloped or poorly focused.

In a 1979 experiment in Sweden, clear positive effects of the use of intensified employment services, and some cost benefit calculations showed strongly positive results (OECD 1991:84). Also, United Kingdom has made several reviews of the cost of PES, and the results tend to justify the placement activities of the Employment Service. In 1982, for example, the Employment Department, after a scrutiny of the PES, concluded that the benefits to the economy conferred by the PES considerably exceed the value of the resources it used. In December 1991 the Employment and Research Branch of the PES concluded that "studies in several countries of a range of PES activities suggest that they do indeed make a difference --- and are particularly helpful to those unemployed people who are disadvantaged in the labor market."

In the U.S. the PES placed 3.2 million people in Program Year 1987, with a budget of $728 million, or $227 per placement. A study notes that the cost effectiveness of the PES compares favorably with other government programs, and that not only does the PES appear to be a low-cost source of job placement, it appears to fill a key niche of assisting segments of the workforce that are disadvantaged, and most in the need of help (Jacobson 1990). In 1990 Mexico handled an estimated

241,000 individual and employer registrations and made about 186,000 referrals at an average cost of about US$50 per registrant. In 1989, in Turkey, 553,000 individuals registered for 283,000 vacancies, resulting in 685,000 referrals and 267,000 placements at a unit cost of US$17 per placement.

Canada completed an overall review of its PES programs (Employment and Immigration Canada 1989) and found that (a) the benefits of the PES have a strong cyclical element (men benefit in slack labor market periods and women more in more normal conditions), and (b) the cost/benefit ratio is also cyclical (savings in unemployment benefits are greatest when unemployment is high). Employer benefits were primarily related to hard-to-fill jobs. Worker benefits stemming from PES use are essentially related to the equity aspects of the PES, services tended to be used by job seekers with lower earnings in rural areas.

C. Support Policies and Programs

Active Employment Programs

Active employment programs improve workers capacity, or in the language of economists "add value" to human capital. These programs address structural unemployment and are intended to help unskilled workers enter the labor market as well as to help skilled workers change their occupation in response to structural adjustment. In developed countries employment services usually do not operate active programs themselves but arrange for them to be provided to unemployed clients through local private and public sources. Thus their relationship is financial and administrative rather than operational. Employment services often become involved in administering three types of programs: training; small enterprise development; and local economic development.

Training. Training is a major feature of the labor market adjustment programs of all industrialized countries. About 10% of the unemployed restriction in OECD countries with an average duration of four months. The role of the PES in providing training is becoming increasingly contractual, seeking training services from other public and private sector agencies. Contracts are usually competitive. The PES typically contracts for a selected number of training slots or days of training. The training

contractor provides flexible modular training recognizing that the unemployed need to schedule their training and have differing skill levels. The training contractor may provide additional counseling services. Usually the contractor is required to accept a negotiated responsibility for placement of a portion of the trainees in jobs. Public employment offices involved with job training programs have higher wage/placement ratios (U.S. General Accounting Office 1991).

Small Enterprise Development. In many countries, the PES helps displaced workers to start their own firms. Using small enterprise development to assist displaced workers' return to employment by becoming self employed has potential, but, based on international experience, the strategy is actually successfully used by only a small portion of the unemployed (2-3 percent) (OECD 1988, Wandner and Messenger 1990). According to a U.S. Bureau of Labor Statistics survey, 8 percent of dislocated workers who were reemployed were self-employed on a full-time basis. Also, such programs usually reach a higher-skilled segment of the unemployed.

PES involvement in assisting small business development differs considerably from country to country. Employment programs sometimes provide limited capital (in Poland and Hungary) and technical assistance (in Tunisia) through the local labor offices to unemployed individuals seeking to start small-scale enterprises. A common form of creating capital is through capitalization of unemployment benefit payments. Loans are limited in size and duration, interest payments may be subsidized by the labor ministry, and a portion of loans may be forgiven if the enterprise stays in operation for a predetermined length of time.

