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In the course of this conference, profiling will mainly refer to *tools* that allow us,

- first, to *classify* unemployed people according to their risk to become long term unemployed and,
- second, to *apply adequate measures* that decrease this risk or to avoid it entirely.

Profiling is thus considered as a strategy to enhance employability, quite in line with the suggestions of the European Commission.

This definition of profiling is of *recent* vintage, since profiling, historically, had a much broader meaning. Profiling today stands for the process of matching people to jobs, regardless of their previous position(s) in the labour force. It may refer to the transition between school and work or to job changes of all kind.

1. The Unfolding Present

Traditionally, profiling was the task of schools. Within schools people were sorted into different tracks—or they were placed in schools of high or low prestige to begin with. Schools worked as ‘sorting machines’, as sorters, ‘producing’ people with higher or lower chances to enter high prestige occupations, jobs or income levels.

The best point in case is the German school system. Until recently it sorted people into elementary schools, middle schools or grammar schools. Since only a minority of a given birth cohort was allowed to enter grammar schools, sorting worked very well. Employers could rely on decisions made by these different school types. They did not have to screen their future work force. In turn, labour market entrants had a smooth transition from school to work. Their transitions were fast and did not involve many job shifts early on in a career (see figure 1).

In a way, the model works and looks as follows: At the left hand side of the Figure, the German educational system is shown. It is highly stratified and standardised and thus resembles a pyramid. Many pupils finish elementary school and only few finish grammar school. This institutional form is linked to the hierarchical structure of the German labour market with only few positions at the top but many positions at the bottom of the status distribution.

