

Draft, not to be quoted. Comments welcome.

**Of policies, policing and provision: how privatisation in welfare-to-work shapes the policy domain**

**Deborah Mabbett,  
School of Politics and Sociology,  
Birkbeck, University of London,  
Malet St London WC1E 7HX  
d.mabbett@bbk.ac.uk**

ECPR Standing Group on Regulatory Governance  
2<sup>nd</sup> biennial conference (Utrecht), 5-7 June 2007  
Stream **Regulating private welfare provision**

## **Of policies, policing and provision: how privatisation in welfare-to-work shapes the policy domain**

**Deborah Mabbett, Birkbeck, University of London, UK**

This paper examines the question of how the involvement of the private sector in the provision of public services is connected with changes in policy processes and the reformulation of policy goals. It looks at this question from two sides. On the 'demand' side, it investigates what policy objectives the government may have in privatising a service. It is shown, *inter alia*, that the standard claim of governments that they privatise to achieve more efficiency in implementation itself entails some reformulation of policy goals. On the 'supply' side, the paper starts from the idea that some types of policy present private providers with a more favourable contracting environment than others, and asks whether policies are reshaped to create a more attractive, or at least workable, environment for private investors.

In a stable and sustained privatisation, these demand- and supply-side considerations will be mutually reinforcing. Thus a government may privatise a service to evade bureaucratic opposition to a policy or to overcome provider capture of a policy area. It will be more successful in this if it can formulate its policy goals in ways that can be written into contracts that present tractable requirements for monitoring the private agent and regulating its incentives. The often-used shorthand that captures such a situation is that demand- and supply-side factors work together if desired results or outcomes can be clearly specified and incentives created to 'achieve results' through 'innovations' which change existing bureaucratic processes.

Successful privatisations of public utilities have had these features: governments have (sometimes) overcome perceived provider capture (e.g. by trade unions) and created regulatory regimes in which service delivery objectives are specified and financial incentives to achieve these objectives are created. Reformulations of policy goals and redefinitions of policy areas have accompanied these processes: employment-creation has generally been removed as a goal, for example, and the range of social issues that has been allowed into the policy area has often been narrowed.

In the welfare state, however, it is harder to see how regulatory contracts can be written. While desired 'results' can be specified, welfare provision is also characterised by procedural values such as fairness and obligation, which arise from the (re)distributive functions of the services. Not only are existing providers often seen as the repositories of these values (as is implied in much of the literature on the 'public service ethos'), but also the imposition of procedural requirements in contracts with private providers reduces the potential gains from contracting. Private firms may find that they are unable to innovate and compete because they have to follow public service procedures, a process Sellers (2003) describes as 'public-isation'.

We can therefore imagine situations in which a government, frustrated by bureaucratic failure to 'deliver results', contracts with private providers but then reimposes procedural controls in response to political pressure. There is a particular risk of this for private firms in the welfare state, where the involvement of the private sector is often viewed with suspicion. While the government may insist that

long-established goals are being maintained, and private involvement is just a means to more efficient implementation, many observers see private provision as a step on a slippery slope towards the dominance of market values in service provision and the undermining of allocation according to needs. This presents something of a conundrum, as it is hard to see how it could be attractive for the private sector to be involved in welfare service provision if it is highly politicised. Not only is there the risk of being sucked into the bureaucratic maw through ‘public-isation’, but also contracts may be varied substantially with changes in government or other changes in the political environment. In particular, the funding allocated to contracts with the private sector may be volatile, which will deter private investment.

There are various answers to this conundrum. Private firms may be well-connected politically and may make sufficiently high profits during the episodes when they enjoy political patronage to compensate them for the risks. Some private providers, particularly in the voluntary and charitable sector, may have a political agenda which is facilitated by involvement as a service provider. This paper explores a third possibility, which is that policy areas are reshaped and segmented in the course of developing contracting-out arrangements, and that private providers enter segments which are removed from political contestation, where a more stable regulatory style of policy-making can prevail. This does not mean that the political risks are removed, but they may be managed and reduced.

This paper explores these issues as they arise in welfare-to-work policy. Compared with the more familiar debates about privatisation in health and care services, it is not so clear where the slippery slope towards market values leads in welfare-to-work. Should we expect that the involvement of private providers in welfare-to-work programmes will be accompanied by an intensification of the obligations placed on benefit claimants, or by an orientation towards a voluntaristic model in which claimants have choices (albeit choices which are biased towards taking up employment)? Public provision, while meeting the needs of claimants by paying benefits, may also incorporate distributional values around obligation and deservingness. In implementing these values, front line staff have a ‘policing’ role as well as a needs-orientation. Private providers may set aside these values in favour of performance-oriented strategies that lead to cream-skimming and selectivity in provision, but also reduce the intensity of policing.

The outcome will presumably depend on the government’s ‘demands’. We assume that privatisation is undertaken to overcome some kind of conflict between political principals and the existing institutions charged with implementing the policy. If the conflict arises because the government is seeking to introduce a stricter regime for claiming benefits, but regards the existing bureaucracy as ineffective in undertaking intensified benefit policing, there would seem to be high political risks for the private contractor. If the conflict stems from ineffective service provision by the bureaucracy, then it is possible to envisage a different outcome. The policy field may be ‘segmented’ so that quasi-market reforms do not involve the private sector in benefit policing. Instead, the private sector may bring a proliferation of employment service options and an emphasis on innovation and choice.

