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New Directions in Social Policy

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Refereed Conference Paper

This paper is part of a collection of papers that were presented and discussed at the Centre for Public Policy *Transitions and Risk: New Directions in Social Policy* conference (February, 2005). The paper has been independently reviewed by an expert. This review process conformed with the Department of Education, Science and Training (Australia) guidelines for refereed research publications.

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Refereed paper presented to the Transitions and Risk – New Directions in Social Policy Conference, Centre for Public Policy, University of Melbourne, 23-25 Feb. 2005

Contracting-out the public employment service in Denmark: A quasi-market analysis

Assistant Professor Thomas Bredgaard (thomas@socsci.aau.dk),
Associate Professor Flemming Larsen (flemlar@socsci.aau.dk) &
Research Assistant Lars Rune Møller (larsrune@socsci.aau.dk)

Center for Labour Market Research at Aalborg University (CARMA),
Fibigerstræde 1, 9220 Aalborg, Denmark (ph. +45 96 36 82 03)
(www.carma.aau.dk).

1. Abstract

The involvement of so-called “other actors” in Danish employment policy since 2003 is one of the most important innovations in the labour market reform “More people into employment” (Flere i arbejde).¹ The idea behind involving “other actors” in Danish labour market policy is to contract-out the Public Employment Service (PES), which makes the reform comparable to similar reforms in Australia, the Netherlands and the United Kingdom. Contracting out the PES has major implications for the steering, organisation, implementation and effects of labour market policy, as we will try to demonstrate. We do so by making a ‘quasi-market’ analysis (cf. Le Grand & Bartlett 1993; Struyven & Steurs 2002, 2005) of the Danish ‘quasi-market’ for employment services. We point out a number of the problems and challenges in relation to labour market policy created by the quasi-market. These problems and challenges seems more fundamental than simple start-up difficulties (or “teething problems”) referred to in Danish public debate.²

2. Introduction

In Denmark, the public monopoly over job provision was established in 1969. Until that time the Unemployment Insurance Funds (UIFs) were allowed to refer their unemployed members to vacant jobs. The UIFs are private organisations based on voluntary membership. They are responsible for administering the unemployment insurance system (paying out unemployment insurance). Since they have always been closely connected to the labour unions, this is probably one of the main explanations for the high union coverage in Denmark (around 80 % of the workforce is unionised).

Even after the PES monopoly was established in 1969, the UIFs continued to play a role in job provision (through the so-called parallel provision), albeit at a more modest level. In 1990 job provision was liberalised, in order to create a “free” market for job provision via the UIFs, the trade unions and temp agencies. However, the intentions were never fully achieved, as the services of the PES remained free of charge. The labour market reform of 1994 also introduced some elements of a market system in employment services. The provision of training and skills enhancement for unemployed persons in the PES system was liberalised. From then onwards the PES and the local authorities could contract other “external” agencies to take over training and education as sub-contractors. In 2000 the so-called “special job provision measures” were introduced for narrowly defined target groups, consisting of 10 weeks of contact sessions, job provision and guidance. These measures could be contracted out to private providers.

Therefore, there is in principal nothing new in exposing the monopoly of the PES on job provision to the “test of the market”, or for that matter in involving so-called “other actors” in employment policy. What is fundamentally new, however, is the fact that all previous restrictions as to the duration, scope, target groups, average prices and types of activities have been abandoned now. There are not any constraints on the types of activities “other actors” are allowed to use either, as long as they keep within the broad frames of the law.

This means that there is a rather limited central control and steering of the “market” and complete freedom of method for “other actors”. These “other actors”, which are now competing for contracts on employment services, include a broad range of different actors, like private providers (temp agencies, recruitment and consultancy firms etc.), public and

semi-public educational institutions, the labour unions, unemployment insurance funds and non-profit organisations.

The political assumption is that the creation of a “free” market for job provision and other employment services is “better and cheaper” than that of the PES. “Better” because “other actors” are assumed to be more specialised in providing innovative measures for specified target-groups, which the PES have not traditionally catered for (like academics, refugees and immigrants, older unemployed etc). And “cheaper” because private providers are motivated by economic incentives and efficiency considerations, while unemployed individuals can choose the provider with the most effective and responsive measures. Thereby, a market will arise in which “*competition, market testing and documented effects will permeate both activation measures and ordinary job provision*”, and in which the actors will be regulated by means of economic incentives in the form of performance-related pay (Regeringen 2002: 14). For the individual, the goal is “*the quickest and straightest way into a job*”, and for the liberal-conservative government to fulfil the macro-economic 2010-objectives by increasing the supply of labour (Beskæftigelsesministeriet 2002).

The labour market reform “More people into employment” was made under specific – and rather unique – circumstances. In autumn 2002 Denmark stood at the peak of an economic upswing, had record-low unemployment (just below 4.5%) and there was widespread fear of shortages of (qualified) labour. The fact that an economic downturn set in shortly after and that unemployment has been on a steady climbing (currently 6.2%) has, however, not made the government renounce its intentions to create a “free market” for employment services. Quite the contrary. When the market had been in operation for nearly two years, the Minister of Employment, said, barely containing his satisfaction:

“I can’t think of any precedent in Danish politics when such a huge market has been created from scratch in such a short time. A market that, on top of everything, is already operating on par with the PES [...] other actors are here to stay” (Nyt fra Beskæftigelsesministeriet, No. 11, November 2004).