Figure 1

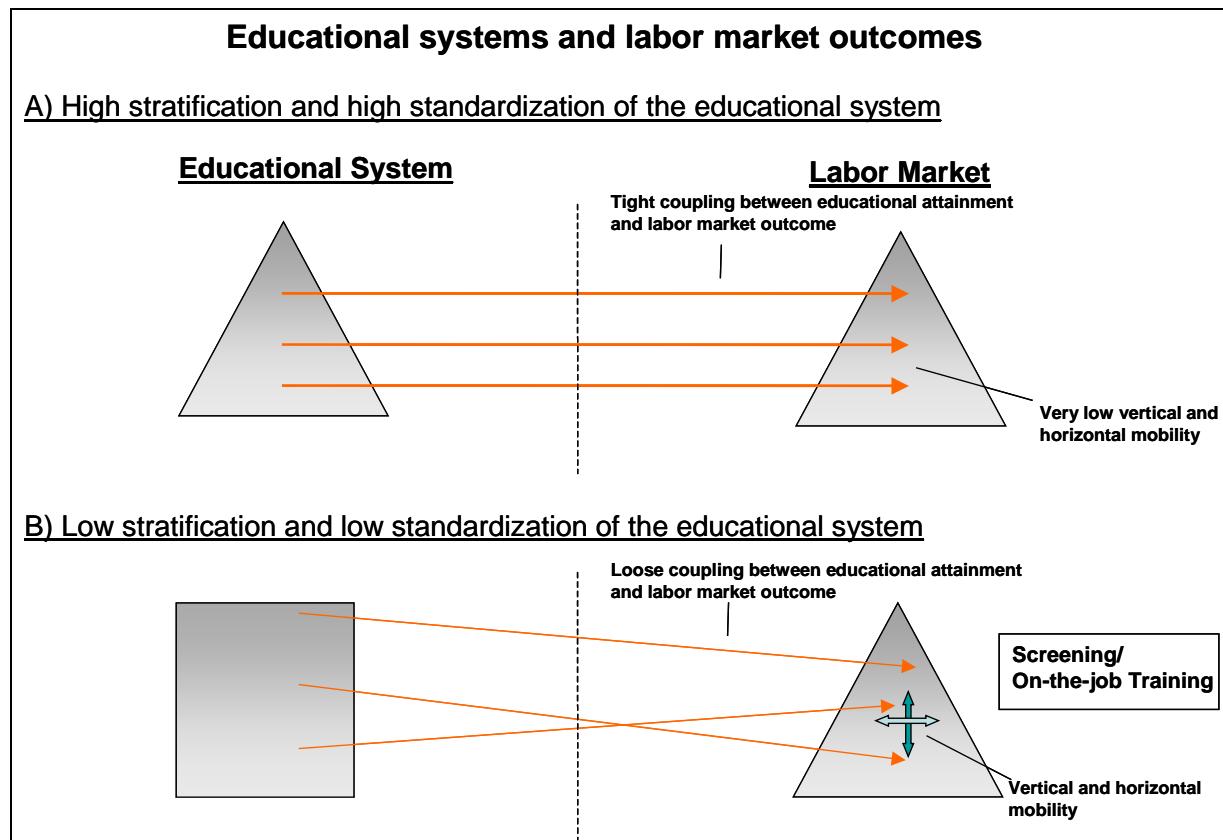