There is a well-developed line of commentary on welfare-to-work programmes which links market-oriented reforms to employment service provision with a normative reorientation towards intensified obligations on claimants. The link is made, for example, by the ‘new contractualism’ which highlights the growing use of contract over numerous spheres of social interaction. Contracts specifying the rights and obligations of claimants have often been introduced in the same countries that have pioneered the use of quasi-market mechanisms in service provision: predominantly the Anglo-Saxon or ‘liberal’ welfare states (Struyven and Steurs 2005: 213; Freedland and King 2003). Van Berkel and van der Aa (2005: 330) note that ‘[w]here employment, participation, activation and welfare state independence became the leitmotiv in formal (social) policy [...], privatization, marketization, competition, decentralization and, in short, promoting good governance became core issues in operational (social) policy [...]. The new welfare state should not only do different things, it should also do them in different ways.’

The argument here is different. The involvement of the private sector in welfare-to-work is indeed associated with a significant reshaping of policy, but the changes are more subtle than the ‘slippery slope’ account from the new contractualism would imply. The similarity of language and concurrent timing of measures to intensify benefit policing and contract-out employment services has produced an impression of affinity between the two directions of reform, but when we examine the terms of the private sector’s involvement and the scope for competition and innovation in the delivery of services, we can see that benefit policing is an impediment to the adoption of an efficient and stable regulatory model.

This paper explores these ideas with reference to case studies of welfare-to-work reforms in Australia, the UK and the Netherlands. It is natural to start with Australia, which pioneered the privatisation of employment services when it disbanded its public employment service (the Commonwealth Employment Service, CES) in 1998. At the same time, Australia introduced a rigorous approach towards benefit policing, based on the idea of ‘mutual obligation’ (Goodin (2002) provides an analytical critique). It therefore seems to be a clear case in support of the claim that privatisation is associated with more stringent benefit policing.

The sequence of events in the UK has been different. The main steps to tighten benefit policing were undertaken by the Conservatives, but they did not involve private providers. In its first term in office, Labour greatly expanded expenditure on employment programmes, and contracted with numerous voluntary sector organisations to provide services. More recently, the government is considering moving away from this ‘third way’ approach and introducing contracts which are more highly-g geared (based on payment-by-results), which will also mean that provision will shift further in favour of large private contractors.<sup>1</sup> This coincides with policy changes that have increased the work ‘expectations’ (if not exactly obligations) of a wider range of benefit claimants. Again, this coincidence points towards the first scenario, but the relationship between the two changes is complex. The UK has not

---

<sup>1</sup> For a time in 2007 it appeared that the government would not follow this route, but the Minister, Peter Hain, has since been replaced. See Matthew Tempest, ‘Hain cools on welfare-to-work privatisation’, <http://www.guardian.co.uk/politics/2007/jul/31/economy.uk>; also David Hencke, ‘Controversial company hired to get disabled people off benefit’, <http://www.guardian.co.uk/business/2007/sep/24/Whitehall.politics>

privatised as radically as in Australia, and benefit policing functions remain with the public sector.

In both the Australian and UK cases there was little public conflict between the government and the bureaucracy. The respective governments seem to have seen their public employment services as inadequate and inefficient rather than deliberately obstructionist. In interviews with senior civil servants, Considine (2001: 128) found that the main driver of change was their desire to reform the restrictive employment practices governing the lower-level operations of their own bureaucracy. For the UK, it has been strongly argued by King (1995) that combining the functions of benefit policing and employment service provision lowered the quality of the latter, and this has been reflected in numerous government recommendations and reforms. There are also clear signs that the British government believed that the public employment service was insufficiently incentivised to achieve results, but it responded partly by introducing elements of payment-by-results into the public sector, as well as by expanding private provision.

By contrast, for the Netherlands we have a very public story of conflict between the government's objectives and those of the social insurance and employment service bureaucracies, which used to be dominated by the social partners. Privatisation has been designed to alter the incentives of those involved in employment services to achieve a pattern of provision which is less oriented towards protecting the interests of employed and unionised 'insiders' and to open up the labour market to 'outsiders'. To achieve this, the organisational arrangements under which the benefit-paying bodies contract for employment service provision have been reformed.

The next three sections discuss the Australian, British and Dutch cases in turn. In the concluding section, we turn to some of the implications of carving out an efficiency-oriented regulatory space which is segmented from distributional issues. At first sight it seems simple enough: private firms can contract to provide 'reintegration' services, and, if incentivised by payment-by-results, may produce new innovative approaches which raise employment rates without the threat of benefit sanctions. But distributional issues keep coming back in. What is the impact on the wider labour market of more extensive reintegration provision? The regulatory space has been created by dispensing with some distributive regulation in the labour market, notably over the allocation of jobs by public employment services. Issues about the quality of jobs, low pay, and status of temporary workers have not gone away, but they have been moved out of the employment service regulatory space, allowing contracting with providers to develop unencumbered by these distributional concerns.