Ministries of Labor and local labor offices have limited expertise and time to administer such programs, however. Little technical assistance is provided to clients. Efforts to grant autonomy to local labor offices have produced a wide variety of application procedures, appraisal methodologies, lending terms, and grace periods between offices. To make this option viable there is need to strengthen local Non Government Organizations (NGOs) so that they can provide technical assistance, access to facilities, and credits to the unemployed who wish to start small enterprises. There is also a need to limit the role that labor ministries and labor offices play in small enterprise development. Evaluation of the

initial aptitudes and interests of the unemployed can be left to the NGO's, so that interested and qualified individuals can obtain the needed assistance, as is being done in Mexico.

Linkages with Economic Development. In developing countries there is little linkage between the ES and local economic development authorities. The ES is often little more than a repository of information on individuals looking for employment. But, as economic restructuring occurs in many countries, ES programs are increasingly being asked to play a more active role in local development, as they do in developed countries. This role includes using ES services to help screen employees and provide specialized training for workers in firms agree to make new investments that assist with community development.

The specialized training programs can include, as targets, workers who are threatened with layoff within existing plants to improve productivity so that layoffs can be avoided, as well as new workers including the unemployed, for enterprises that have committed to invest in a community. The programs can be financed by enterprises, economic development agencies, and employment programs, and normally start quickly, often in less than 30 days. Examples of these program include the UK job interview guarantee program and program operated by the California Employment and Training Panel, the Australian Regional Employment and Training Committees and the Canadian Community Futures Program run by Employment and Training Canada.

Income Support Programs

Income support programs are an essential tool for preventing poverty in a modern market economy. When PES agencies administer these programs, as they often do, particularly unemployment-benefit administration, it has a major impact on the administration, financing and staffing of PES offices. It also affects the nature of core placement services and the rate at which workers return to employment. One of the most difficult issues for the PES is how best to combine core services with support programs in the most cost-effective manner.

Unemployment benefits. Most studies find that higher unemployment compensation leads to longer duration of unemployment and not necessarily to an equivalent or higher paying job (Narendranathan, Nickell and Stern 1985). That is, unemployment benefits provide needed compensation to jobless workers but do not facilitate their adjustment. It is, therefore, critical that the PES combine providing benefit payments with offering other services.

Social Welfare and Pensions. Although somewhat unusual, the PES sometimes plays a direct role in administration of social welfare and pension programs, as in Romania. More commonly, these programs are administered within a Ministry of Labor but in parallel with PES programs, as in Poland, or by a separate agency as in Hungary or the United States. The advantage of parallel administration, particularly with regard to social welfare programs, is that this arrangement promotes close integration with employment programs and helps social welfare clients to move back into the labor market. The disadvantage is that these clients, particularly social security clients, have unique problems that labor office staff may not be trained to solve. Therefore, although the social welfare programs and the social security program may be housed within the same Ministry, they are usually administered at the local level by different staff. Whichever the approach, a key ingredient is coordination with labor offices. In addition, if a formal unemployment system is introduced, a parallel social welfare system is needed, or it will be virtually impossible to limit the duration of unemployment benefits.

Wage Subsidies. Evidence is mixed regarding the effectiveness of PES temporary wage subsidies programs. In most countries subsidies were neither extensively used or promoted (OECD 1982). In Japan, where large enterprises maintain internal labor markets, subsidies were used more often. Recent evaluations by the Australian PES indicate that wage subsidy schemes are most effective in assisting the long-term unemployed. However, they appear to be more effective at redistributing employment opportunities than in speeding up the adjustment process (OECD 1988). That is, preferential hiring of the designated workers entitled to a subsidy, rather than the creation of additional jobs per se, is the primary effect of wage subsidies. Some countries are embarking on such schemes, as well as on

public sector employment. These programs need to be carefully targeted and limited in scope, or they may become expensive and even counterproductive.

Public service employment. Public service employment programs were once a mainstay of PES in several countries. The popularity of these programs has waned based on lack of evidence that they reduce unemployment in the long run. A positive evaluation finding is that, if alternative job opportunities become available, public employment may serve as a short-term bridge between more permanent jobs. The more likely case is that a "dependence" on public employment develops, leading to longer tenure in the public sector job than budgets can afford (OECD 1984). Thus, although public service employment is useful in building needed infrastructure, enrollment should be limited and administered subject to certain conditions. An extensive evaluation of United States public service employment programs (Cook 1985) concluded that these conditions are: (a) Public service employment should be prescribed for only a limited period to avoid dependence by participants and excessive budgetary substitution by local governments; (b) assuming public service participants are more disadvantaged than those normally receiving training, a case can be made for a higher than normal subsidy; (c) some limit should be placed on the maximum wage subsidy to control costs and assure that participants have an incentive to seek other employment; and (d) because public service employment is appropriately targeted on those who need work experience, but who are capable of holding a job, eligibility criteria should be defined by income level and employment experience (as opposed to sex, race, age, or education).

