



Why Public Employment Services Always Fail. Double-sided Asymmetric Information and the Replacement of Low-skill Workers in six European Countries

Larsen, Christian Albrekt; Vesan, Patrik

Published in:
Public Administration

DOI (link to publication from Publisher):
[10.1111/j.1467-9299.2011.02000.x](https://doi.org/10.1111/j.1467-9299.2011.02000.x)

Publication date:
2012

Document Version
Early version, also known as pre-print

[Link to publication from Aalborg University](#)

Citation for published version (APA):
Larsen, C. A., & Vesan, P. (2012). Why Public Employment Services Always Fail. Double-sided Asymmetric Information and the Replacement of Low-skill Workers in six European Countries. *Public Administration*, 90(2), 466 - 479. <https://doi.org/10.1111/j.1467-9299.2011.02000.x>

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal -

Take down policy

If you believe that this document breaches copyright please contact us at vbn@aub.aau.dk providing details, and we will remove access to the work immediately and investigate your claim.

Why Public Employment Services Always Fail

Double-sided asymmetric information and the placement of low-skill workers in six European countries

Christian Albrekt Larsen and Patrik.Vesan

Preprint. Published in Public Administration (2012), vol. 90 issue 2, pp. 466-479

Abstract:

It has been a general finding across Europe that very few job matches are facilitated by public employment services (PES). The article explains this failure by highlighting the existence of a double-sided asymmetric information problem on the labour market. It is argued that although a PES potentially reduces search costs, both employers and employees have strong incentives not to use the PES. The reason is that employers try to avoid the 'worst' employees, and employees try to avoid the 'worst' employers. Therefore PES get caught in a low-end equilibrium that is almost impossible to escape. The mechanisms leading to this low-end equilibrium are illustrated by means of qualitative interviews with 40 private employers in six European countries.

Keywords:

Asymmetric information; employers; job-brokering; low-skill workers; public employment services

Introduction

The most well-known social policy architect of the 20th century, W. H. Beveridge (1879-1963), started his career analysing the problem of unemployment. One of his main ideas was that unemployment, and what he labelled under-employment (temporary employment insufficient to

avoid poverty, typically among unskilled workers), was caused by the absence of one market; instead, a nearly infinite number of separate labour markets existed in the UK at the beginning of the 20th century. Each of the London wharves (his favourite example) had its own queue each morning, and the excess labour at one wharf was not used at another wharf. Therefore the labour market could not clear. A labour-exchange service was conceived to solve this problem by organising a limited number of labour markets so that demand and supply could meet centrally. Beveridge drafted the legislation put into law in 1910 and became the first director of the UK Public employment services (PES). The PES was accompanied by an unemployment insurance scheme, also crafted by Beveridge, which should ease poverty problems during times of cyclical unemployment. The work test for accessing the new unemployment benefits was to be conducted by the PES. This was the initial UK setup.

The creation of PES was heavily promoted in 1919 by the newly-formed International Labour Organisation, and employers also came to accept the idea – mainly because the alternative of union-run labour exchanges was worse (Thuy *et al.* 2001). However, the idea of creating one – or at least a limited number of organised markets for labour – never succeeded. Beveridge expressed his disappointment in his 1931 book (Beveridge 1931). PES did not develop as expected and the majority of job matches took place through other channels. Davidson estimated that in 1929 only 20 percent of UK job matches took place through PES. In a 1972 review of the European experience, Jones concluded that ‘... *detailed evidence on this subject is fragmentary but lends support to the conclusion ... that the majority of employers and employees do not use PES (1972:44)*’. The same conclusion is reached by Eberts and Holzer in a review of the American experience (2004). Even in Sweden – which has been considered a country with a relatively successful PES for reasons discussed below (King and Rothstein 1994) – only around 10 percent of employees hear about their job through the Swedish PES (Okeke 2001, pp. 9).