According to the Minister of Employment the issue is no longer *whether* but *how* to involve “other actors” in job provision. The process is now in its operative implementation phase, and the focus is on “*weeding out the teething problems and the private actors who do not deliver*”.

However, in this article we are going to argue that contracting out the PES system has created a number of more fundamental problems that cannot be cured merely by weeding out the private actors who fail to deliver, or by using a “best practice” and benchmarking approach. The first question to be discussed is which (explicit as well as implicit) motives lie at the heart of the contracting out of the PES. Then a “quasi-market” perspective (cf. Le Grand & Bartlett 1993) will be used to analyse how the Danish market is constructed and the preconditions required for the creation of a well-functioning market. Empirically these questions will be illustrated partly through the insights accumulated in the first nationwide evaluation (Arbejdsmarkedsstyrelsen 2004a), and partly through comparisons with similar contracting-out reforms in the Netherlands and Australia. Finally, it will be discussed whether the implementation experiences gained so far can be characterised as start-up difficulties (“teething problems”) or indicate more fundamental problems which will be difficult to overcome by changes of design or new implementation arrangements. The objective of this article is, thus, on an empirical basis, to take the Minister of Employment at his word and examine whether the “market” does indeed work on the premises stated, and which consequences this has for the labour market policy and for the labour market.

3. Policy formulation

It is worth bearing in mind that “More people into employment”, including the involvement of “other actors”, is the result of a broad political compromise with the participation of all political parties, except the two left-wing parties. In spite of widespread previous opposition to involving “other actors” well into the ranks of the Social Democratic Party and the trade unions, one reason for accepting it now may have been that it was not, rhetorically, presented as privatisation, contracting out or liberalisation of the PES, but merely as a wish to include “other actors” in employment policy – which sounds a lot more reassuring. Another reason why the Social Democrats and the trade unions were able to accept the compromise was that the term “other actors” was defined very broadly to include not only private providers but also trade unions, unemployment insurance funds, public educational institutions etc. The compromise thus enabled the trade unions and the unemployment insurance funds to become actors on this re-integration market. That, however, placed the trade union movement in a double role as both policy-makers (being representatives of labour market policy boards, agencies and committees) and as policy-takers (addressees of public policy). So the trade unions play a double role as both the “protector” of the unemployed, and as service provider, which sets the Danish reform apart from the reforms in the Netherlands and Australia.³

The broad political consensus surrounding “More people into employment” and the involvement of “other actors” can probably be explained by the fact that several sets of policy arguments can be identified for contracting out, enabling the various actors to read a number of different intentions into the programme (cf. Stone 1997; Bredgaard et. al. 2003). We have identified the following four main motives for contracting out the PES in Denmark:

(1) Officially, the involvement of “other actors” is justified by the *technical-rational argument* that neither the PES nor the local authorities span all corners of the labour market (Beskæftigelsesministeriet 2002: 12). It is argued that the Danish labour market is characterised by great variation in job positions and professional groups with many different qualifications and educational levels, and that a flexible and individual approach to each unemployed person requires a broad range of insights into specific lines of business and target groups. The assumption being that the PES and the local municipalities do not possess this broad insight. Presumably these special target groups include graduate unemployed, and the so-called “disadvantaged groups” (e.g. older workers, refugees and immigrants). “Other actors” are expected to be able to bring in their specialist competences and thus add innovation to the reintegration measures. So far, however, “other actors” have mainly been used to relieve the PES of the new and time-consuming contact periods (Arbejdsmarkedsstyrelsen 2004a: 12ff.). This is a new measure introduced in employment policy by the 2002 labour market reform, meaning that the case-worker in either the PES or the local municipality must be in contact with each individual unemployed every 3 months. So far it does not seem as if “other actors” have been given a chance to prove their specialist competences and innovative approaches, as they were supposed to, cf. below.

(2) These technical-rational – and in fact undocumented – reasons would not seem sufficient to justify a total contracting out of the entire job market for all types of target groups. A nationwide call for tender for graduates and perhaps a few tenders on special groups of “disadvantaged” unemployed would have sufficed. Even though it is not acknowledged openly, there seems no doubt that the reform rests on *ideology* as well. The involvement of “other actors” is based on the implicit assumption that a “free market” is by definition “better and cheaper” than a state-run and bureaucratic PES system. The market economy reasoning says that when employment services are exposed to the “market test” through tenders and

performance-related pay, then private service providers will emerge who are “better and cheaper” than the PES and the municipalities, which will in turn lead to improved efficiency and lower costs. Competition from service providers is also expected to lead to a public sector which is less bureaucratic and more flexible. The “invisible hand of the market” will by definition lead to more cost-effective solutions. And the unemployed will be freed of the visible hand of the government that is disempowering and clientelizing. These ideological ambitions may explain why all and not just parts of the employment services were contracted-out. However, it has proved difficult for the liberal-conservative government to win political support for contracting-out and privatising traditional core areas of the welfare state such as health and education, which has meant that free-choice and voucher schemes have been preferred instead. Providing income support for the unemployed (unemployment benefits and social assistance), which is one of the cornerstones of the welfare state, will for the same reason remain a public responsibility, whereas the provision of services such as finding jobs, activating and upgrading the skills of the unemployed is contracted out.⁴ In that respect the division of responsibilities between purchaser and provider is similar to that in Australia, and different from the model used in parts of the US (e.g. Wisconsin) and the UK Employment Zones where placement, reintegration and benefit payment are all implemented by private providers (cf. Struyven 2004: 19).