D. Organization and Administration of Public Employment Services

While national governments are active in financing and managing of both core and support employment services, the trend is for governments to distance themselves from actual delivery of active programs at the local level. These programs, such as training, are increasingly provided by a combination of private, non-government organizations (NGOs) and public institutions. National

management includes monitoring and evaluating the operation of active programs so that public assistance can be provided in a cost-effective manner to targeted client groups.

Administrative Structure

Three approaches to administration of PES are found: (1) The PES is a field organization of a Ministry of Labor or its equivalent, as in Australia, Mali, Japan, Romania and Zimbabwe. This approach provides for coordination of executive and government actions, but limits flexibility. (2) The PES is an institution with some degree of autonomy, controlled by a director-general responsible to a Ministry or tripartite governing body, as in Ireland, Canada, Turkey, Germany, Sweden, United Kingdom, Hungary, Poland and Mexico. This is perhaps the most common model. (3) The PES is controlled primarily by local agencies but with a central coordinating body, as in the United States and Switzerland. This approach strengthens non-government service delivery and promotes flexibility but makes it more difficult to develop and implement national labor market policies.

In designing and organizing the PES, a balance must be maintained between the need to localize and decentralize delivery of core services and the need to maintain common policies and programs that promote the development of a national labor market, enhance labor mobility, and coordinate with national policy. If local offices are financed, staffed, and completely operated by local authorities, it is difficult to implement national programs. For example, it may become difficult to operate a national labor exchange. In times of financial recession, there may be pressure to cut staff and services, just when resources should be increased to serve larger numbers of unemployed. To avoid such problems, there is a need to ensure there are mechanisms to monitor local services, as in Poland and Canada while maintaining a substantial local autonomy. Thus local offices offer a broad range of employment programs within a framework defined and financed by the national office.

Three examples highlight the different approaches:

PES as Field Organization of a Ministry of Labor. In Australia the PES is part of the Department of Employment-Education-Training, which consists of a central office, 6 state/territory offices,

22 area, 81 regional and 224 PES locations with a comprehensive computer communications network. The PES provides a broad range of services, including registering job seekers and matching with vacancies, canvassing for job vacancies, facilitating client access to employment and training programs, collecting labor market information, arranging income support, and operating specialist employment and advisory services.

In Mali the Ministry of Employment and Public Service is responsible for redeployment of workers displaced by public enterprise reform. Programs include early retirement and allowances to set up businesses. In addition the National Manpower and Employment Office has seven regional offices. It has a major focus on young graduates and employment promotion and provides enrollment and placement as well as employment promotion, statistics, and training services.

PES as Autonomous Agency Reporting to Ministry or Tripartite Governors. In Ireland the PES is a separate agency (FAS) under the aegis of the Department of Labor. FAS operations are governed by a board that is representative of employer organizations, trade unions, and youth interests, and includes representatives of the Ministers for Finance, Labor, Social Welfare and Education. FAS operates with a 10-region structure, with each region having its own budget. FAS provides labor exchange services, including placement and guidance, training and retraining, employment schemes, assistance to communities for job creation, and assistance to persons seeking employment elsewhere in the EEC.

PES as Local Entity with Central Coordinating Body. Swiss law requires each of the 22 Cantons to set up an employment office at the regional and municipal level, which is to be responsible for employment questions. These offices cover only about 20 percent of the jobs available while 80 percent of services are provided by private employment offices. The Federal Office for Industry, Crafts and Labor acts as a central employment office for the country.