## **Australia: Pioneering contracting-out**

In Australia, the first steps taken in the late 1980s to extend the use of private and community (not-for-profit) providers of employment services were connected with the Labor government's expansion of training provision. The CES retained its functions of providing job placement services and notifying the Department of Social Security (DSS) of breaches of rules about availability for work and active job-seeking, while additional 'reintegration' services, primarily training programmes, were contracted out. An initiative in the state of Victoria led to more 'case management' being contracted out, whereby some claimants were provided with individualised advice and direction onto programmes. Case management can generate information leading to benefit terminations, but the emphasis of measures to reduce working-while-claiming and other breaches of rules was on increased monitoring by the CES. Following the 'Newstart' benefit reform (1989), claimants were called in more frequently for interviews and the number of places on programmes was expanded, so CES was equipped with a wider range of destinations to offer to claimants. Under Labor's *Working Nation* programme (1994-1996), private and community providers were given contracts with significant results-based payment elements to work with unemployed people.

There was a change of government in March 1996, and the new government reformed the system radically, disbanding the CES and, by 1998, contracting-out the majority of placement as well as reintegration services. The new government emphasised placement over training, and halved the funding for training schemes (Webster and Harding 2001: 238). A new public corporation, Employment National, took over the placement services provided by the CES and competed, with a notable lack of success, for contracts. The claims-handling functions of the CES and DSS were merged with the creation of a single agency to receive and assess claims, Centrelink. Centrelink also serves as the purchaser of employment services: it assesses the needs of claimants and refers them for placement, job search training or case management ('intensive assistance'). These services are provided by more than 300 companies in the Job Network, including, until it went bankrupt, Employment National.

The new government also adopted, in 1997, a programme called 'Mutual Obligation', whereby benefit claimants are expected to 'work for the dole', primarily on community projects. The standard obligation on claimants under 40, once they have been unemployed for six months, is to work for 30 hours a fortnight for six months; older workers have a reduced obligation or can participate voluntarily. A small group of 'very long term unemployed' assessed as 'demonstrating a pattern of work avoidance' have more onerous obligations. One of the main schemes to enable claimants to meet their Mutual Obligation requirements is 'work for the dole' (WfD), which is facilitated by private and voluntary sector Community Work Coordinators (CWCs) working under contract. Claimants who fail to meet their Obligation may have a 'participation failure' applied by Centrelink.

The two sets of provisions – community work provision under WfD and provision of services for claimants needing assistance – operate under different contracting-out arrangements. WfD places are contracted on a payment for services basis, partly according to standard costs and partly on a cost reimbursement basis (with ceilings). CWCs have performance indicators relating to timeliness in offering and filling

places, availability of suitable places and their utilisation rate, number of participants, quality and diversity of placements (as evaluated by jobseekers and contract managers), and quality of service delivery based on compliance with the Employment Services Code of Practice. The Code provides that 'employment service providers commit to observe the highest standards of fairness and professional service in the delivery of services and obligations outlined in their contract' (ANAO 2007: fn 89).

Providers of employment services to disadvantaged jobseekers have different contractual arrangements. The intermediate-level contracts for job-search training specify the services to be delivered, and payments are made for signing claimants onto job-search plans. By contrast, for those referred to Intensive Assistance, fees are paid for enrolment onto programmes but the fee structure is heavily weighted towards results (placement in employment).

The Intensive Assistance contracts are, therefore, the most strongly geared towards incentivising providers and permitting innovation (as opposed to requiring procedures to be followed). To guard against cream-skimming, providers cannot select their claimants: these are referred by Centrelink and cannot be rejected. However, once referred, claimants for whom the probability of earning the placement fee does not meet prospective costs can be offered a low level of service while being kept ('parked') on the books (Dockery and Stromback 2001: 443-7). The contract structure was meant to allow the provider to innovate and design services tailored to individual needs, but, in the face of evidence of parking, the government shifted its approach. Enrolment fees were reduced and contract specifications changed so that providers now make assistance plans and keep records of contacts which can be audited by the purchaser.

In principle, refinement of the price mechanism could have been able to combat parking. This would call for the purchaser making referrals to be able to identify those who faced the highest risks of non-placement, and for the provider to be able to tender for a high enough fee to make the risk worth taking. Referrals for these services are made by Centrelink, using the Job Seeker Classification Instrument (JSCI).<sup>2</sup> The difficulties faced by Centrelink are twofold. First, more information may be revealed about job-seekers as time elapses, so the provider is in a position to make a more refined estimate of the risk. Second, the risk depends on information about the services available and their efficacy for particular groups. If those designing and applying the JSCI have limited knowledge of the services available, there is an information asymmetry in favour of the provider.

