

THE PUBLIC EMPLOYMENT SERVICE IN A CHANGING LABOUR MARKET

by

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DRAFT EXECUTIVE SUMMARY

1. The Public Employment Service (PES) emerged in industrialised countries around the end of the nineteenth century as a result of concerns about the social and economic impact of unemployment. The early labour exchanges were mainly concerned with *job broking* i.e. the process of arranging for jobseekers to obtain jobs and employers to fill vacancies. But some soon became involved in new systems of *unemployment insurance*. In 1919, the newly formed International Labour Organisation commended the establishment of the PES to member states in Convention No. 2 on Unemployment. For many years, the ILO sought through other Conventions (namely, Convention No. 34 in 1933 and Convention No. 96 in 1949 on Fee-Charging Employment Agencies) to secure a monopoly position for the PES and the abolition of private employment agencies (PREAs).

2. In the 25 years following the Second World War, the PES developed in many countries, normally combining job broking with unemployment benefit work. Since the economic dislocation of the 1970s and the growth in unemployment in many countries, the PES has increasingly been used as an instrument of government employment policies or *labour market adjustment programmes* designed to tackle unemployment problems. In the 1990s, in a climate of economic liberalism and globalization, the ILO abandoned the notion of the PES monopoly and recognized that PREAs with appropriate regulation, could contribute positively to the functioning of the labour market.

3. The PES now operates in a rapidly changing labour market. Powerful demographic forces are at work, creating an ageing labour force in industrialised countries, but continued population growth in most developing countries, creating problems of youth unemployment. Even more formidable in their impact on the labour market are the forces of global competition and information technology. In the industrialised world, manufacturing employment is in decline. Some transference of manufacturing jobs to developing countries is occurring, but in the long term technological change will cause a general decline in manufacturing employment. Service jobs are taking the place of manufacturing jobs, but the transition is difficult, particularly for men displaced from production industries. The PES will continue to be heavily involved in assisting people who are vulnerable in these conditions.

4. While some of the new service jobs are low skilled and low waged, others require a wide range of skills that are constantly changing. Many observers believe that a new "*knowledge economy*" is emerging which places a premium on education and modern communications skills. In industrialised countries, there are large numbers of highly educated people who form a new kind of market for information

about jobs and the labour market. The PES can serve this market through attractive self-service provision. At the same time, given the speed of change, people need constantly to update their education and skills if they are to compete in the labour market. There is thus a need for *lifelong learning*. The PES is potentially well placed to act as a gateway to lifelong learning.

5. The labour market is becoming more “*flexible*”, with the duration of both jobs and careers less than before and with a growth of self employment, part time and temporary employment and greater variation in working hours. This is increasing both the diversity and the amount of recruitment activity. If the PES is to retain its position in the labour market, and thus be able to help its more vulnerable clients, it must adapt to servicing these new kinds of jobs.

6. The rationale for the PES role is that on the one hand it improves labour market transparency and on the other hand it offers special help to those who might otherwise be disadvantaged in the labour market. Institutionally, the PES may either be part of a government department or autonomous, often with the social partners (employer and trade union representatives) on its supervising board. However, Australia has replaced its PES with a ‘job network’ chosen in a ‘contestable market’. PES strategies and resources are highly variable. In some countries, the PES faces very tight resource constraints. There is no right level of PES resourcing, but resources need to match the strategy being pursued. Particularly in countries with heavy expenditure on unemployment benefits, cuts in PES expenditure may be false economies. Some charging of employers may be helpful, provided it is restricted to enhanced services which go beyond the basic services listed in ILO Convention 88. Overall, the PES in many countries face difficult problems and dilemmas and this is particularly true in developing and transition countries.

7. The four main functions of the PES are:

- Job broking;
- Labour market information;
- Administration of labour market adjustment programmes; and
- Administration of unemployment benefits.

These are discussed in turn.