Financing

Both core employment services and active employment programs provided through PES are often financed from general tax revenues, while income support programs are generally financed from payroll taxes and/or general taxes. However, in some cases both are financed from payroll taxes. For example, in Germany, Canada, and Japan the costs of all employment programs is financed out of payroll taxes. Hungary finances unemployment benefits and core services from payroll taxes, but other active programs from the central budget while in Ireland and Australia all employment programs including unemployment benefits are financed from the central budget. There are two key factors to consider in defining financing alternatives: (1) In determining the source of financing, the level of development of the formal sector and the level of unemployment must be considered. A country with high unemployment or an undeveloped formal sector will need to depend, at least initially, on central budget support for most if not all employment programs. As the labor market matures, financing may be split between the central budget and employer/employee contributions. As full employment is reached, all financing may be shifted to employers and employees. (2) In determining how different programs are financed, particularly in countries with rapidly growing unemployment rates, it is critical that a legal and budgetary distinction be made between the source of financing for income support and that for other employment programs. Without such distinctions, income support program expenditures will "crowd-out" investments in employment service and other active programs.

Since 1985, the OECD has documented annual total public spending on labor market programs, expressed as a percent of Gross Domestic Product (GDP). In 1987, spending on labor market programs ranged from over 4 percent of GDP in Ireland, Denmark and Belgium to well under 1 percent in Japan, Switzerland, and the United States (see Table 4). Unemployment compensation is the largest single category of employment program expenditure in industrialized countries. Rapidly rising unemployment, poorly developed alternatives such as flexible retraining programs, and a history of social support combine to make unemployment compensation such a prominent expenditure.

TABLE 4

Selected Features of Programs to Assist Workers

Feature	Cost range[a]
I. **Active Measures**	
a. Employment services	0.06 - 0.23 percent of GDP
b. Training (adult)	0.01 - 0.52 percent of GDP
II. **Income Support Measures**	
a. Unemployment compensation	0.20 - 3.42 percent of GDP
b. Public sector employment wage subsidies	0.01 - 0.68 percent of GDP
c. Government-financed early retirement	0.01 - 1.30 percent of GDP
Total public spending on labor market programs	0.36 - 5.53 percent of GDP

a/ Cost range is from low to high as a percent of Gross Domestic Product (GDP) among the 22 OECD countries (excluding Turkey) reporting data.

Source: OECD, "Public Expenditures on Labor Market Programs," Employment Outlook, Note A, Table A.1., Paris, July 1989.

Current OECD data show that resources are shifting from income support programs to active employment programs (OECD 1989), based on the idea that investment in long-term active employment programs will lead to a reduction in total cost. Although some active programs are more expensive than passive income support programs per participant month they can shorten the duration of unemployment to such an extent as to make them cost effective in the long run. Among the active programs, adult training dominates in many countries, and its importance has increased. In contrast, direct public works, job creation programs have declined in importance. These trends reflect the growing focus on human capital development on one hand, and the decline in public sector employment, or

"make work" and wage subsidies, on the other. Also, more countries are linking receipt of unemployment compensation benefits with requirements for active job search, training and/or part-time work.

For example, in 1990 Australia replaced its unemployment benefit with two payments: Job Search Allowance for those unemployed for fewer than 12 months and for all 16-17 year olds; and Newstart Allowance for those 18 years or older who have been unemployed for more than 12 months. The special problems of deskilling and demotivation that long-term unemployed people have are to be resolved by creating the separate Newstart Allowance, with more intensive and personal service from the ES to move from being dependent on social welfare to training, more effective job search, and ultimately to employment. The move from a passive to an active system of income support was consistent with directions of the Social Security Review. Newstart not only required major changes to the computer-based job vacancy and client record system but a total reconciliation of the labor office and social security records of unemployment beneficiaries.

One must be very careful when comparing the level of financing between countries because of what may or may not be included under the rubric of "employment programs." Comparisons of labor market expenditures across countries do not reflect government efforts to encourage local initiatives and development. For example, countries such as the U.S. and Japan rely heavily on the private sector and on non-financial means of public action to help redundant workers. Thus a government's total activity for dislocated workers might be under-represented (OECD 1990).

Labor Regulation

In general the role of providing employment services to employers and employees conflict with the role of regulating employer and employee activities. For example, a PES employee would have difficulty in visiting an enterprise to register vacancies while at the same time inspecting labor code compliance. While this is done in Morocco, the labor exchange is very weak and has minimal labor market penetration. Therefore, in most countries, for example, the U.S., Ireland, Germany, Australia, and Canada, the PES does not have any role in labor regulation.