While there are some elements of payment-by-results in employment service provision, there are none at all in WfD. The scheme is not really focused on 'results'. Evaluations suggest that the mutual obligation is connected with small increases in the probability of claimants going into employment, but this outcome is not the primary reason for the measure. Instead, official Australian government sources state that 'Mutual Obligation is about you giving something back to the community which supports you.'<sup>3</sup> Introducing the measure in 1997, the Employment Minister told

---

<sup>2</sup> The factors are given at <http://www.workplace.gov.au/workplace/Programmes/JobNetwork/JobSeekerClassificationInstrumentJSCIFactors.htm> (accessed 20 May 2008)

<sup>3</sup> see e.g. [http://www.centrelink.gov.au/internet/internet.nsf/payments/newstart\\_mutual\\_obligation.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/newstart_mutual_obligation.htm) (accessed 20 May 2008).

Parliament that ‘the .. initiative is not a solution to youth unemployment’ (quoted in CSSA 2007: 13). CWC contracts are highly ‘proceduralised’. The ANAO report drew attention to the time that CWCs spent complying with reporting requirements (40% spent more than half their time on this), and noted that reporting requirements had increased through time, with higher levels of provider dissatisfaction with the most recent round of requirements (ANAO 2007: paras 8.18, 8.19). The use of a Code of Practice also signals that the processes of ‘public-isation’ identified by Sellers are at work in this area.

Through their participation in WfD, private providers are closely involved with processes affecting entitlement to benefits in Australia. While both main political parties support the WfD scheme, the policy domain remains highly politicised, with frequent critical newspaper commentary. A recent discussion paper from the Catholic Social Services Association, a major community sector provider, argued that compliance and assistance should be separated, and that ‘Job Network agencies should focus on improving recipients’ prospects for employment’ (CSSA 2007: 6). This is consistent with the hypothesis that providers prefer a more results-oriented and less politically-contentious role. Certainly, the voluntary sector complains about being sucked into the bureaucratic maw. However, organisations such as the CSSA have to weigh this against the possibility that, by having a major role in provision, they are placed in a stronger position to influence policy.

### **Welfare-to-work in the UK**

The Conservative governments in power between 1979 and 1997 responded to high levels of unemployment with policies focused on the incentives and constraints facing the unemployed. There were declines in the level of unemployment benefits relative to other benefits (e.g. old age pensions) and to wages, an increase in the role of means-tested benefits relative to insurance (including the abolition of supplements related to previous earnings), and an increased emphasis on job search conditions attached to benefit receipt. Administratively, innovations included increased integration between job placement (done by the Employment Service) and benefit administration (done by the Department of Social Security and, subsequently, the Benefits Agency), although these organisations remained separate and accountable to different Whitehall departments. A key benefit reform was the introduction in 1996 of Job Seekers Allowance (JSA), which formalised the conditionality of benefit receipt in individualised Jobseekers Agreements, as well as further reducing insurance benefits (Walker and Wiseman 2003: 9).

While the Conservatives initiated some contracting out of some services late in their term of office, the predominant direction of reform was to tighten centralised control over procedures. ‘Interventions by the state were both more exacting and more carefully scripted than before’ (Considine 2001: 38). The focus was on the duties of jobseekers rather than the efficiency of the services provided to them. Labour came to power in 1997 using a similar ‘rights and responsibilities’ language, but with more emphasis on providing a range of services and subsidised employment opportunities, particularly in the New Deal for Young People. To deliver this policy, they contracted with a wide range of providers, preferring not-for-profit and voluntary organisations to commercial firms (Peck and Theodore 2001: 442).



In 2002, Jobcentre Plus was created, following the ONE pilot, which increased the integration of benefit provision and employment services. It made a 'work focused interview' an integral part of the benefit claiming process for all claimants of working age, including those who were not subject to work availability tests (primarily lone parents and people on disability benefits). In the course of the piloting of this initiative, contracts were given to private and voluntary sector providers to deliver the service. These pilots were deemed unsuccessful (Lissenburgh and Marsh 2003), and Jobcentre Plus is an entirely government-run service.

Walker and Wiseman (2003: 10) note that, '[o]nce in power, Labour rapidly came to believe that the machinery of government frustrated their goal of work-oriented reform.' The government showed a strong inclination to involve the private sector in 'innovative' provisions. However, it was also able to push through a number of reforms to the public bureaucracy. Following on recommendations made by John Makinson, a senior publishing executive, the government introduced an incentive scheme for its own staff. Under this scheme, district teams receive bonuses related to the performance of their offices. Performance is evaluated with reference to the targets set by the government for the Agency as a whole, which are defined on five dimensions: job entry, customer service, employer outcome, business delivery and 'fraud and error'. These dimensions are a mixture of process and results targets. Job entry is the major 'result'. Users of Jobcentres are divided into five groups, with lone parents and disabled people attracting the most points for placement and non-claimants and employed people the fewest. By contrast, the 'business delivery' dimension includes a number of process-oriented criteria around such things as accuracy of benefit payments, timely booking of interviews, and following-up on failure to attend interviews (Burgess et al 2004: 9-12).

While the government has not sought to replace the public employment service, it has put it under continual pressure by creating competition with private providers. For example, since 2000, the government has run a scheme called Action Teams for Jobs, where teams can earn a flat fee of £2000 for each job entry (Casebourne et al 2006). Initially the scheme involved 40 Jobcentre Plus teams and 24 from the private sector, enabling the performance of public and private sector teams to be compared and evaluated.