Why this is the case has been given many different interpretations. Historically the main argument – which we will advance in this article – has been that PES suffer from what in the UK in the 1930s was labelled a ‘dole-queue-image’. The argument was that the employers came to perceive the PES more as a place for getting economic relief than for getting a job. In a comparison between the British and the Swedish PES systems, King & Rothstein (1993) explain the relative success of the latter by the fact that Sweden was late to develop an unemployment-insurance scheme (in 1935, and one of significance only from 1941) and, once in place, the administrations were kept separate. Thus, initially the Swedish PES did not conduct any work test and there was no special emphasis on helping the weakest workers. In the early 1970s the UK government tried to replicate this system by separating the job-brokering function (labelled ‘Job Centres’) and the administration of unemployment benefits (labelled ‘UBO’s). This system was abolished under Thatcher, and in the last decades the UK and most other European and American PES have been required to perform harder work tests (cf. Clasen and Clegg 2006). The prediction from King & Rothstein (1993) is that such neo-liberal workfare policies make it difficult for PES to function as legitimate institutions in the eyes of employers and employees. We agree with this prediction. However, our theoretical argument lead to the conclusion that PES’ ability to function as job-brokers are also hampered by opposing ‘neo-social democratic’ strategies, in which PES are asked especially to help the weakest workers.

This article provides an explanation of PES’ failure by theorising on the ‘nature’ of the labour market in which PES work, in contrast to the bulk of recent studies that emphasise organisational problems of PES (cf. Mosley and Speckesser 1997, Walwei 1996). The article is organized into seven sections. In the first section we present our theoretical explanation of the failure of PES in job-brokering. In the following sections this rational-choice argument will be illustrated by means of qualitative interviews with 40 private employers from six European

countries. After the introduction of the data, the third, fourth and fifth sections describe the limited use of PES and the general mistrust in PES. Section six illustrates seeming exceptions to the rule, i.e. employers that actually indicate that they use PES, and section seven shows how negative experiences often hinder the establishment of a good reputation for PES. The last section summarises our main conclusions and discusses implications for PES. Unfortunately we do not have new data that can illustrate the theoretical points from the standpoint of employees. But the theoretical argument does fit previous results on the behaviour of employees (Ebert and Holzer 2004).

Double-sided asymmetric information and ‘lemons’ on the labour market

As a point of departure, economic reasoning about the ‘nature’ of the labour market provides us with arguments that speak in favour of PES. Contemporary economists broadly agree with Beveridge that labour markets deviate considerably from the simple neoclassical, competitive-market model presented in textbooks (Adnett 1987; Author 2009). However, it is not only a matter of creating a place where employers and employees can meet, as described by Beveridge. The problems are more fundamental. With the heterogeneity of both workers and working conditions (wage, working time, location, etc), labour markets are characterised by limited and incomplete information, which makes rapid market-clearing impossible even if PES could establish one market for labour. Still, PES could in theory play a role in gathering extensive local knowledge about employers and the employees. However, employers and employees are looking not only for information but above all for trustworthy information. Employers have difficulty foreseeing whether an employee will work hard, will cause trouble, or soon quit the job. Only the jobseeker may know this, but at the same time, he or she has a clear incentive to present him- or herself as reliable and productive. This is a classic case of asymmetrically distributed information. And the

mechanism also works the other way around: The employer has a clear incentive to present the proposed workplace as a place with good work conditions, nice colleagues and good career opportunities, even if this is not the case. This situation, where both the employer and the jobseekers lack trustworthy information, can be labelled the double-sided asymmetric information problem of the labour market (Author A 2009).

This double-sided asymmetric information problem clearly affects labour-market exchange. In rational choice theory, a classic solution to asymmetric information involves a 'third party', such as a public authority, that can provide some guarantee of the quality of the exchange. For example, the state sometimes guarantees that food sold as 'organic' is indeed organic. In this case the consumer cannot know and the farmer has a clear incentive to use such a label (here the information is asymmetric). Therefore a trustworthy third party is needed. However, it is almost impossible for PES to be perceived as a trustworthy third party. This is mainly because of four interconnected problems.