Nevertheless, in some countries, there are special areas in which the PESs does provide assistance in labor regulation. These include: (a) validation of employment permits issued to foreign nationals, (b) cooperation with employer and worker representatives in reducing the effects of plant closures, and (c) monitoring hiring of special groups of workers, such as the disabled. However regulation of occupational safety and health and industrial relations/collective bargaining are almost never incorporated into the PES role.

Staffing

As with financing, it is difficult to compare client/staff ratios without knowing the exact composition of the services delivered. For example, a PES that operates adult retraining programs, as in France, may have a higher staff/client ratio than a country in which the PES simply contracts for adult training services, as in Poland and Turkey. Available data, however, show wide variations in levels of staffing among countries (see Table 5). The differences are explained by the types as well as quality of services offered.

In many countries the combination of limited funds, increasing workload pressures, and civil service hiring practices have created serious problems with staff recruitment and training. The type of employees needed to implement the new emphases in ES -- employment counseling, better labor market analysis, involvement in administering proactive employment programs -- is changing compared with the initial approach, that offered only job registration and matching. In order to overcome these problems programs are: improving the level of technical support services available to staff; improving in-service training and developing preservice staff training programs for job counselors; creating mechanisms that automatically increase financing and staff allocations at local offices when unemployment rises; and creating mechanisms for contract as well as civil service staff hiring to speed hiring when needed and overcome civil service limitations.

TABLE 5

Ratio of Labor Staff to Unemployed in Selected Countries[a/]
1988

Country	Staff:Unemployed
Sweden	1:9
Austria	1:33
Germany	1:37
Italy	1:88
United Kingdom	1:98
Portugal	1:120
Poland	1:225
Turkey	1:375 *
Mexico (State)	1:400 *

a/ Figures for public employment services only, includes administration of unemployment benefits.

* Staff/applicant ratio, no unemployment benefit system, limited core services and active programs.

The costs of staff in PES agencies was about 50 percent of total costs of delivering core employment services and active programs, excluding unemployment benefits, in four OECD countries (Olsson 1965). In the U.S. providing such core services as counseling, testing, employment and job information, and referral and placement cost US$16 per client in 1966. Other studies have shown that providing additional staff resources do not necessarily increase average costs per client.

Automation

Automation is one of the most critical areas in modernizing and extending ES operations. Computers are increasingly used to support placement services, as well as for other administrative purposes. A recent international symposium (ILO 1988) on the use of computer technology in PES concluded that (a) computer technology strongly influences the changing role of employment service administration, including office procedures and staff; (b) computers can be powerful tools for the varying

needs of employment services, provided that applications are carefully selected; and (c) the potential of computers to share and transfer data in great volumes provides the technical infrastructure for the integration of employment service functions. The use of information technology in employment services makes information and services more accessible, but it can reduce personal contacts. Computer systems cannot overcome inherent or conceptual problems in employment services. Consequently, it is important to analyze ES functions prior to computerization.

Many countries have computerized operations to provide a variety of functions. These include: registration of job seekers and vacancies including unemployment benefit calculation and payment; operation of inter-office labor exchanges and development of linkages with social welfare and social security offices (although automated job-matching programs have had only mixed success); general administration and management, including personnel and finance; program management, including client/program reporting and cost-benefit analysis of different employment with different clients; development, analysis, and dissemination of labor market information; and provision of client interest and aptitude assessment and general occupational and education/training information. These latter programs are highly successful in a number of countries, but adapting them to different cultures can be problematic. These systems can be linked directly with job-vacancy data banks. These systems are both publicly and privately developed, and may be financed partially by subscription payments from institutional or individual users.

There are several key issues that must be addressed in automating:

Difficulty. The difficulty of developing and installing a comprehensive automation system should not be underestimated, particularly in an environment where there are rapid changes in unemployment and limited local expertise.

Centralized vs. Local Approaches. Advances in computer technology provide excellent opportunities for developing countries to initiate work with standard local area networks (LANs) which do not initially require the mainframe and telecommunication support required by many existing systems in developed countries (many of which are converting to LANs).