The most recent major report on employment services in Britain, the Freud report (Freud 2007), strongly endorsed private provision. Freud argued that private provision could contribute to two objectives. First, the private (including the voluntary) sector was seen as having potential to assist those who are most distant from the labour market and 'hardest to help' (Freud 2007: 10). Second, a reorganisation of contracting arrangements with the private sector would enable the government to implement an 'outcome-based approach' – in other words, to adopt payment-by-results more widely – which would bring 'significantly improved results for the hard to help' (Freud 2007: 6). Freud argued that regional contracts should be awarded to large private firms acting as 'prime contractors' which could bear the risk of payment-by-results. These prime contractors could in turn contract with small providers on a payment for services basis.

While Jobcentre staff have some elements of payment-by-results, the gearing of contracts with a public sector provider will inevitably be limited by the budgetary arrangements established with the Treasury. Treasury places ceilings on incentive payments as part of controlling public expenditure. Jobcentres do not hold significant funds in their own accounts in which they could accumulate results-based payments from good times that would tide them over bad times. The implication is that there will necessarily be limits to the gearing of incentives within the bureaucracy, so long as bureaus do not have significant own resources.

But what of the shifts in distributional values that might be expected to accompany more highly-g geared arrangements? Incentive schemes for service delivery create risks of cream-skimming and parking, while incentives financed by benefit savings could compromise procedural values around fairness and deservingness. There is some evidence of cream-skimming, and it appears to be more prevalent among private than public providers, even when the two compete under similar contracts, suggesting that responses to incentives in Jobcentres are dampened by other factors. For example, the private sector-led teams in the Action for Jobs programme helped proportionately more of those who had been unemployed for short periods, compared with their public counterparts (Casebourne et al 2006).

This pattern seems to contradict Freud's claim that the private sector could assist those who are most distant from the labour market and hardest to help. However, Freud proposed that payments could be more strongly geared towards disadvantage, by using assessment tools such as the Australian JSCI. Furthermore, Freud argued for a substantial increase in the rewards paid for successful placements, based on an estimate of fiscal savings. This would imply a substantial increase in expenditure on welfare to work, with providers being paid £4000-£8000 per placement.

Freud's approach implies an indirect link between benefit savings and results, so that the government agency continues to pay benefits to eligible claimants, while contracts with service providers anticipates the average and aggregate benefit savings from placement. Thus, while benefit savings were invoked in making the case for more funding for employment services, Freud's approach did not entail a role for benefit policing for the private sector. This contrasts with the approach initially taken in Employment Zones, which the government initiated in 2000. Eligible JSA claimants in the zones, which were created in small pockets of high unemployment, went through three steps. In the first step, they received benefits as usual along with employment services. In the second, their benefits 'budget' was transferred to the provider company, which took over paying benefits while trying to place the claimant in work. In the third step, the claimant entered ordinary employment but could still receive benefits from the EZ provider. Providers had strong incentives to place claimants in work within the period for which they held the benefits budget, but also apparently had an incentive to refuse benefits to claimants who did not cooperate. This aroused concern among welfare rights groups, which was taken up in Parliament.

While the Employment Zones are still operating, the benefit-paying procedures have been changed. Jobcentre Plus now pays benefits throughout the period that the claimant is not in employment. EZ providers can still recommend that a claimant lose benefits for noncompliance, but any sanction is subject to procedural requirements within Jobcentres (the decision must be made by an Adjudication Officer). Strikingly,

the government defended the previous arrangements, when in force, with a ‘publicisation’ argument. In response to questions about sanctions put by the Liberal Democrat representative on the committee reviewing EZ regulations, the Minister replied:

‘I assure him that none of those with whom we are likely to contract for this provision are new to the Department for Work and Pensions, or even to employment zones. We have mature relationships with them. They know and understand how we expect the sanctions regime to be applied and the degree of flexibility and understanding that must be applied to people who face significant and particular barriers to work.’  
(Minister for Work 2004, Column 12)

In Freud’s indirect approach to linking benefit savings to job placements, procedural values play little part. Freud reviewed the evidence on work obligations in other countries and argued for increased obligations on lone parents with older children, but suggested that the costs of a ‘work for the dole’ scheme ‘outweigh its benefits as a labour market measure’ (Freud 2007: 91). Furthermore, by emphasising the private sector contribution to services for the ‘hard to place’, Freud defined a claimant group many of whom are not subject to obligations to take up work.

### **Bypassing the social partners in the Netherlands**

Changes to the provision of employment services in the Netherlands have been part of the ongoing ‘flexibility and security’ reform process. The flexibility and security measures brought changes to the organisation of the Dutch labour market, particularly changes in the rules governing temporary work and the operation of temporary employment agencies. In social security, the administration of insurance institutions was reformed, reducing the role of the employers and unions. It was claimed that they had (mis)used the social security system (particularly disability benefits) to meet the costs of industrial restructuring in the light of the extensive employment protection measures in force in the Netherlands, which resulted in an exceptionally high level of economic inactivity among the working age population.