(3) In order to lend additional rationality to the exercise, experiences *from especially the Netherlands and to a lesser extent Australia* have been quoted as inspiration. As the Minister of Employment said to the Council of European Employment Ministers on 8 October 2002: “*Yesterday back home in Denmark I made an agreement on employment policy which was substantially inspired by the way they do things in the Netherlands*”. Dutch senior civil servants were invited in 2002 to tell among others the National Labour Market Council about the Dutch model and recent labour market reforms, and the sector analysis of the Danish Ministry of Employment for the Local Government Commission contained an detailed account of the Dutch employment system (Beskæftigelsesministeriet 2003: 195ff.). Since 2001 the Dutch PES system has been privatised completely, and parts of what used to be the PES now compete on an equal footing with the private providers. Just as in Denmark, this contracting out has happened simultaneously with attempts to harmonise the PES employment policy with the social policy of the municipalities via the establishment of a “one-shop system” through the so-called Centres for Work and Income – CWIs. In the Netherlands, the main reasons stated for contracting out were the wish to improve the efficiency of the employment system, to reduce costs, and to reduce the influence of the social partners on employment policy (Sol 2005). The actors in the private market for “re-integration” are paid according to the principle “no cure – no pay” (performance bonus only), and for the most disadvantaged unemployed on the basis of “no cure – less pay” (performance pay and operations costs) (Koning 2004). So far there has been no overall evaluation of the efficiency or the effect of this new Dutch system. A number of preliminary experiences nonetheless show some tendencies that are also evident in Denmark: (1) A short-term orientation dominates the employment services, which means that e.g. training provisions are fewer and shorter, and that the initiatives are controlled via results and effects rather than activities and processes (from administrative instructions to contractual agreements). (2) Each successive round of tendering has resulted in less competition between the providers; that is, the market is increasingly dominated by fewer and bigger providers. (3) The reforms have managed to place both employers and trade unions passively on the sideline, where they are neither involved in the design, planning nor implementation of employment policy. (4) The reform focuses on the suppliers of labour (the unemployed) rather than the demand-side of the labour market, the employers (cf. Struyven & Steurs 2002, 2003, 2005; Struyven 2005; Sol 2005; Koning 2004). Policy transfer from the Netherlands to Denmark is difficult; on the one hand because the Dutch welfare state is a Continental-European social insurance model (with

high job security and employers contributing to the financing of the welfare state through social contributions), on the other hand because the Dutch labour market is essentially different from the Danish (with many part-time jobs, temp work agencies, and an array of non-standard employment contracts). In 1998 Australia saw the most far-reaching contracting-out of the PES in the western world (OECD 2001; Struyven & Steurs 2002, 2003, 2005). Just as in the Netherlands – and in Denmark – the purpose was to increase the efficiency of the system and to reduce costs; however the reform was more draconian as the budget for active employment policy was halved at the same time. As in Denmark and the Netherlands, contracting-out was coupled with the establishment of a “one-tier” employment system (Centrelink) vetting the unemployed for referral to “other actors” (the Job Network). A deliberate consequence of the reform seems to have been a “targeting” of the employment initiatives on the “investment-ready”, which consequently means that the “weakest” among the unemployed are deliberately given less priority otherwise known as creaming and parking (Considine 2001, 2005).

(4) The final motive for contracting out the PES, which is more or less evident in all three countries, is the *wish to change employment policy towards a more socially disciplining approach* (cf. Larsen et al. 2001) or “work-first” approach (Peck 2001). In a Danish context, the purpose is to shift active labour market policy away from a “human-capital approach”, focusing on needs-oriented training and education, individual action plans and social inclusion, towards a “work-first approach”, in which short job training, career guidance and CV-writing courses replace longer-term activation measures. The barriers to re-entry on the labour market in this approach are interpreted as lack of economic incentives to work rather than a lack of qualifications and competences (cf. Larsen et al. 2001; Goul Andersen et al. 2003; Torfing 2004). The instruments to bring about this change are more rigorous sanctions, tighter availability and mobility rules, quicker re-employment rather than education and training, and shorter periods and/or at lower levels of unemployment benefits etc. Among central decision-makers there is a tendency to view street-level bureaucrats in the public systems as barriers to this more rigorous approach (Albrecht Larsen & Goul Andersen 2004: chap. 5). This seems to indicate that a precondition for implementing the ambitions towards a more socially disciplining approach is contracting-out as many employment services as possible to other (primarily private) actors. They are expected to be less likely to try to “sabotage” the political initiatives. Actually it appears from the national evaluation of the Danish Labour Market Administration that in certain cases a kind of competitive relationship has developed between street-level bureaucrats and “other actors”:

”At the staff level the cooperation has at times seemed more like a competition than a partnership, or a purchaser-provider relationship, at least seen from the position of “other actors”. It is thus stated that some staff members see and treat “other actors” as competitors, which the actors do not find conducive for constructive cooperation and efficient performance of the task”
(Arbejdsmarkedsstyrelsen 2004: 7).

That a certain amount of inertia and resistance still linger in the PES system towards contracting out employment services ought not to come as a surprise. One reason may be that to a certain extent contracting-out is seen as repudiation of the services provided previously, and that what is happening is not just a disciplining of the unemployed, but also of the street-level bureaucrats in the PES offices and the local municipalities.

To sum up, there are several – explicit and implicit – policy arguments behind the contracting out of the employment services in Denmark. This means that also the implementation process,

which will be dealt with next, can take on a varying content and nature, depending on the intentions to be met.