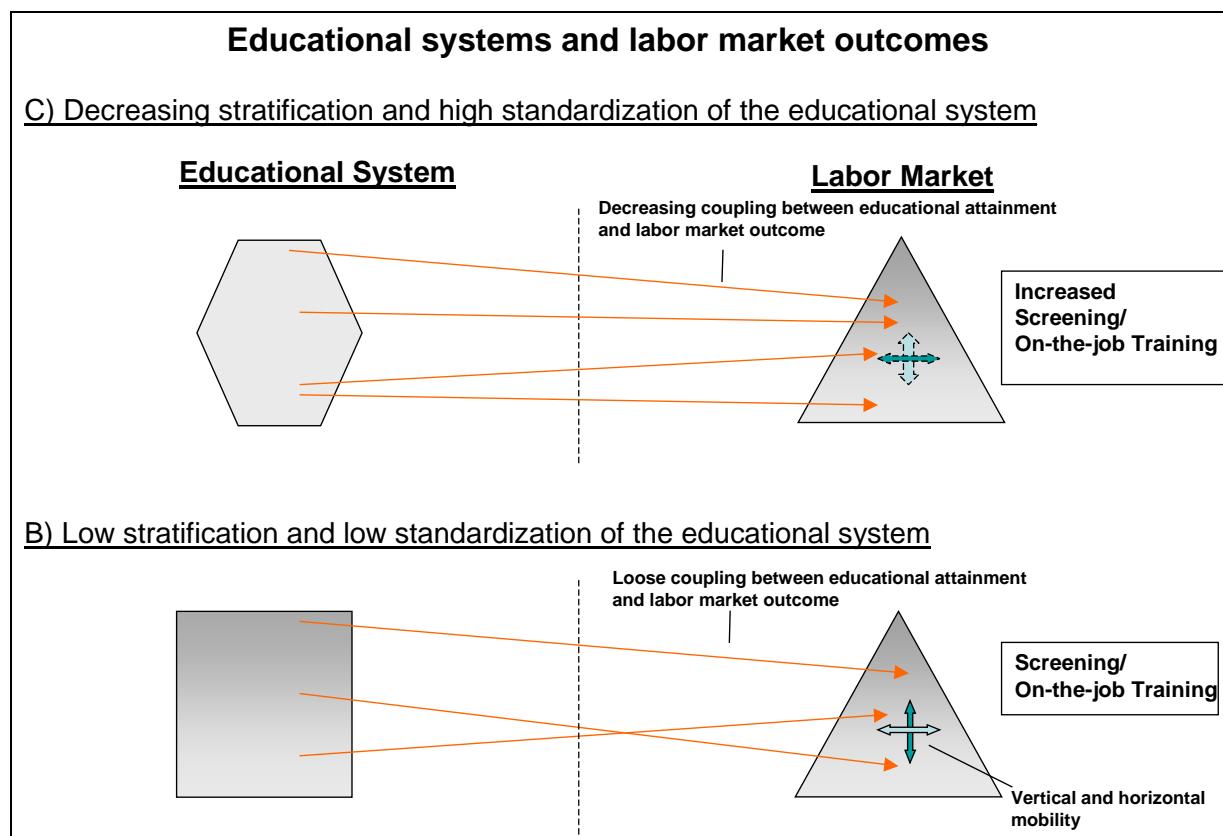
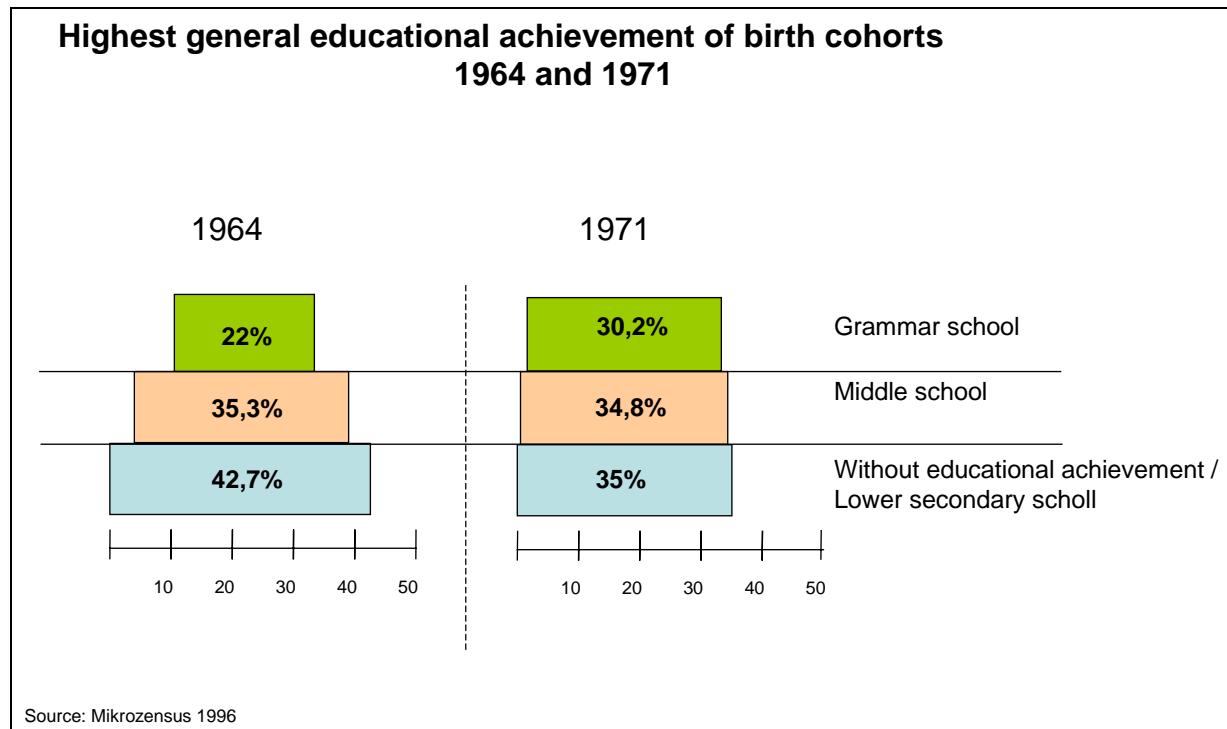