In 1990 the public employment service was reformed, removing its legal monopoly but also permitting it to offer a wider range of services, some on a fee-charging basis. Trade union concerns were addressed by establishing a tripartite governance structure for the decentralised PESs. This reform was widely seen as a failure (Sol 2001: 88, van Berkel and van der Aa 2005: 333). An assessment of the PES in the mid-1990s by the Van Dijk Commission found it to be less effective than private providers (Struyven and Steurs 2003: 23). A further reform in 1996 redefined the task of the PES to focus on providing services for hard-to-place jobseekers, but it proved even harder for the PES to have an impact in this residual role, and thereby meeting the government’s aim of reducing social security costs and reintegrating those outside the labour market.

The dismantling of the PES in 2001 was linked to a broader package deal on social security reform between the Conservative and Social Democratic parties in the coalition government. Under the SUWI Act, a quasi-market was created, with the benefit-paying bodies (municipalities and social insurers) acting as purchasers and

both the broken-up PES and private agencies acting as providers. The employment offices of the PES became Centres for Work and Income (CWI), while reintegration functions went to a new organisation called *Kliq*. Vocational training centres were also separated out.

Of particular importance were reforms affecting the purchasers. The administrative agency for insurance, UWV, is required to spend a certain proportion of its reintegration budget on contracted-out services. This means that new providers have been able to enter the market, including those who have developed their business base in temporary agency work. These providers could, in theory, facilitate reintegration through their location as intermediaries in a more flexible labour market. The idea was that, by requiring UWV to tender openly for contracts, practices which have kept disability benefit claimants out of the labour market would be combatted.

Arrangements to make the municipalities invest more effort in reintegration were also adopted. The share of social assistance (ABW) costs met by the municipalities (i.e. not reimbursed by central government) was increased from 10% to 25% in the SUWI reform. This gave the municipalities more financial incentive to procure effective reintegration services. Open tendering was not required, however, and the quasi-market was much slower to take hold in the municipalities than in the insurance sector. Municipalities had already established their own ventures for reintegration of ABW recipients, often in local public sector jobs, and they have not all embraced contracting-out as the most effective way of producing benefit savings.

In 2004, arrangements between central government and the municipalities were reformed again. Municipalities now receive a block grant for social assistance and have full financial responsibility for it. Central government has also concluded agreements with large municipalities that they will organise a certain number of employment 'trajectories' (i.e. that they will commission and fill a number of reintegration places), and reach targets for 'results' in the form of entry into employment (van Berkel and van der Aa 2005).

One interpretation of these measures is that Dutch policymakers have been more concerned about moral hazard on the part of employers, unions and municipalities than among benefit claimants. Critics of the social partners have argued that employers have misused the insurance system, while unions have cooperated and focused on the interests of employed insiders to the detriment of those marginal to the labour market. This perspective is heightened by the predominance of people classified as disabled, rather than unemployed, among those who the government is seeking to reintegrate into the labour market.

A wide variety of firms, including providers of education and medical rehabilitation services as well as job placement, have entered the reintegration market. *Kliq* remained the largest player in the early 2000s, although with a much smaller market share than it hoped for (Struyven and Steurs 2003: Table 1). *Start* was the fourth-largest in 2000, but dropped out of the top ten in 2001. UWV and the municipalities are not the only purchasers. In the Improved Gatekeeper Act 2002, employer responsibilities were extended. Employers are responsible for paying disabled employees for two years and placing them, if not in their own business, then with another employer (the so-called 'second tier' obligation). Many employers contracted-

out their second tier obligations to reemployment firms (Struyven and Steurs 2005: 213).

The first results of the tendering process produced some familiar problems, notably cream-skimming. As a result, the tenders became more elaborate, specifying the characteristics of target groups in more detail. There were 22 target groups within the insured population in the 2001 tender, including age and ethnicity subdivisions (Sol 2001: 114). There were also problems with the quality of services. In response, the government has looked for mechanisms to create choice for claimants, which is seen as a way of generating information about service quality.

Another problem with the contracting regime was achieving the planned number of trajectories (van Berkel and van der Aa 2005). Entries into reintegration rely on the purchaser to refer claimants to the provider, and the claimant to attend an intake interview where his or her suitability for reintegration services is assessed. Van Berkel and van der Aa note that there were numerous incorrect referrals, and they suggest that targets may lead purchasers to refer claimants inappropriately, without considering whether the services on offer meet their needs (van Berkel and van der Aa 2005: 338). Similar issues have been noted in the UK: the requirement to refer claimants to a programme is a strain on the capacity of service providers (Walker and Wiseman 2003: 23-24).

A notable feature of reintegration contracts in the Netherlands is that private providers are not required to impose procedural burdens on claimants. The 'trajectory' (the set of measures available to claimants) is up to the provider to determine, subject only to the requirement that there should be a personal interview and a plan for reintegration. Critics have pointed out that providers can 'park' claimants for whom the costs of finding a job are expected to exceed the reimbursement payable. Furthermore, claimant choice may enable claimants to choose this outcome. Struyven and Steurs (2003: 35) cite arguments that claimants who are better off out of work have an incentive to go to the worst performing provider.