Standardization. The success of automation depends to a great degree upon the use of standardized occupational-industrial-educational classification codes/definitions and unique client identifiers. Standard codes exist but some countries have attempted to develop their own, with questionable success.

Sequence of development. While there is no established sequence for computerization the most common approach is to start with job seeker/vacancy registration and operation of the labor exchange. The effectiveness of computer job matching varies, and there have been several experiments to find new ways to overcome the limitations of conventional occupational classifications.

User acceptance. User acceptance is one of the key factors in success of automation efforts. In Sweden the first systems introduced were inadequately tested, and as a result acceptance was low. Operational staff often have excessively high expectations about how computers can reduce their workload, and some fear that they will lose their jobs. Initial training and orientation for all staff, are critical to acceptance of automation.

Costs. The cost of automation include development costs (staff, consultants, pilot hardware/software), capital investment (hardware, software, communication equipment, facilities and furniture, user training) and operation and maintenance (consumables, repairs, retraining, staff and ongoing consultancies, communications).

Benefits. Some benefits can be quantified (faster vacancy filling, staff saving), while others are harder to quantify (quality of placement, reduction in turnover, improved targeting of services). On balance, studies of automation show direct benefits of automating ES operations. For example, in Canada an evaluation (Employment and Immigration Canada 1989) showed direct benefits of automating PES placement services. The study concluded that computerized operations have enabled a wider distribution of vacancy information at low staff cost; quicker vacancy filling; reduced search time; expenditure savings in staff; and improved seeker/job match (the introduction of automated placement services decreased costs of processing job orders by 40 percent and placement by 18 percent). A further advantage appears to be higher labor market penetration. A United States study found a 20 percent

higher placement of applicants in permanent jobs by PES offices in which job seekers could use a self-service job listing and counsellors could use computers to facilitate the search of applicant and job order files (General Community Office 1991).

E. Private Employment Services

In the past, debate concerning the role of private employment services, reflected in ILO Convention #96 (1949), stemmed from concerns that workers would be exploited by fee-paying placement services and from a perceived need to coordinate labor exchange programs to maximize their impact. Convention #96 provides for (a) the abolition of fee-charging employment services or (b) regulation of fee-charging agencies by a government agency responsible for such programs.

Recently, however, new ideas have been put forth, recognizing that, even when there is a public monopoly the market share of the public employment service is low (OECD 1988). Thus, while there remains a need to maintain public services in order to provide services to clients who fall outside the interests of the private sector, there is also a need to move toward liberalization to provide a wider range of services that meet the full range of clients. Spain, the Netherlands, and Hungary have liberalized their employment service, and such moves are being considered by Norway and Finland. There is also a need to update international understandings of public employment services because they are not the only bodies that determine organization of the labor market. This process is underway, and the ILO is developing a report on the subject based on a survey of 25 countries.

Types of Services

In general, private employment agencies are similar in that they charge the employer, not the potential employee, for services (Caire 1991). Although there are many different kinds of firms, they fall into one of two principal classifications: firms that do direct placement work, that is, acting "as brokers or intermediaries between people and jobs," and firms that do "quasi-placement," that is, carry out placement-related functions that "contribute to the organization of the labor market and in the allocation

of manpower to jobs." Either type of firm may serve a specific skill level or occupational group, such as executive search firms or model agencies, or may serve a more general population.

The first group provide a function similar to the core function of the public employment service. In most countries, however, they do not provide direct competition to the PES in that neither the companies nor the clients involved are likely to also register with the PES for similar matching services. Indeed, as noted earlier, the characteristics of the employees served are likely to be different. Private employment agencies are usually dealing with candidates who are already job ready even if they are not currently employed, whereas the PES is often dealing with disadvantaged, dislocated, and unskilled job seekers who need special services and who do not have the personal resources to pay for them.

The second group of firms includes temporary agencies and employee-leasing firms; outplacement companies, which help to relocate laid off employees; organizations providing assistance to workers with job search, such as training in writing resumes and in interviewing for jobs; and firms that help train companies in interviewing, recruiting, and selection.