Figure 2



In other countries, educational systems—and hence the transition from school to work—were set up differently. An early selection of children into different schools did not take place. The huge majority of a birth cohort finished high school. The school-leaving certificate per se did not signal to future employers whom to choose and where people could be assigned. As a consequence, quite in contrast to the German case, **employers** served as the sorting machines. They employed people on a short term basis, screened them (relying on the ‘in time’ experience with them) on the job, fired them, if necessary, and hired others and fired some of the others again—and also gave many of them some job security as the selection process went on. For the future work force this educational set up implied longer periods of job search and also a mobility that is considerably higher (than it was in the alternative setting of the German system).

Figure 3

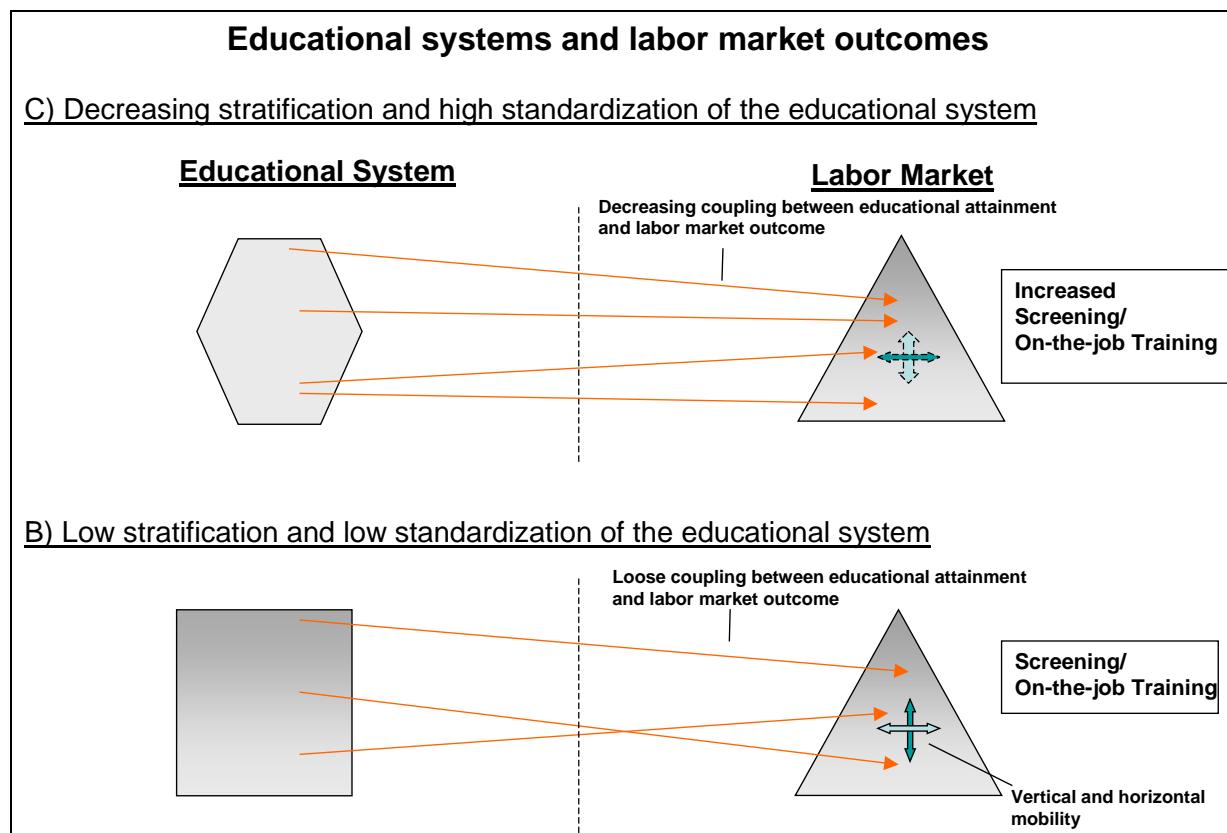


Today, the situation in Germany has changed significantly. *First*, due to the expansion of the German school system until some years ago, more pupils finish grammar schools, the pyramid turned into something that looks more like an onion. *Second*, with the PISA study that measured the competencies of 15 years old kids, doubts have increased that school certificates are still in line with reading or mathematical competencies of the students. *Third*, high unemployment reduced the number of vacancies in the labour market. *Fourth*, occupational structure underwent profound changes. Fewer positions were available that were suited for poorly qualified school leavers, while, at the same time, the percentage of low skilled workers stagnated or even increased slightly. As of today, close to twenty percent of a given

birth cohort can be considered ‘poor’ in terms of educational qualifications, vocational training or the competence level attained.