As with the Australian and UK cases, privatisation of employment services has coincided with measures to increase benefit policing, albeit with more emphasis in the Netherlands on the incentives of the benefit-paying institutions than on those of claimants. Until recently, the Netherlands has not had a benefits agency under the direct hierarchical control of central government. Instead, the public bureaucracies were quasi-autonomous (in the case of the insurers) or run by local government. Furthermore, 'the role of social partners in the administration of social insurance [...] was seen as a major barrier for realizing the policy objectives of central government' (van Berkel and van der Aa 2005: 333). The new insurance agency, UWV, centralises the administration of social insurance and brings it under the supervision of the Ministry of Social Affairs and Employment. We have seen in the Dutch case that privatisation has been adopted partly to overcome conflicting interests between the government and the insurers; equally, however, reforms to centralise administration and tighten political control over the bureaucracy can also serve this purpose.

The possibility of privatising the assessment of the entitlement to benefits was considered in one round of reform proposals (SUWI 1) but subsequently abandoned. Struyven and Steurs offer several explanations. One is that preliminary research

suggested that private firms would not bid for the task. This is consistent with the hypothesis that is not attractive for the private sector to be involved in welfare provision if they will be required to follow bureaucratic processes. Another is that distributional process values were seen as conflicting with commercial incentives, whereas the values of a programme of reintegration did not. 'Unlike tasks such as the assessment of the right to benefits, continuation and investigation, which must not be influenced by commercial interests, the Dutch government considers that reintegration lends itself well to competition.' (Struyven and Steurs 2003: 13) They also note that maintaining a public body fits with ministerial responsibility for the quality of implementation of public social security. Finally, they argue that benefit administration is not privatised because 'the government's exposure to risk through claims assessment (the process of determining the entitlement to benefits) is too great to be subcontracted' (p.17). If a private benefits provider could not be given a results-based contract because of the conflict between commercial and distributional process values, central government would have to bear the full cost of benefits awarded.

In the case of social assistance (ABW), municipalities have a strong financial incentive to control claims. Because they are not private for-profit bodies, this incentive is not a 'commercial' one. However, there are long-standing debates about whether (all) the municipalities' practices conform to distributional values. Welfare rights are seen as less effectively protected in a local authority with a stringent financial environment than in a central government bureaucracy.

## **Conclusion**

This paper has examined the policy consequences of involving the private sector in welfare-to-work provision. The central question has been whether the contracting with the private sector leads to intensification of benefit policing and a more coercive welfare-to-work regime. There are several reasons not to expect such a connection. The imposition of sanctions on noncompliant jobseekers requires procedures to be followed; proceduralisation constrains innovation and reduces the gains from contracting, a process which Sellers called 'public-isation'. One of the main ways in which private providers can target their effort profitably is by 'parking' some claimants; this is not consistent with 'policing' them and may itself be a trigger for the government to impose further proceduralisation in contracts.

The evidence from the three case studies suggest that these theoretical possibilities do emerge as important issues in practice. However, the outcome is different across the three cases. In Australia, the risk of public-isation has not been avoided. This might be a deterrent to good quality private provision, but the gap has been filled partly by involving the voluntary sector. The need to follow bureaucratic procedures and fill out forms is also a burden on the voluntary sector, but there may be compensations in the scope to influence the future evolution of government policy.

In the UK, there have also been hints of public-isation, particularly when the private sector came closest to exercising power over programme participants' benefit receipt, in the Employment Zone arrangements. However, the government has moved away from this model. While the group of claimants who are subject to work obligations is being increased, the procedures to check that they comply with the rules are

implemented by the public sector Jobcentres. Current plans are to make contracts with private providers more highly-g geared towards results and to promote innovation, particularly in services to the new user groups of lone parents and disability benefit claimants.

The Netherlands makes an interesting contrast because the main thrust of the initial privatisation process was towards changing the institutional framework and incentives of the benefit-paying bodies, rather than policing benefit claimants. This meant that it was possible to specify minimal procedural requirements for 'trajectories' and to have contracts which contained strong incentives to achieve results. It has yet to be seen whether these features will be sustained, given that recent government initiatives suggest an interest in intensified policing.

This paper has challenged the 'new contractualist' claim that there is a connection between the involvement of private providers and the imposition of 'rights and responsibilities' or 'mutual obligations' on claimants. The intensification of welfare-to-work measures is connected with privatisation, but the linkage is less direct than the new contractualist analysis implies. In all three countries, temporary employment agencies have participated in the tenders to provide employment services, along with numerous other providers of specialised services. We can see here that there is a connection between the contracting-out of employment services and the wider agenda of promoting labour market 'flexibility'. As Freedland et al (2007) have extensively documented for Europe, employment services were once at the centre of job allocation processes which they regulated according to distributional as well as efficiency norms. The role of employment services (whether public or private) has been transformed in recent years, so few now have any significant role in distributing scarce jobs to the most deserving workers. This reframing of the policy area was connected with the removal of public employment service monopolies, which has in turn facilitated the privatisation of welfare-to-work provision.