4. Policy implementation

On the basis of the preliminary Danish experiences in involving “other actors”, we will try to characterise the Danish implementation process. This will be done based on the theory of quasi-markets for social policy, which is well suited to evaluate shifts from bureaucratic, public systems of government to new mixed forms of governance by both state and market (cf. Le Grand & Bartlett 1993). These new contracted-out governance systems are “markets” in the sense that they replace a former monopolistic state supply with independent and competitive market providers. They are “quasi” because these markets differ from conventional markets in a number of respects: (1) Even though the service providers do compete, they do not all aim to maximise profits, or are privately owned (c.f. the trade unions and the non-profit organisations), (2) the purchasing power of the “consumers” is not expressed in monetary terms, but is centralised via public demand. In Denmark, local authorities and the regional labour market councils buy employment services from “other actors”, and (3) the choice of supplier is not solely vested in the user/consumer, but is often delegated to a “third party” (in this case the local and regional authorities).

This means that quasi-markets cannot be evaluated according to the same criteria as conventional markets. As employment services are a core area of the welfare state, it is not sufficient to evaluate the quasi-market on whether it is more or less efficient than the previous system. Additional criteria must be applied, like whether objectives of equality and justice are met (cf. Jørgensen et al. 1999; Larsen 2002). Besides from efficiency, the quasi-market approach therefore also includes responsiveness, freedom of choice and equality as well. To reach these criteria a number of conditions must be fulfilled. There are four preconditions to be fulfilled for a quasi-market to be well functioning (cf. Le Grand & Bartlett 1993: 19ff.):

First, *market structure*: A competitive market requires many providers (who are each unable to decide the market price by changing their output) and many purchasers (who are each unable to decide the price by changing their demand).⁵ Entry and exit from the market must be relatively easy and the price of the services able to move freely in response to changes in supply and demand.

Second, *information*: An additional precondition is that both providers and purchasers have access to cheap and accurate information. The purchasers are particularly interested in information on the quality of the services provided, whereas the providers are especially interested in the costs of participating in the market. Monitoring quality is essential and is about avoiding opportunistic behaviour, e.g. that providers spend fewer resources than prescribed in the contract (so-called moral hazard), or deliberately withhold important information (so-called adverse selection). An important problem in this context is to avoid *high transaction costs and uncertainty*. In exchanges between purchasers and providers, transaction costs will occur, as transactions in quasi-markets are often complex and multi-dimensional both as to the formulation and the compliance with the contract, and furthermore there is often considerable uncertainty as to future need for service.

Third, *motivation*: In order to respond appropriately to the market signals accompanying a quasi-market, the providers will have to be at least partly driven by economic motives. And the purchasers (the public authorities) will have to be motivated to pursue the welfare of the users, and not their own interests.

Finally, *creaming*: The objective is here to establish congruence between the needs of the users and their consumption of services. Creaming denotes the discrimination of “expensive” users (e.g. “disadvantaged” unemployed), which may occur among both purchasers and providers. The technical solution to this is introducing differentiated models for payment, in which the price for servicing the “expensive users” increase in line with the costs of their consumption (e.g. increased payment for the weaker unemployed).

An important point, which will become evident once we assess the Danish experiences, is that a well-functioning quasi-market is not a “free” and unregulated market; quite the contrary, considerable public regulation will be required (cf. Considine 2005). The public authorities set up the framework for the “market”, decide which tasks to contract out, which providers to choose, how to pay them, how to control the market and collect information on market activities etc.

The question now is to what extent the Danish quasi-market for employment services lives up to the preconditions listed above, and thus to what extent employment services have become more efficient and responsive, whether there is freedom of choice for authorities and users, and whether there is equality for all in the market. Methodologically we have to make the reservation that not all these evaluation criteria can be dealt with in detail, as the empirical material on which the article is based, i.e. the evaluation of the Danish Labour Market Administration (Arbejdsmarkedsstyrelsen 2004), does not include explicit goals for efficiency and costs, and only to a limited extent touches upon the question of equality (creaming). Where possible, we will therefore supplement with additional source material.

4.1. The nature of the Danish quasi-market for employment services

From the outset certain characteristics of the Danish quasi-market for employment services differentiate it from similar quasi-markets in the Netherlands and Australia, and this has profound implications for the management and the implementation of the reform. As mentioned in the introduction, there is little central steering and control of the tendering process and the quasi-market. Apart from the scope (a minimum of 10% of the unemployed in the PES system must be referred to service providers by contract), by and large all other decisions have been delegated to the regional labour market councils (Regionale Arbejdsmarkedsråd - RAR) and the local authorities (municipalities). RARs and local authorities make their own decisions as to which target groups and types of activities to contract out, the scope and nature of the tendering rounds, the selection and allocation criteria, the price, monitoring etc. In contrast to Australia, which seem to have a strong central steering via national tenders, and the Netherlands, where central criteria are laid down for target groups and price, the Danish quasi-market has, so to speak, been handed over wholesale to the decentralised authorities. This has resulted in quite considerable variations between regions and local authorities as to how, why and with what results “other actors” have been involved (cf. Arbejdsmarkedsstyrelsen 2004a). In that sense the design of the quasi-market follows the Danish tradition of decentralised labour market policy and in a more general sense the traditions for extensive local government (cf. Jørgensen 2002). This can create problems not only in relation to equality before the law (arbitrariness) for the individual unemployed person, but also make it problematic to manage the macro-economic steering of the labour market.