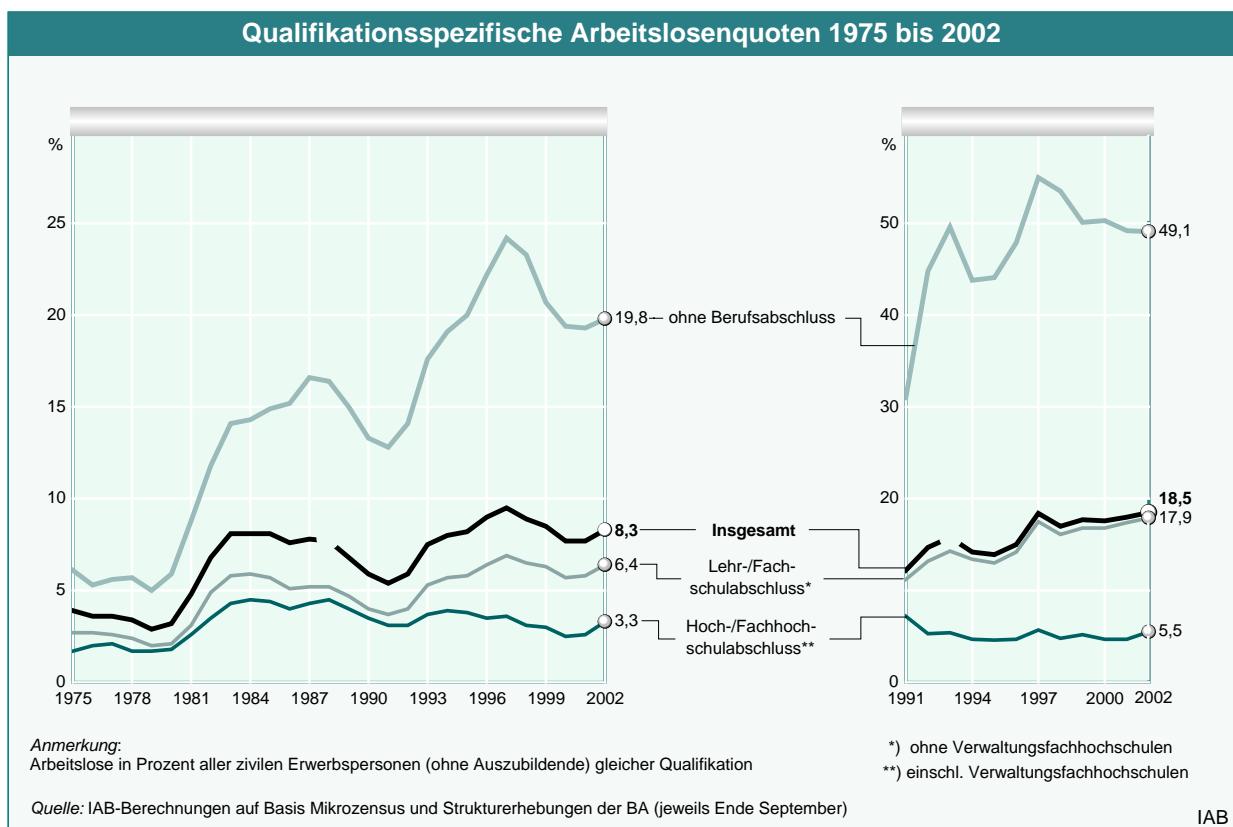
In turn, the capacity and the legitimacy of schools to work reliably as sorting machines have decreased considerably. In Germany as well, employers took on this job. They organized their own assessment centers (or used those provided in the market through firms like Price Waterhouse, Kienbaum and the likes). The transition between school and work took longer, and became more erratic (less smooth) in nature.

Figure 4



Changes in the occupational structure interacting with a persistent, still very considerable amount of poorly qualified persons led to an increasingly high level of unemployment among the less trained. In West Germany, the unemployment in this category increased to 25 percent, in East Germany unemployment of this group even skyrocketed to close to 50 percent.

Figure 5: Unemployment rates by qualification level



left: West-Germany; right: East-Germany

ohne Berufsabschluss = without prof. qualification; insgesamt = total; Lehr-/Fachabschluss = apprenticeship/professional school; Hoch-/Fachhochschulabschluss = university/technical college (3rd level)

Provoked by a failing educational and vocational training system, it was this situation into which the National Labour Market Agency, the *Bundesagentur*, had to intervene—to fulfil its mission. Labour market policies, for quite some time, have actively aimed to improve the fit between qualifications and vacancies offered and did so by providing the unemployed with further training. Very recently, in the so-called Hartz reforms, an additional system of intervention was developed and passed in the *Bundestag* that moved Germany towards an ‘activating welfare state’ through a series of activating labour politics. Today we will have to think of the agency, the *Bundesagentur*, as a new, a different player in assigning job and life chances.

To sum up: Historically, we face a transition of key agents that select and assign people to different jobs.

- First, this task was accomplished by schools.
- Second, employers took on this role, and
- third, and only recently, national labour market agencies—all under the wings of the one and only *Bundesagentur*—also stepped in.