The implication is that there is a set of distributional issues connected with welfare-to-work which have been shifted away from the employment service domain and either buried or addressed elsewhere. These are issues about the quality of jobs available and the consequences of integrating the benefit system with employment based on short-term contracts and part-time work. In the UK, these issues are addressed in the policy domain of 'making work pay', with instruments such as tax credits and minimum wages. In the Netherlands, the issue focus has been on the domain of regulating temporary employment contracts, centring on the question of parity, or fair relativity, with permanent employees. In Australia, the issue domain is currently defined around the Howard government's 'WorkChoices' policy, which, *inter alia*, replaced the Commission charged with setting minimum wages with a new body with a different remit. (The new Labor government has promised to reverse this policy.) In all three countries, these policies can be seen to have facilitated privatisation of employment services, as political contention about the quality of jobs on offer was addressed in another policy domain, rather than being an issue for the contracts made between the government and private providers.

## References

ANAO (Australian National Audit Office) (2007) *Administration of the Work for the Dole Programme* (Canberra, ACT: ANAO)

[http://www.anao.gov.au/uploads/documents/2006-07\\_Audit\\_Report\\_411.pdf](http://www.anao.gov.au/uploads/documents/2006-07_Audit_Report_411.pdf)

Burgess, S, C Propper, M Ratto and E Tominey (2004) 'Evaluation of the introduction of the Makinson incentive scheme in Jobcentre Plus: Final Report', Bristol: CMPO.

<http://www.bristol.ac.uk/cmpo/events/workshops/makinson/jobcentre.pdf>

Casebourne, J, S Davis and R Page (2006) *Review of Action Teams for Jobs DWP* Research Report No 328 (Leeds: DWP)

CSSA (Catholic Social Services Australia) (2007) *The Obligation is Mutual: Discussion Paper on Mutual Obligation* (Curtin ACT: CSSA)

[http://www.catholicsocialservices.org.au/system/files/Mutual\\_Obligation\\_Oct\\_07.pdf](http://www.catholicsocialservices.org.au/system/files/Mutual_Obligation_Oct_07.pdf)

Considine, Mark (2000) 'Selling the Unemployed: The Performance of Bureaucracies, Firms and Non-Profits in the New Australian Market for Unemployment Assistance' *Social Policy and Administration* 34 ( 3 ): 274 – 96 .

Considine, Mark (2001) *Enterprising States: The Public Management of Welfare-to-Work* (Cambridge: CUP)

Dockery, A and T Stromback (2001) 'Devolving public employment services: Preliminary assessment of the Australian experiment' *International Labour Review* Vol 140, No 4, pp.429-451.

Department for Work and Pensions (2002) Reply by the Government to the Third Report of the Work and Pensions Select Committee (2001-02) (HC815)

Freedland, M, P Craig, C Jacqueson and N Kountouris (2007) *Public Employment Services and European Law* (Oxford: OUP).

Freedland, M and D King (2003) 'Contractual governance and illiberal contracts: Some problems of contractualism as an instrument of behaviour management by agencies of government' *Cambridge Journal of Economics* Vol 27 No 3 pp.465-477

Freud, David (2007) *Reducing dependency, increasing opportunity: Options for the future of welfare to work* (Leeds: DWP)

Goodin R (2002) 'Structures of mutual obligation' *Journal of Social Policy* Vol 31 No 4, pp.579-596

King, D. (1995), *Actively Seeking Work: The politics of unemployment and welfare policy in the United States and Great Britain* London: University of Chicago Press



Lissenburgh, S and A Marsh (2003) *Experiencing Jobcentre Plus Pathfinders: Overview of Early Evaluation Evidence* DWP In-house Report No 111 (London: DWP)

Minister for Work (Desmond Browne) (2004) Responses to questions on the Draft Employment Zones Regulations 2004, Second Standing Committee on Delegated Legislation, <http://www.publications.parliament.uk/pa/cm200304/cmstand/deleg2/st040323/40323s01.htm>

Peck, J and N Theodore (2001) 'Exporting workfare/ importing welfare-to-work: exploring the politics of Third Way policy transfer' *Political Geography* Vol 20 pp.427-460

Sellers, M. P. (2003), 'Privatization morphs into 'publicization': businesses look a lot like government', *Public Administration*, 81(3), 607-620

Sol, E (2001) 'Targeting on transitions: Employment services in the Netherlands' *Comparative Labor Law and Policy Journal* Vol 23, No 8

Struyven, L and G Steurs (2003) 'The Competitive Market for Employment Services in the Netherlands' *OECD Social, Employment and Migration Working Papers* No 13

Struyven, L and G Steurs (2005) 'Design and redesign of a quasi-market for the reintegration of jobseekers: empirical evidence from Australia and the Netherlands' *Journal of European Social Policy* Vol 15 No 3 pp.211-229

van Berkel, R and P van der Aa (2005) 'The marketisation of activation services: A modern panacea? Some lessons from the Dutch experience' *Journal of European Social Policy* Vol 15 No 4 pp. 329-343

Walker, R and M Wiseman (2003) 'Making welfare work: UK activation policies under New Labour' *International Social Security Review* Vol 56 No 1 pp.3-29

Webster, E and G Harding (2001) 'Outsourcing Public Employment Services: The Australian Experience' *Australian Economic Review* Vol 34 No 2 pp.231-42