Another characteristic of the Danish quasi-market is the strong involvement of the social partners. This happens particularly through the regional (and national) labour market councils (which are composed of representatives from municipalities, the employers association, the trade unions and the state PES system). In these councils, which are responsible for the

tendering process, the social partners are involved in all the phases of the contracting-out process. Since the trade unions are also involved as service providers, they become both policy-makers and policy-takers, which might create conflicts of interest.

These special characteristics of the Danish “quasi-market” for employment services have profound implications for efficiency, responsiveness, freedom of choice and equality; i.e. for the four evaluation criteria by which we are now going to characterise the implementation process.

4.2. Efficiency

The first (and so far only) tendering round, which took place in spring 2003 through the 14 regional labour market councils (RAR), led to 617 bids from “other actors”. Subsequently 163 framework agreements were made, of which 57% involved private enterprises, 25% the trade unions and 18% public institutions. In the second phase, each region made specific and binding contracts with each provider stipulating the target groups and type of services delivered. The Danish market for employment services is characterised by a relatively high number of purchasers and providers, which in theory should create the basis for a competitive market.⁶ The evaluation of the National Labour Market Administration finds, however, that as many as 93% of the present actors used to cooperate with the PES and the local authorities before the call for tenders. Thus it is not a new market, but a substantial extension of an existing one (Arbejdsmarkedsstyrelsen 2004a: 4). The evaluation furthermore suggests that the providers use largely the same methods as the PES, and have therefore not, as was expected, made any significant contribution towards the innovation of methods (Arbejdsmarkedsstyrelsen 2004a: 10). It is also worth noting the limited experiences of the local authorities with contracting out employment services: Only one in four of the local authorities report any experience with the involvement of “other actors”, and of them only one in five have used tenders. Only a third of the 51 local authorities using “other actors” use performance-related pay (Arbejdsmarkedsstyrelsen 2004: 4).

From 2003 to the second quarter of 2004, just below 200,000 unemployed persons have been transferred to “other actors”. The numbers have been increasing significantly since the implementation of “More people into employment” at the start of 2003. In 2003, 10-20,000 started each quarter, rising to 40,000 in the course of 2004.⁷ There is a wide regional dispersion in the number of unemployed referred to other actors. This can be seen in the regional target figures; the minimum requirement for referrals to “other actors” was set at 10% of the unemployed. The share of unemployed referred to “other actors” was 22% on average in 2003, and varies from barely 10% to 44% in one particular region (Arbejdsmarkedsstyrelsen 2004b). In spring 2004 the average rose to 30%. After the implementation of the local government reform in 2007, the former regional labour market councils will be able to enforce local job centres to contract out services if they consistently fall short of regional objectives. In spite of these regional variations, it must be said that the quantitative ambitions of the government have been met in full as to the scope of the contracting-out.

In 2003 the price for involving “other actors” amounted to DKK 348 million (46.5 million Euros), of which DKK 335 million was spent on contact periods (96 %). In 2004 the amount spent is expected to almost double, to DKK 679 million (90.5 million Euros), of which more than 80 % will be spent on contact periods, and the remaining 20 % on activation measures (Arbejdsmarkedsstyrelsen 2004b). In agreement with the stated ambition of the government to “close down the activation industry” (cf. Regeringen 2002: 13ff.) activation and individual job plans are used only to a very limited extent.⁸ The resources are instead spent on the new

task of making contact periods, which imply that each unemployed person must be in contact with either a provider or a representative of the PES/local authorities as a minimum every three months during the unemployment period.⁹

The first preliminary effect analysis made by the Danish Labour Market Administration shows that for all persons being transferred to “other actors” in the third quarter of 2003, the average economic self-sufficiency ratio over a period of 26 weeks after the first meeting with a provider is 0.25, i.e. a reduction of on average 6½ weeks out of the 26 weeks. Looking at so-called “exclusive” contact periods, i.e. with either a service provider or the PES exclusively, it turns out that the average self-sufficiency ratio is reduced by 0.31 by “other actors” (8.06 weeks) against 0.28 (7.28 weeks) by the PES. In other words, “other actors” perform marginally “better” than the PES in returning the unemployed to work six months after the start of the contact period, whereas the PES have marginally better results with short-term and older unemployed persons (Arbejdsmarkedsstyrelsen 2004c).¹⁰

However, it would be premature to conclude on this basis that “other actors” are “better and cheaper” than the PES, especially as there is a lack of methodologically valid effect measurements, and there is no information available about neither the quality of the intervention nor the quality or duration of subsequent employment. Furthermore we do not know the long-term effects of this new intervention; do the jobseekers remain in employment, what type of jobs, and are there dead weight, displacement, carousel and other unintended effects? In spite of the declared intention of the government that documented effects must permeate all measures taken, common standards for measuring effects still have not been drawn up, and it is therefore still too early to assess the efficiency of the Danish ‘quasi-market’ for employment services.

4.3. Responsiveness

Another purpose of increasing the involvement of “other actors” has been to make the employment system more responsive towards the needs of the unemployed, the local and regional authorities. As is stated in the action plan of the government, it is the ambition to pursue an individual and flexible approach to all unemployed, and to reduce bureaucracy (Beskæftigelsesministeriet 2002). In principle, the very broad, general frames outlined in “More people into employment” could increase responsiveness, as it is up to the regions themselves to apply measures according to local and individual needs and conditions. The possible reasons for involving other actors do indeed vary from region to region: (1) To relieve the PES system, (2) to provide flexibility by being able to increase or decrease the number of contractors according to the business cycle and problem structure, (3) to enhance innovation, as “other actors” are expected to contribute with new methods and instruments, and (4) to increase target group specialisation (cf. Arbejdsmarkedsstyrelsen 2004a: 11ff.).