The first problem is that PES are required to help all kinds of jobseekers, especially '*those who might otherwise be disadvantaged in the labour market*' (Thuy 2001, p. xvi). But exactly due to this requirement the employers cannot trust the PES to propose quality labour. And the other way around, the PES are also required to help all kind of employers and often especially those who cannot find enough labour. Therefore the employees also cannot fully trust the PES.

The second problem is that all unemployed are typically required to register at PES in order to receive unemployment benefits. This is problematic because the unemployed are typically perceived as 'lemons' (see below). The 'lemon' term, and the mechanisms of markets in lemons, is described by Akerlof in his famous article about used cars (1970). The logic is that the owner knows something about the car which the buyers do not know, e.g. whether it is a lemon (a badly assembled car) or not. And the owner has a clear incentive to hide the fact if the car actually is a

lemon. Therefore buyers are extremely cautious when buying a used car and the prices are typically too low.. The low prices often make owners of good cars to withdraw their cars from the market. Thereby the share of lemons on the market increases, which makes buyers even more sceptical. The predicted result is that in the end only lemons will be on this market (see e.g. Rasmussen 1991).

The same logic applies to labour markets. A number of studies have shown that it is much easier to find jobs for unemployed from a closed down workplace than for unemployed from a workplace that has only reduced the workforce a little (Gibbons & Katz 1991, Frederiksen et al. 2006). The argument is that in the latter case, the new employer will suppose that the former employers have probably fired the least productive workers in their workforce, whereas in the case of company closure, more productive workers will also be among the unemployed. Similarly, since the employers know that PES have many potential lemons in their databases, they will try to avoid hiring through PES. A PES might tell an employer that they now have a good worker available. But the employer cannot trust the PES, knowing that PES have a special obligation to help the worst-off. Therefore PES become a last resort for getting labour. This fits the historical experience of employers' reluctance to use PES due to the dole-queue image, which will be illustrated by our qualitative interviews with employers.

The third problem is that it is not only a matter of changing the perceptions employers might have of PES. The non-use of PES is underpinned by the reluctant behaviour of stronger groups of workers. These jobseekers know that PES are often considered a last resort for recruitment and will suspect them of having many bad jobs in their databases, for employers too can be described as 'lemons'. So using PES also becomes a sub-optimal solution for jobseekers. Therefore only the weaker categories of workers will use them, which, as in Akerlof's example, increases the 'lemon problem'. So PES are trapped in a self-reinforcing vicious circle that appears impossible to break. As already mentioned, illustrating the non-use of PES by stronger job-seekers is outside the scope

of this article. However, the theoretical argument is backed by studies which show that most workers and even most unemployed do not use PES as the primary search channel. And those who do use PES typically end up with lower salaries (cf. Ebert and Holzer 2004).

The fourth problem is that many employers and employees can 'meet' through informal recruitment channels which mitigate the risks of double-sided asymmetric information (Granovetter 1995). One of the standard arguments for recruitment through networks are that it is quick and cheap. However it is also of importance that networks can deliver trustworthy information, especially in the case where workers already employed function as a third party between employers and jobseekers. This recruitment channel is known in the literature as the 'extended internal labour market' (Jenkins 1984; Adnett 1987). When employers hire through an already employed worker the latter can provide trustworthy information about the new worker (given the assumption that the already employed worker wants to maintain a good relationship with the employer). This solves one side of the asymmetric information problem. Furthermore, a new worker will trust the information given by an already employed friend (given the assumption that the already employed wants to maintain a good friendship). This solves the other side of the asymmetric information problem. Thus, these kinds of networks are perfect for avoiding 'lemons' among workers and employers. And it is easy to understand why it is difficult for the PES to compete with this recruitment channel: our qualitative interviews with employers clearly indicate that informal networks are by far the most preferred recruitment channels.

