

## Public or private job placement services—Are private ones more effective?

Analyzed public employment agencies were at least equally as successful as private ones in placing unemployed workers

Keywords: unemployment, employment services, privatization, contracting out

### ELEVATOR PITCH

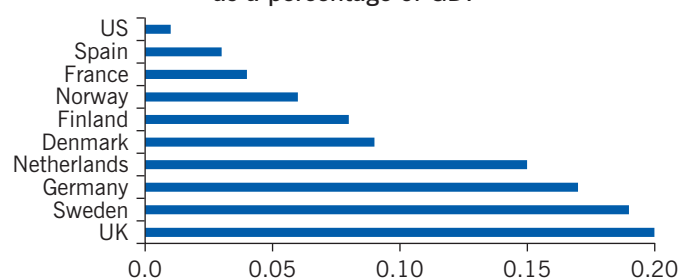
Expenditures on job placement and related services make up a substantial share of many countries' GDP. Contracting out to private providers is often proposed as a more efficient alternative to the state provision of placement services. However, the responsible state agency has to design and monitor sufficiently complete contracts to ensure that the private contractors deliver the desired quality of services. None of the recent empirical evidence indicates that contracting out is necessarily more effective or more efficient than public employment services.

### KEY FINDINGS

#### Pros

- ⊕ From a theoretical point of view, contracting out job placement services opens this market up to competition, which might decrease costs compared to the public delivery of such services.
- ⊕ With well-designed contractual arrangements and performance measurement, contracting out might be able to improve job placement, at least for certain population groups.
- ⊕ Contracting out allows the state to expand or reduce service capacity and to hire specialists for particular target groups while avoiding the long-term commitments that are often found in the public sector.

Public expenditure on job placement and related services as a percentage of GDP



Source: OECD. "Labour market programmes: Expenditure and participants." OECD Employment and Labour Market Statistics (database), 2016 [Accessed January 23, 2016]; fiscal years 2012/13 for the US, 2010 for the UK, 2011 for Spain, and 2012 for other countries.

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#### Cons

- ⊖ For the responsible state agency, ensuring the quality of private employment services puts great demands on contract design and monitoring systems, and a successful contracting out process is by no means guaranteed.
- ⊖ Many public employment services have replaced bureaucratic input-based structures with output-oriented performance management in an effort to increase their efficiency.
- ⊖ Rigorous empirical studies for several countries indicate that the public provision of placement services performed equally well or even better than the private provision of such services.

### AUTHOR'S MAIN MESSAGE

Contracting out job placement services might save costs and provide a service capacity buffer in times of increasing unemployment. However, the responsible state agency must ensure a suitable balance between services and quality, and must carefully monitor and evaluate private provider outcomes. Evidence finds that public employment agencies were at least equally as successful in placing the unemployed as private providers. Experience shows that high performance-based payments for successful job placements increases private provider performance in both the short and long term, while high upfront payments decrease the likelihood of re-employment for certain worker subgroups.