Private agencies also offer more specialized search, more exacting screening, and faster response times than most public services are equipped to offer. They also offer greater confidentiality to the employer. But private agencies choose large metropolitan areas and tend to ignore or underserve other parts of the country. In Canada, for example, more than 90 percent of the private sector employment agency activity occurs in urban areas of more than 250,000 people, and especially in Toronto (Employment and Immigration Canada 1989). The Canadian Public Employment Service, in its 1989 evaluation study of employment services, found that some 70 percent of those seeking to be placed in permanent positions by private employment agencies already had jobs, that is, were changing jobs. In contrast, 70 percent of public employment service registrants were unemployed at the time of search.

In Hungary private agencies have only recently been allowed. They are actively involved in four types of services: executive search; temporary help; export of labor; and non-government agency support. There is a positive relationship between these organizations and the PES. A 1991 survey by a major new private employment agency found that about 50 percent of clients at private agencies had

education up to the high school level, 50 percent were unemployed, 27 percent had jobs but were looking for better work, and that 28 percent of large state enterprises intended to use the private agencies.

Growth of Private Services

The growth of private employment agencies and, especially, of executive search firms, has occurred largely since World War II. One important factor in the worldwide growth of private services is the increased number of multinational firms with operations in nations outside their country of origin. Tied to no one country, and therefore unlikely to use the services of a PES, these firms hire both local residents to work in specific countries and global managers who move from one country assignment to another. One result of the rise of multinational firms is the growth of branches of executive search firms throughout North America and Europe, South America, Hong Kong, Singapore, Korea, and even Japan, where the renowned barriers against moving to a job at a different company are beginning to break down. A second factor is an increasing trend for firms to restructure in order to concentrate on their core businesses. This trend has meant increased dependence on external human resource consultants to assist firms with recruiting.

Among firms in the quasi-placement group, a number of services are growing rapidly because of a change to more flexible labor markets throughout the world. In the U.S., where this tendency is especially pronounced, economist Richard Belous refers to the new pattern as the "contingent economy." U.S. firms are increasingly likely to have a core group of employees who have long-term jobs and a contingent group of employees who are hired as temporaries or on short-term contracts or who are employed by another firm altogether and leased to the firm to provide such services as running cafeterias and doing janitorial works. Ironically, this trend has been furthered in recent years by changes in laws and social mores that encourage employers to provide more job security. Thus firms identify a group of core employees to whom they can promise more job security, but use more contingent employees as well.

F. Conclusions and Issues for Further Study

While country strategies may differ, all countries that have successfully developed a competitive economy have been committed to building a well-educated and trained work force. With such a commitment there is every reason to believe that developing countries will, in the long run, be able to chart an equally successful course.

When a country invests in job information, labor market information, counseling mobility assistance, training, and referral and placement services, however, its returns are not as immediate as that of a firm which invests in a machine, to boost income and profits. Expenditures on employment services should be understood as necessary long-term investments in a productive society. In the final analysis the real costs of unemployment are not only the losses relating to industrial production. Unemployment is an affront to human dignity; a blow to family life. When it falls on the young, the unskilled, the minority, the older worker, it falls on those least able to absorb its cost. This challenge must be met.

Major efforts were made in the course of this paper to identify trends and evaluation information from developing economies as well as middle income and OECD countries. However it proved difficult to find information on developing countries. Even in the OECD countries the evaluation was minimal.

As noted in a recent report "A major weakness in the evaluation process is that too often programs are evaluated in isolation" (OECD 1991). A major weakness in the evaluation process is that too often, programs are evaluated in isolation. Knowledge that a given program has positive benefit-cost ratios is not an adequate policy guide. The ratios of other possible programs, and program mixes, should be examined; the ranking of alternatives is necessary to ensure effective use of public funds.

Based on the difficulties encountered in developing this chapter, it is recommended that further effort be undertaken, perhaps requiring on-site visits, to enlarge the overall understanding of the operation of ES programs in low and middle income nations. This should be done in order that comparisons can be made with developed country data, and these can be made available to borrowers

requesting ES development assistance from the bank. It is also recommended that an in-depth evaluation of existing programs be made in two or three low and middle income countries that are now considering expanding and improving services; and at least one study be made of a country that has no employment services to determine if and when investment in such services would be beneficial, and if so what type of services may be most effective (in essence an update of the 1966 USAID study referenced in this paper).

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