In practice, however, it turns out that the regions have used “other actors” primarily as “raw resources”. That is, they have been used predominantly as relief in connection with the contact periods, which to some extent is at odds with the underlying intentions of the reform about more specialisation and innovation in the measures. That it has turned out this way is probably a result of the quite considerable political pressure on the regions to fulfil the centrally defined volume specification (10% referrals to other actors) and the replacement of the previous requirement for 75 % activation in the unemployment benefit period with the new 3-month contact period, which is, it seems, very resource demanding. The consequence of this “resource strategy” is short-term and simple measures that end up focusing on minimising costs rather than maximising effect. The role of the PES in this context is to control and sanction providers who do not deliver, which can easily lead to a competitive

relationship rather than a partnership (cf. Arbejdsmarkedsstyrelsen 2004a: 13). Responsiveness is furthermore diminished because “other actors” tend to have rather limited knowledge of the priorities of regional labour market councils and of the regional labour market in general (Arbejdsmarkedsstyrelsen 2004a: 10).

Responsiveness also depends on how information is exchanged internally in the employment system and externally in relation to other actors and the unemployed. It is a well-known phenomenon in quasi-markets, which often have an extra link inserted between the authorities and the citizens that various forms of information asymmetries can arise. It has proved difficult for the regions (and the local authorities) to describe the tasks contracted out precisely. It has been difficult for them to give exact information about the way they have performed the tasks so far, and how to solve the new tasks introduced by the 2002 labour market reform. Consequently the calls for tenders have been imprecise. This has produced situations where the “other actors” have interpreted the tasks differently than the regions, and it has at the practical level led to more work in order to clear up and adjust expectations (Arbejdsmarkedsstyrelsen 2004a). As for the “other actors”, they have felt they were “fumbling in the dark”, trying to decode the expectations of the public authorities when drawing up their bids, whereas the authorities have felt the “other actors” fail to live up to their grandiose programme statements. Out of respect for the freedom of method of the providers, some authorities deliberately produce very imprecise and generalised calls for tenders, which providers find difficult to read the right content into. The lack of a common terminology for the activities offered tends to produce a “non-transparent” market (Arbejdsmarkedsstyrelsen 2004a). The ensuing monitoring of the quality of the tasks performed is additionally hampered by the so far non-existence of an integrated national quality assurance system, and by the fact the “other actors” have a business interest in not publishing their “best practice”. The quality of the performance of the “other actors” is finally impeded by discrepancies in the numbers of unemployed referred and the numbers agreed on, or by too little information about the unemployed provided from the PES (Arbejdsmarkedsstyrelsen 2004a: 7). This should not give the impression that the previous PES monopoly was infallible, some of these problems were actually well-known and also permeating the previous system. However, new problems have emerged and old problems are multiplying.

Quite substantial problems in the exchange of information exist in this “new” market: On the one hand internally in the public systems, where the introduction of administrative systems and IT support is still in progress, and on the other between the authorities and providers, where there is a lack of transparency due to rather complex payment models, imprecise calls for tenders, confusion over terminology and huge regional differences in the forms of involvement (cf. Arbejdsmarkedsstyrelsen 2004a). These problems afflict not least the unemployed, who are confused by the fuzzy division of responsibilities between the PES and “other actors”, and who lack information about their rights and responsibilities, as a number of “other actors” seem to lack elementary knowledge of the legislation.

As a consequence there have been considerable transaction costs in connection with the involvement of “other actors”. However, there is no overall assessment in monetary terms of the transaction costs of contracting out, which would indeed be difficult to make at all, as part of the transactions are “invisible” and hard to measure. That the tendering process has demanded a lot of resources in the regions is also due to the fact that this has been the first ever round of tendering under the new labour market reform. A number of these “start-up investments” must be expected to decrease over time. But the costs connected with the tendering rounds, preparation and observance of the contracts will remain relatively high compared to the previous system.

4.4. Freedom of choice

In quasi-market theory, the question of responsiveness is closely linked with the extent of freedom of choice, both for the individual unemployed person in choosing service providers, but also for the authorities in the choice of who they want to cooperate with. In principle, an unemployed person must have freedom of choice if there are several, equally efficient actors available. Freedom of choice offers a number of advantages. Competition for the unemployed, who can be expected to choose the most successful, should induce the providers to improve the quality of their services. Freedom of choice can help enhance the responsiveness of the system, as the unemployed will have better opportunities for seeking out exactly the services they need. And finally, freedom of choice should in theory empower the unemployed and increase their rights.

The potential for widespread freedom of choice is present, as the Danish market has relatively many providers of employment services. In reality, the freedom of choice has so far been rather limited for the unemployed. In the national evaluation more than two thirds of the unemployed, who are or have been referred to service providers, respond that they have not been given the possibility to choose between agencies.¹¹ Part of the explanation may be found in the fact that some regions give higher priority to getting the cooperation with the actors off the ground; just as freedom of choice has been non-existent in some regions, for the obvious reason that they have chosen to involve only one “other actor”. Furthermore it has been difficult for the regions to evaluate whether the actors are equally efficient, as the experiences so far have been limited. Around half the unemployed do, however, find freedom of choice important, especially among the unemployed who have in fact been given a choice (Arbejdsmarkedsstyrelsen 2004: 6). In spite of the lack of freedom of choice, 64% of the unemployed are satisfied with being transferred to “other actors”. In comparison, 66% of the unemployed remaining in the PES system are satisfied with the services offered. As many as 75% of the participants who have subsequently found employment do not, however, think that this is due to the “other actor”. A possible explanation is that “other actors” – contrary to expectations – either have limited contact with the business community, or do not wish to utilise their network of business contacts because they see it as their main task to equip the unemployed with competences to apply for and accept jobs rather than finding jobs for them (Arbejdsmarkedsstyrelsen 2004a).