8. PES *job broking* operates in a highly competitive labour market, in which most vacancies are filled through other channels. Job broking was transformed in the 1970s with the introduction of self-service vacancy display and is now being transformed again as several of the PES have placed their vacancy file on the Internet, with in some cases a jobseeker file on the Internet as well. These developments offer a step improvement in transparency and might seem at first sight to cast doubt upon the continuing need for the PES local office infrastructure. But, despite the high potential of Internet services in the home, direct interaction between staff and public will still be needed, particularly for those who are disadvantaged in the labour market. Difficult policy issues for the PES include:

- the balance between computerised self-help services and more in-depth help to vulnerable customers;

- whether, in its expanding Internet business, the PES should offer a screening service to employers, perhaps on a charging basis; and
- how best to measure the success of job broking, in an environment in which the PES simply provides the computer infrastructure and leaves employers and job seekers to match themselves.

9. The PES role in *labour market information (LMI)* is both as a producer of LMI (often as a by-product of its day-to-day operations) and as a user and interpreter of LMI. With the greater sophistication of many employers and jobseekers and mounting information needs among educational and training institutions and vocational guidance specialists, there is a growing market for the kind of LMI which the PES can supply. Certain countries such as Canada, the USA and Denmark have made a deliberate investment in this function, including in Canada and the USA the provision of LMI on the Internet. Effective LMI delivery requires specialist staff resources and may not be a realistic option for the PES in developing countries where resources are constrained and statistical coverage limited (e.g. excluding the informal sector).

10. A major growth area for the PES in recent decades has been in the administration of *labour market adjustment programmes*. Governments and international organisations like OECD and EU have sought to shift the balance between ‘passive’ labour market policies (which provide income support to unemployed people) and ‘active’ policies (which improve the ‘employability’ of unemployed people and create new opportunities for them). While the PES has no automatic right to deliver these programmes, in practice in many countries it has become both the gateway and the gatekeeper to them. Three different kinds of programme are discussed:

- *Job search assistance programmes*; these include self-help provision, group activities (such as job clubs, job fairs and workshops e.g. on job search techniques), and individual assistance, in the form of vocational guidance and intensive counselling programmes; the PES often plays a direct delivery role in these programmes;
- *Training and education programmes*; against a background in which ‘lifelong learning’ is becoming essential (see para 4 above), these programmes are an important way in which unemployed people may become more employable; the PES role is at least to refer participants to these programmes, but it may extend to administering courses outsourced to other providers, and, in a few remaining cases, even to running training centres directly;
- *Direct job creation programmes*; these may be intended to increase demand in the economy or to provide work experience with a view to improving employability or to achieve both these objectives; they include public sector work programmes, assistance to self-employed businesses, wage subsidies and work trials; as with training programmes, the PES role may be simply to refer participants or may extend to organising and sponsoring provision.

11. The current trend in some countries (e.g. the UK and the USA) is to integrate various of these elements into large scale and varied packages in order to reduce welfare dependency. This has the advantage of drawing on the strengths of the different approaches and offering a range of options to unemployed people. In some countries, there is a proliferation of schemes which need streamlining on the basis of evaluation findings. Evaluation suggests that job search assistance can be highly cost effective. For the PES to play an effective role in labour market adjustment, it needs both to be prepared to work in partnership with others and to build up its expertise in programme management.

12. *Unemployment benefits* include both contribution-based unemployment insurance and state-funded income support. In some countries, the PES directly administers these schemes. Even where this is not the case, the PES normally becomes heavily involved because of its provision of job search assistance to unemployed claimants and because it registers claimants and checks their continuing eligibility and their fulfilment of work search obligations. There are awkward tensions between the 'policing' role which the PES plays in relation to unemployment benefit and the PES job-broking work, which aims to maximize employer and jobseeker satisfaction. PES managers cannot simply separate themselves from benefit issues, since the PES has a key role in encouraging people to move off welfare into work. But they need to monitor the impact of this work on the PES culture and be ready to take remedial action where necessary.