These four interconnected problems lead to the very pessimistic prediction that, in terms of job-brokering, PES will always end up as a last resort for both employers and jobseekers. However, the rational-choice perspective does offer one theoretical possibility to escape the low-end equilibrium in which PES are caught: that is, to 'invest' in a good reputation. The argument is that, if players in various 'games' behave trustworthily, then they will gain a good reputation. Such a

reputation might even work when a new player enters the game. The reason is that a good reputation can quickly be lost, and the new player may think that the other player will not risk their hard-won reputation by cheating in the next game. In the market for used cars again, if a car dealer has established a good reputation, a customer will probably expect that he will not risk losing this reputation by selling lemons.

It is, however, difficult for the whole PES system of a country to establish a good reputation. Besides the real existence of lemons, the problem is that it is very difficult to make known plausibly that PES will ‘screen for lemons’ among the unemployed and among employers. In practice, local employment offices and their front-line personal might try to create a good reputation among local employers by not ‘selling lemons’ to them. If they do so for a period of time, the employers may begin to trust them (because they know the local PES will not want to risk losing this reputation). It is more difficult to ‘screen for lemons’ among employers and thereby create a good reputation among workers looking for jobs. Naturally, PES do have mechanisms to penalise the unemployed who do not engage in a facilitated job match, which reduces the importance for PES of having a good reputation among the unemployed. But as we shall see in the following sections, these penalties (which in most countries have been strengthened within the last decade) not only discredit PES among workers, but also make it harder to convince employers that PES can effectively screen workers.

Exploring practices and perceptions among private employers in six European countries

In the following sections we illustrate the consequences of the double-sided asymmetric information problem by means of semi-structured interviews with 40 private employers conducted in Denmark, Germany, Hungary, Italy, Slovenia and Switzerland in early 2009. Comparative information in the field is sparse, but data collected in the 2001 ISSP survey (International Social Survey Program)

documents the limited use of PES in these countries. The share of workers that heard about their job through PES ranges from three percent in Switzerland to twelve percent in West Germany. In the other four countries the share was four percent in Hungary, five percent in Denmark, six percent in Italy and ten percent in Slovenia (Author A: 2010). Thus, despite variations it is clear that no country has established a PES with large market shares. The interviews lasted approximately one hour each and were based on a common semi-structured interview guide. They were conducted by partners within the RECWOWE network (see acknowledgment notes) in national languages and afterward translated into English. The country selection gave us a variation in terms of business cycles, employment protection legislation, unemployment benefit generosity and labour exchange regulations, but we expected the mechanism caused by doubled-sided asymmetric information to be present in all six countries. Besides the broad representation of different countries, the strength of this data material is that it provides qualitative insights into the recruitment practices of private employers and their perception of PES. The employers were not randomly selected. We selected companies in the industrial and service sector, focusing the interviews on the recruitment of low-skilled workers. Such a focus provides a best case for the use of PES. PES have a larger market share in this sector of the labour market than among educated-worker segments. As these companies are usually active in very price-competitive markets, one could argue that the role of PES may be of more importance, as it could reduce the cost of getting labour. However, we can also assume that this market is probably troubled by the fact (or perception) that the chance of hiring a lemon is higher since the needed unskilled labour has not been screened by the educational system (see e.g. Spence 1973). Finally, our focus on employers of unskilled labour is of special relevance because it is these companies that are most likely to be open to long-term unemployed, which PES often have a special obligation to help. In the next section, we start with a basic overview of how

these 40 employers typically recruit (see [http:// author A](http://author A) for a further introduction to the data and access to the interview guide).