By now, the national labour market agency has been entrusted with a task of outmost importance. It has the obligation to make up for the qualification deficits resulting from the schools and the vocational training system. These deficits are mirrored in high share of poor qualifications among the children of the lower classes, and in the high educational inequalities amongst all children according to the educational background of their parents. Indeed, the mission is to repair such inequalities, to give people a second chance—quite late in the game. This is a legal and a moral obligation, but, at the same time, it is also an obligation the agency can hardly meet to anyone's full satisfaction.

This is so, because poorly skilled people make up quite a large part of all the unemployed but unemployment also hits many other groups. It hits the elderly, it hits women, it hits workers trained in occupations that lose importance, it hits workers without adequate retraining in occupations that face rapid change. So there is a lot of competition for the attention of the *Bundesagentur*.

2. Future Challenges

In Germany, for reasons described above, profiling of the potential unemployed was introduced later than in other countries. There have been some pilot studies, conducted by the IAB, and Helmut Rudolph will describe methods and results in detail tomorrow. Presently, the *Bundesagentur* follows a policy that aims to classify people as soon as possible into four groups

- (1) those that do not need assistance since their likelihood of fast integration is high,
- (2) those people that need some assistance in terms of activation
- (3) those persons that need some further training, and, finally,
- (4) those that need special attention since their likelihood to stay unemployed for quite some time is deemed rather high.

Profiling which is applied immediately after one becomes unemployed helps to classify these people relying both on an econometric model and on the experience of the local case managers. Should 'customers' be assigned to the group of people deserving special attention, treatments are applied as soon as possible to enhance the likelihood that the persons will be re-integrated into the first labour market. (In the older days, we used to work with a queue—with new entrants placed at a later point in the queue!) This procedure is quite in line with what other countries do today.

From a scientific point of view, however, treatments are given either too late or too soon.

- Treatments are administered *too soon* as early intervention is exposed to the risk that people are treated who would have found a new job anyway (*Mitnahme-Effekte, deadweight*) and it misses others, who were not treated but are facing unexpected, unprognosticated problems in re-entering the labour market. Differentiation and special treatment for people works better, so it seems, when some time has already been spent in unemployment. This, however, is very costly to administer. In Germany, a so-called *Aussteuerungsbetrag*, has been legislated. This is a penalty to be paid by the *Bundesagentur* to the federal government if re-integration fails after 12 months of unemployment. Then, unemployed workers move from Unemployment Benefits One (*Arbeitslosengeld I*) that are paid at 63% of the last income received to Unemployment Benefits Two (*Arbeitslosengeld II*) that are paid as a flat rate at the level of social assistance (or welfare, as they say in the US). This penalty amounts to 10.000 €, a sum way above the average means available for the integration of that person! Hence, the incentives are high for the *Bundesagentur* to avoid such a penalty—by implication treatments are given early to allow for time enough to find a new job.
- More important, however, profiling may come *too late*. It would seem to make more sense to give assistance to people who are still at work as to prevent the risk of becoming unemployed in the first place. In my opinion, employability can be assured much better when people are still attached to the labor market, are at work and receive incentives for further training there. It is mistaken if we were to assume that this is impossible due to restrictive access to the necessary data. Most data used for profiling are available for any point of the person's work history. Moreover, profiling could even be enhanced, since the IAB provides firm level data for about 14.000 firms that are representative for all firms in Germany. Matching individual characteristics with firm data would allow us to specify the amount of retraining, or life long learning, needed to increase the chance of avoiding unemployment. So, technically we could do good 'preventive profiling'. Since this is in the strong interest of firms, one could also think of a finance scheme that includes state contributions as well as firm contributions and maybe even individual savings. Such a truly early intervention would also make itself paid since early exit of the labour force could and would be reduced, which is another task the European Commission has spelled out for all its member states. Such training, by the way, could also be attained in sabbatical years or in leaves of absence from the firm.