13. In the turbulent environment within which the PES now operates, *organizing and managing the service* has become an increasingly complex and difficult task. The first priority for PES senior managers is to *establish good relationships with their various stakeholders*, ranging from their Minister to jobseeker and employer customers. PES activity needs to be set within a *strategic plan* which takes account of the changing political, social and economic environment. PES accountability is likely to be built around a *performance management system* which also monitors the performance of different units within the organization. To minimise the risks involved in such systems, performance measures must reflect underlying programme aims. In addition, periodic *evaluation* is needed for all major programmes if cost effectiveness is to be maintained.

14. Three important trends are affecting the organisation of the service:

- *decentralisation of authority and responsibility*, in order both to tap the energy of local managers and staff and to adapt services more closely to local needs;
- *integration of services*: the delivery of the various PES functions is being closely integrated, through *one stop shops* at local level, and through *tiered service delivery* which systematically differentiates the service provided to different clients according to their needs; and
- *competitive service delivery*: an important trend in the public services which leads to elements of PES work becoming contestable in the market or, as in the case of Australia, virtually the whole operation; it needs skilful management both to ensure cost effective results and to handle morale problems within existing staff.

15. PES senior managers are pursuing the following *management strategies* in order to achieve success:

- introducing *quality management principles*, including customer-based planning and work process reform;
- extending the use of *information and communications technology*, both to improve internal management and to provide services direct to the customer;
- improving *facilities planning and management*;
- giving high priority to *internal communications* and trying to create a two way flow of information between local office staff and the centre; and
- overhauling *staff training and development programmes* in the light of changes in the objectives and techniques of the service and the environment in which it operates.

16. The success of PES programmes depends as never before on the *relationship between the PES and other organisations*. The handling of these relationships will require a great deal of skill. Among the most important developments are:

- the relationship with *social partners*, whether in the supervisory board of an ‘autonomous’ PES or in more informal arrangements; support from the social partners can greatly ease PES work e.g. in labour market adjustment programmes;
- labour market programmes are now increasingly organized on the basis of *partnerships* between a wide range of governmental and non-governmental organizations; the importance of ‘partnership strategies’ has been emphasized by PES Directors in the European Union; the PES may be well placed to play a central role in such partnerships;
- particularly significant are local partnerships to deliver programmes adapted to local needs or to provide services through a one stop shop;
- the relationship with *private employment agencies* (PREAs); with the end of the PES monopoly, this relationship can be one of co-operation, complementarity or competition; all three play their part; cooperation is increasing in programme delivery;
- finally, PES senior managers can gain from *international dialogue* with other PES practitioners through the World Association of Public Employment Services (WAPES) and through information exchange between members of the European Union and between states in the USA.

17. We identify the following key imperatives for the PES:

- to be ready constantly to change and adapt its services in the light of changes in its external environment, while also striking a balance between change and stability;

- to recognize its position as an instrument of government policy, to win the confidence of government and to influence employment policies;
- to integrate the four functions identified in this study as closely as possible;
- to work closely with a wide range of partners and where necessary to exercise a leadership role; and
- to become a new kind of ‘service enterprise’ with a new profile for managers and staff and to strive for continual improvement in effectiveness and quality.

18. It has not been possible to investigate in depth the special problems of the PES in developing countries. On the basis of such information as we have gathered, we recommend that developing countries should:

- begin by seeking political commitment to the PES role;
- avoid simply introducing the practices from particular developed countries;
- carry out a broad analysis of labour market requirements in the context of the country’s overall approach to economic development in order to determine what PES services would be appropriate; and
- look critically at the case for job-broking services, particularly if there is a large informal economy.

We recommend that some further research should be carried out into the role of the PES in developing countries.

19. Finally, we identify the following unresolved dilemmas facing the PES:

- the tension between a universal self-help service and enhanced personalized service;
- the tension between providing customer-orientated services and policing unemployment benefits;
- the future role of the PES in lifelong learning and vocational guidance; and
- organizational issues, such as private ownership and decentralization.