The non-use of public employment services

The private employers were asked what channels they used to recruit unskilled labour. The interviewer emphasised that it was not so much a matter of advertising job openings as of how the first contact typically was established. The most-used recruitment channel was found to be a waiting list or direct application. Fifteen employers ‘very often’ used this channel and eighteen ‘often’ used it (together 83 percent). This channel probably includes what Atkinson (1985) labelled the ‘second peripheral group’ of a company. These workers create numerical flexibility of the company, i.e. the company can rapidly reduce or increase the number of employees. Those in the second peripheral group often handle twilight shifts, overlaid shifts, peak manning etc. The point is that some of these workers and companies already know each other, which reduces the doubled-sided asymmetric information problem. The second most-used recruitment channel was contact through the employers’ current workers. Nine of the companies ‘very often’ used this channel and 21 ‘often’ used it (together 75 percent). There can be a number of advantages to using this channel (e.g. it is cheap and quick), but as argued above it is also the best way to deliver trustworthy information to both the employer and the applicant and thereby reduce both sides of the information problem. The other recruitment channels mentioned by the interviewer were much less used. Around one-third of the companies answered that they ‘very often’ or ‘often’ recruited through private employment agencies, public employment agencies or ‘other contacts in the sector’. The least-used channels were newspapers and Internet sources. These were used by only around one-fifth of the companies.

The overall picture is that, for these companies, PES are positioned in-between the preferred informal channels (waiting lists/direct applicants and a company's own employees) and non-preferred formal channels (newspapers and on-line job boards). Still, most of the companies did not use the public employment services. The qualitative interviews clearly demonstrate that most employers do perceive the PES as a last resort. This seems to be the case for employers across countries, sectors, and different sizes. Our data confirm what was observed from the ISSP survey, namely that Germany and Slovenia seem to be most favourable to PES. Larger companies also seemed to be a little more inclined to use the PES, which might be explained by the fact that a larger company can more easily deal with the risk of employing a 'lemon'. The theoretical argument here is that you are more risk-averse if you buy one car than if you buy hundreds of cars at a time. Nevertheless, the human resource director of a large German cleaning company (with around 2500 employees) stated that *'when we are looking for staff, we find someone relatively quickly through word of mouth.... We do not inform the public employment agency more often because we don't have any need to'*. Similarly, the Chief Executive Officer (CEO) of a Swiss cleaning company (180 employees) stated that *'we can do without it, because we have a lot of direct applications and our current employees often recommend the company to people who are looking for work'*. Therefore, one simple explanation for the failure of the PES might naturally be that these employers do not feel a need for this free service. But there is more to it than that.

The negative perceptions of the unemployed sent by PES

The qualitative interviews clearly indicated that most employers are suspicious about persons sent by PES. The situation is naturally worst where the employers believe that the labour market provides good job opportunities. The CEO of a Swiss construction company (200 employees) stated that *'if the person needs the help of the public employment agency, it means that he is not able to*

find a job by himself. You can leave a job at 8 am and find a new one at 10 am, if you are a good worker'. The same argument was made by a director of a Swiss chain of cafes (180 employees): *'In this field there is plenty of occasion to find a job, especially if the person has previous experience in the field. So if someone has not found anything for a long period of time there has to be a problem in addition to job loss – most frequently lack of motivation*'. This negative perception is confirmed also by the co-owner of a German laundry company (75 employed), who stated: *'I have the impression that most people who register with the public employment agency are looking for work but maybe do not want to work or even cannot work*'. In the same vein, the day manager of a Danish meat factory (350 employees) declared that: *'Personally I do not believe that it is a seal of approval to have gone through that system [i.e. PES]... If you are interested in working you would come here and apply. If you have already been to the employment office it is almost as if you have been forced [to come] down here.'*

Therefore, our interviews confirmed that job applicants coming directly from PES are often perceived as not being motivated. Moreover, besides the motivation issue, there is also the question of the trustworthiness of the individuals provided by PES. Especially in the service sector we find employers concerned with this question. An owner of a small Hungarian cleaning company states that *'Cleaning is a very confidential type of job. There might be valuable objects and money in the offices. I am not sure I could trust a person sent by the public employment agency*'. The same argument is put forward by the owner of a small Hungarian supermarket. Asked about why PES are not used more often, the answer was *'because these jobs are completely based on trust. This is typically a case where you need to hire people who are the acquaintances of somebody. You cannot hire a complete stranger. Only somebody by recommendation. The job itself requires that'*.