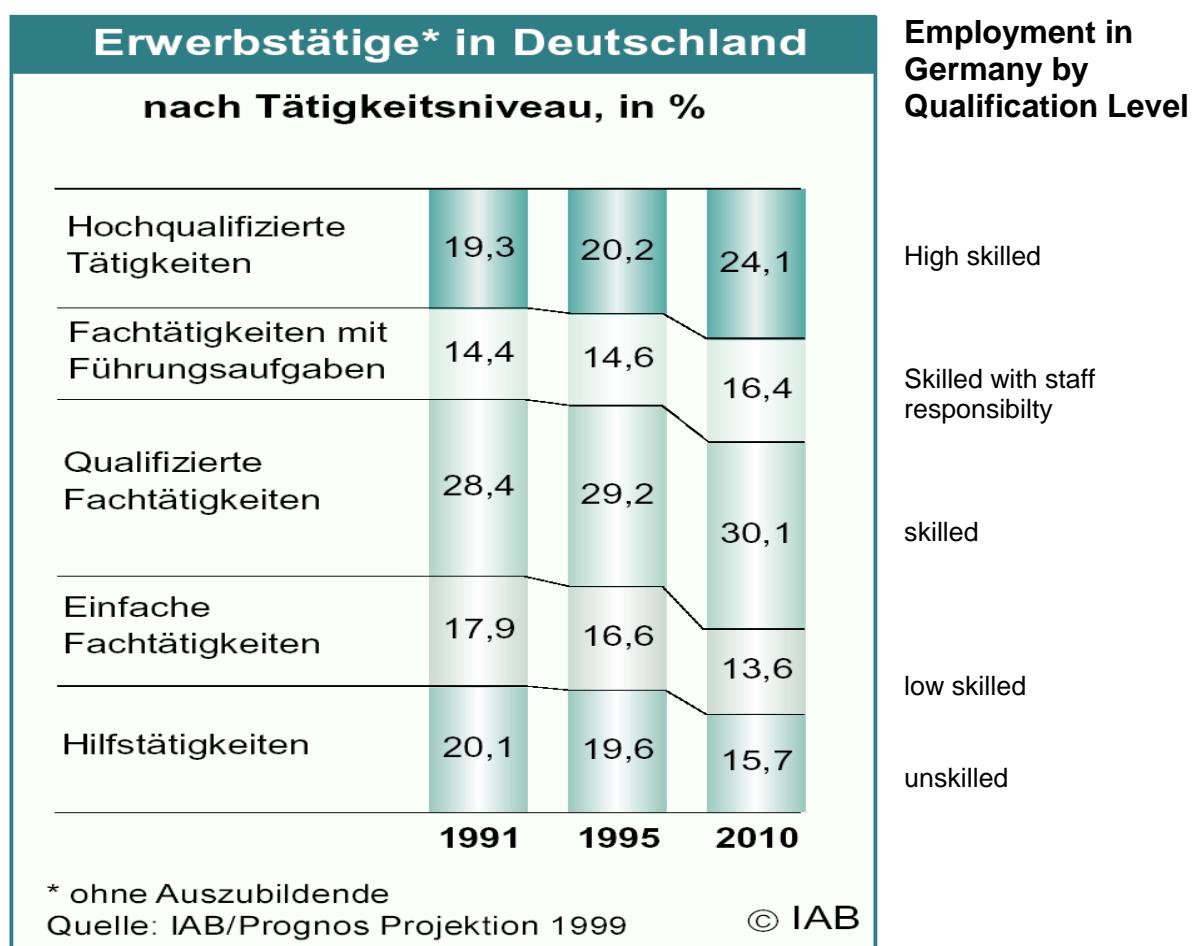
In sum, three challenges set up for us by the European Commission could be met simultaneously:

- (1) Early prevention of getting unemployed,
- (2) increasing efforts to support life long training, and

(3) a decrease in early exit from the labour force.

In my opinion, that would really be worth all the effort necessary.

Foremost and first, however, all the necessary efforts have to make to reduce the number of unqualified people in unemployment. Here, the educational system works best to prevent unemployment. With the *Bundesagentur* we come rather late. It is high time, that educational policies in Germany takes early intervention seriously and were to stop externalising its failure to an active labour market policy that spends much money for a failure it is not accountable for—and cannot optimally cure. In the long run, it is probably also less costly to build a better school system—so, in terms of fiscal prudence it would also be quite wise to start at that end with a high priority. But what did John Maynard Keynes say about the long run?



Source: IAB-Kurzbericht 20/2003 (Reinberg/Schreyer)