4.5. Equality

The final criterion, equality, is an important parameter in connection with all kinds of public service, implying that service is supplied on the basis of considerations of equality and justice, meaning that the users are either treated equally or according to need. In the employment area it makes sense primarily to focus on equality as a combination of the unemployed person’s need for service with the service supplied. This means, as a point of departure, that most resources should be devoted to the weakest of the unemployed, and fewer to the unemployed who possess the competences to find their own way back onto the labour market. In quasi-market theory, the objective is to avoid creaming (that providers or authorities cream off the unemployment pool by only spending time and resources on groups who are immediately profitable, e.g. the strongest among the unemployed), or parking (that certain groups of unemployed are given nothing but the bare minimum service required by law).

The broad political agreement underlying the labour market reform opens up for the use of differentiated pay models. However, it is up to each region (and local authority) to work out the exact payment model; and no region seems to have chosen to grant higher pay for the

weaker unemployed. In contrast, six regions have chosen to use a model for payment depending on the job provision rate, which is an incentive to focus resources on the unemployed closest to the labour market. The preliminary experiences from the regions seem to indicate that the higher the share of performance-related pay used, the fewer bids from “other actors”, and the greater the likelihood that actors include the risk in their prices (Arbejdsmarkedsstyrelsen 2004: 5). This clearly indicates that the actors (in particular private consultancy and recruitment firms) are motivated by economic incentives, and adapt their behaviour to the composition of the payment models. However, based on its evaluation, the National Labour Market Administration does not find evidence of performance-related payment models leading to creaming or parking. Proving or disproving this is difficult, and certainly in the present situation when there is limited monitoring and control of the market, and continual documentation and information exchange problems. As it is, both purchasers and providers have incentives to hide the existence of these less than intended forms of behaviour.

A recurring problem in both the Netherlands and Australia has indeed been creaming and parking (Considine 2001; Struyven & Steurs 2005; Sol 2005). A fundamental problem is that the quasi-markets in the employment area on the one hand tend to revolve around short-term initiatives for the unemployed, which are difficult to tailor to the multiple and complex problems that “weaker” unemployed typically are afflicted by, and on the other that service providers, motivated by economic incentives, will be reluctant to invest in persons whose “profitability” is uncertain.

To sum up, the preconditions for a well-functioning quasi-market are hardly met at the present time. True, the market established is characterised by a relatively high number of service providers and purchasers, but they in fact represent a continuation of an already existing market rather than the establishment of a new market. In addition we are not at present able to evaluate the efficiency of this market, neither in terms of cost efficiency, nor in terms of employment effects. The establishment of the quasi-market has entailed considerable information asymmetry and transaction costs, which have led to less responsiveness and freedom of choice in the market. Finally, there are signs that creaming does occur, which is to the disadvantage of the “weakest” among the unemployed.

5. Policy implications

The conclusions in the evaluation of the Danish Labour Market Administration concerning the involvement of other actors are (not surprisingly) predominantly positive: A, if not well-functioning, then at least functioning market has been established, in which “other actors” perform marginally better than the PES in a number of areas, and which offers initiatives tailored to the individual unemployed person, who takes a positive view of it. The problems and challenges that do exist in the market are referred to as “teething problems”, which can be cured by applying more consistent strategies for the involvement of “other actors”, and greater simplicity and support in the control of other actors (Arbejdsmarkedsstyrelsen 2004a: 11).

As mentioned at the beginning, the Minister of Employment is clearly proud that this new market is already now performing a little better than the PES. The central organisations of the labour market parties, the employers’ organisation (DA) and the trade union movement (LO), seem to agree that “other actors” should be given more opportunity to show their specialised competences and create new initiatives rather than just relieve the PES system of operational tasks such as the contact periods. However, FTF, the Joint Council for Salaried Employees and Public Servants, together with SID, the General Workers’ Union, have been among those

most sceptical of the involvement of “other actors”, and they claim, among other things, that “other actors” are “unprofessional” and up to four times as expensive as the PES (Resonans, 27 October 2004), a claim that the Ministry of Employment flatly denies (cf. Jyllands-Posten, 14 November 2004).

The debate so far on “other actors” has failed to discuss a number of more fundamental problems that follow in the wake of the contracting-out of the PES system. In a broader labour market political perspective the question remains whether the political decision-makers have signed away political control mechanisms and thus their responsibilities. As indicated above, managing and controlling the labour market by means of “other actors”, freedom of methods and economic incentives is difficult. The market logic presupposes that the behaviour of providers towards the unemployed can be regulated by economic incentives and performance goals. This leads to competitive relations between not only the service providers but also between the providers and the purchasers. Promoting partnerships based on mutual trust and common expectations will become difficult as the contracts are won on market terms and in tender rounds. The invisible behaviour that secures quality, respect, equality and other inter-human values are not quantifiable, and can therefore not be specified in a contract or measured through effect evaluations. Furthermore, the economic logic and the focusing on documented effects will lead to a short-term orientation among the actors in the employment service. Only initiatives that promise to deliver quick and quantifiable results (“the quickest and straightest way into a job”) will be encouraged in such a market. As a consequence, the more long-term activation and training initiatives have already been cut back. If “other actors” are to be involved in the future, a great challenge will therefore be to create mechanisms by which partnership and mutual trust can be established in such a quasi-market for employment services (cf. Considine and Finn 2004).