The problem with non-observable characteristics is a general problem on the labour market, but the negative perception of the job motivation of the unemployed naturally increases the

importance of a screening procedure. And here the PES faces yet another problem. The employers do not have much confidence in the ability of the PES to distinguish between motivated and non-motivated workers. And even if PES were able to pre-screen applicants, the employers might doubt that the PES were telling the truth.

The low trustworthiness of information given by PES

In the interviews we tried to measure the level of trust employers had in the information provided by PES. The employers were asked how important a positive recommendation from PES and other sources was for the employment chances of an (unskilled) worker. As expected, the highest importance was attributed to recommendations from employers' own employees: 59 percent answered that this was of 'very high or high importance'. This confirms the role played by networks in delivering trustworthy information on the labour market. Another common source of recommendations are former employers. Here we asked about both oral and written recommendations from former employers. The interviewed employers indicated that oral recommendations are of higher importance than written recommendations: 13 percent answered of 'very high importance' and 24 percent answered of 'high importance'. By contrast, written recommendations were said to be of 'very high' importance for five percent and of high importance for 17 percent. This divide has also been found in previous studies (Pedersen 2009), and a possible explanation is that face-to-face interactions increase the trustworthiness of recommendations.

Most important for our purpose is the finding that the employers clearly put less emphasis on recommendations given by PES. None of the employers answered that such a recommendation is of 'very high importance' and only eight percent indicated 'high importance'. The interviews also indicated a divide between private and public employment agencies: Employers have more trust in

the recommendations given by private agencies; 11 percent indicated ‘very high importance’ and 29 indicated ‘high importance’.

Following our rational-choice argument, we can focus on two problems which further explain the low value of recommendations given by PES. The first problem is related to the dole-queue image mentioned in the previous sections. Employers are aware that PES have to enforce the conditionality of unemployment benefits checking the conduct of benefit recipients. This task makes it difficult for PES to observe the true job motivation of unemployed. The director of the Swiss café chain argued, for example, that ‘...*unemployed tend to have two discourses and attitudes: one when the person from the public employment agency is present and another when he is gone*’. The same argument was also put forward by the director of the Hungarian cleaning company: ‘*I do not know what percentages of the people who turn up at the public employment really want to work. When I was queuing at the public employment agency, I was listening to the conversations of other unemployed [note - the employer had once experienced himself a period of unemployment] and they were not focused on how to find a job, but rather how to remain unemployed and receive the unemployment benefit, how they might refuse the job offers and remain unemployed. I do not want to employ somebody who is working only by constraint*’. Naturally the validity of these observations can be questioned, but it is easy to follow how employers can come to have the perception that it is difficult for PES to observe the amount of true job motivation of the unemployed.

The second problem is that even if PES were able to distinguish between the motivated and non-motivated, they might not tell the truth to the employers. This line of reasoning is clearly confirmed by our qualitative analysis. A manager of a Danish cake factory (50 employees) argued that ‘.. *I also fear that they will give me the one that they want to get rid of the most, if I contact the public employment agency.*’ The director the Swiss café chain also claimed that PES ‘... *are not*

reliable enough. They tend to hide things in order to successfully reinsert an unemployed. Again, one can naturally discuss the validity of this perception, as most of the interviewed employers do not use PES. Nevertheless, one of the few companies that ‘very often’ recruit through the PES, a Swiss supermarket chain (7500 employees), actually seems to experience this problem. The deputy head of the human resources department stated that ‘...our main complaint is that sometimes public agencies tend to make a really quick placement and tend to hide some elements of the beneficiary’. Nevertheless, whether the PES deliver trustworthy information or not, it is easy to understand that the employers are suspicious.