In this context it seems to be a general experience, not only in Denmark but also in the Netherlands and Australia, that quasi-markets find it difficult to handle the unemployed least employable on the labour market. Creaming and parking of the “weakest” is difficult to avoid within the frames of a market economy logic, when the effects of the initiatives are uncertain and when the problems of the unemployed are complex and require long-term and costly measures. As mentioned previously, this is also connected with the wish to introduce more social disciplining (work first) in employment policy, and the involvement of “other actors” becomes an important instrument in this. But getting unemployed people with massive social, mental and physical problems back into employment as quick as possible is a difficult task. Somewhat surprisingly, “other actors” have chosen not to utilise their business networks to sell off the unemployed.

Despite the fact that Danish labour market policy over the years has been inspiring numerous foreign delegations (cf. Jørgensen 2002; Kongshøj Madsen 1999) this illustrates a more general problem in Danish employment policy: That it is very supply-side oriented and not demand-side oriented (cf. Bredgaard 2004a, 2004b, 2005). Despite the innovations of the labour market reform “More people into employment” in relation to contracting-out the PES, the intention of establishing a harmonised employment steering system etc, the reform still carries on this supply-side orientation focusing on activating the unemployed, and refrain from trying to influence the demand-side of the labour market by activating employers. It seems reasonable to ask not only how the unemployed adjust to the demands and expectations of the firms, but also how to make the firms adjust to the suppliers of labour. In connection with contracting-out it will become even more difficult for the authorities to enter into partnerships with firms when employment services are provided via relatively autonomous service providers. Contracting-out will also lead to a gradual weakening of the PES system, meaning that previous competences to enter into local partnerships with firms will diminish

over time. It will therefore be difficult to return to the starting point, if the political climate should change; this is, contracting-out does not seem to have an escape clause. It would therefore have been desirable if there had been more systematic or comparative evidence to suggest that a quasi-market for employment services is indeed “better and cheaper” than the existing system, before embarking on this journey.

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¹ In this article we deliberately refrain from going into detail about the institutional set-up of the Danish labour market system and the historical development of labour market and social policies (cf. instead the conference papers of Flemming Larsen and Per Kongshøj Madsen).

² This article stems from a recently started CARMA project on the involvement of "other actors" in employment policy, financed by public research programme of the Danish Ministry of Employment in the period 2004-2005. The objective is to carry out comparative implementation analyses of the contracting-out reforms in the employment area in Denmark, the Netherlands, Australia and the UK.

³ In the Netherlands it was actually one of the major aims of the contracting out to push the trade unions onto the sidelines by weakening the previous corporatist steering structure. In Australia the trade unions do not play any significant role in general, and consequently not in the market for employment measures either. Unlike Denmark, both countries privatised parts of their previous PES structure, which now compete on an equal footing with private providers for contracts (cf. Sol 2005; Considine 2005).

⁴ The Danish government has likewise so far refrained from the big showdown with the generosity of the unemployment benefit system (cf. the unemployment benefit reform back-down in autumn 2003, and the unfulfilled ambitions for a harmonised finance structure for unemployment insurance and social assistance, even though as both the Minister of Employment and the Prime Minister tellingly put it, "the corners have been snipped" (cf. the reduction of benefits for refugees and married couples on social assistance).

⁵ Except when an un-breakable monopoly exists on one side of the market. In that case the solution is to establish a monopoly on the other side of the market, and thus create a balance.

⁶ In contrast to Australia, which has in principle only one purchaser of services, Centrelink, Denmark has, as a consequence of the decentralised tendering structure, at present 14 regional purchasers and up to 275 local authorities (which will become 4 employment regions and approx. 100 local authorities after the impending local government reform).

⁷ These figures are not directly comparable with the number of persons in activation schemes (around 70.00 fulltime equivalents each year), as they do not cover full-time activities, but typically short-term activities such as CV-interviews, guidance and job application courses.

⁸ After a number of quite negative evaluation studies on the subsequent employment effects of different types of activation (job training, wage subsidy schemes, education etc.) and a generally sceptical political attitude (seeing activation as useless and without employment perspective), the government in 2002 decided to reduce the scope and scale of activation offers and instead introduce more short-term and cheaper activities like job-search training, CV-writing courses and counselling.

⁹ One explanation could be that the average price per person in activation is more than three times higher than the price for a person attending a contact session.

¹⁰ There are, however, a number of methodological reservations attached to this simple effect statement, not least that the measures, the target groups and the duration vary a great deal from region to region; that it is difficult to isolate interviews, contact periods and activation initiatives; that some unemployed shift between the PES and other actors within a short period; and finally that it is difficult to evaluate whether the effect was a result of the measures, the contact period or the general development in the labour market (cf. Arbejdsmarkedsstyrelsen 2004c).

¹¹ In a comparative perspective the lack of choice seems to be a general weakness in the tendering models developed so far. In Australia, jobseekers only make a choice in 20 % to 30 % of cases. In order to make a real choice it is not sufficient to give several providers a contract for the same type of client, jobseekers must also be adequately informed about the services and the performance of providers (Struyven 2004: 28).