Exceptions to the rule

In general our interviews support the theoretical argument that it is very difficult for the PES to act as a job-broker. However, there also seem to be a few exceptions to the rule. Five employers actually stated that they ‘very often’ recruit through PES. These exceptions could reveal how the PES manage to escape the low-end equilibrium. But a closer look at the interviews with these employers does not leave much hope for PES. Two of these employers were actually referring to specific services addressed to disabled jobseekers. The other three employers are located in Slovenia where it is compulsory to report vacancies to the PES. This factor could reduce – in principle – the perception that the PES only serves bad employers, i.e., one side of the asymmetric information problem is remedied. However, the interviews clearly indicate that Slovenian employers remain very suspicious of the quality of labour provided by PES. This negative perception is also confirmed by employers in Hungary, the second country involved in our analysis where job vacancy reporting is mandatory. According to the literature, in fact, compulsory vacancy-notification has not proved successful across Europe, since – instead of increasing employer’s trust in PES – it is perceived by firms as just a further administrative burden (Kuddo 2009).

Another seven companies answered that they ‘often’ recruit through the PES. But again a closer reading of the interviews clearly reveals that in these companies PES are definitely not the preferred channels of recruitment. We only found one case where the employer used the PES ‘often’ and seemed to be satisfied. This was an Italian company (120 employees) that produces plastic car components. Besides using PES, this director of the human resources department actually stated that a recommendation from the PES was of ‘high importance’; even of higher importance than a recommendation from own employees. But in fact, in reporting his seemingly successful collaboration with PES, the Italian employer was not referring to low-skill workers: ‘...unlike what usually happens, we turn to public employment offices not when we need to employ a high number of workers but when we need specific professional figures, i.e. when we need more targeted selections. In this case, public employment offices make a first selection of candidates, who are then evaluated by us. This allows us to save time and energies’. Thus, part of the secret might be that this employer does not ask the PES to find standard labour – whereby they might end up getting a lemon – but ask the PES to find a specific professional profile. The same seems to be the case for a German employer who was also satisfied with PES (though the company ‘rarely’ recruits through this channel); ‘We only address the agency if we need skilled workers. ... We name and explain our requests. The public employment agency gets a profile, so that they know exactly which workers we are looking for’. Another part of the secret is that some PES, according to the Italian and German employer, have competent people that manage to make a good pre-selection.

This could support the theoretical argument that PES might after all be able to build a reputation enabling them to be seen as a trustworthy third party. However, to judge from the experiences of the Italian employer, this reputation seems very much to be that of the individual caseworker and not of the PES organisation as such. As noted by this employer: ‘public employment offices have changed during the years.... The services they offer have much improved but there is

still a long way to go.... Unfortunately, their performance is still too dependent on single individual'. The same can be found in other interviews; e.g., the human resources director of an Italian catering firm (970 employees) states that '*...some public employment offices offer very good services, whereas others do not. According to me, this depends on the persons which work there and on the relationship that we manage to establish*'. Thus, employers might develop trust in a specific caseworker, which creates the possibility of collaboration. But the problem here is that reputation, when it works, remains fragile, as one bad experience might be enough to spoil it. Theoretically, it is exactly because it is fragile that it works.

The fragile reputation and negative experiences

The fragility of PES' reputation clearly emerges in the interviews: those few employers who had used PES had negative experiences. As stated by the human resources director at a Danish company that produces parts for windmills (603 employees): the PES '*have to try to get them [i.e. the unemployed] out of the system as quickly as possible. But it does not take a great deal of bad recruitments before we lose our patience*'.

Negative experiences with PES are often caused by the lack of a good job attitude among applicants. A German employer in the food sector (780 employees) told for example this story about people sent from the local PES: '*I remember that in the past, during summer, we often employed workers for two or three months during the vacation time. Some of them worked just a day, or didn't show up at all*'. Bad experiences can also originate in a careless selection of job candidates. A Slovenian cleaning firm reported that once the PES sent 30 applicants for one job position, which was perceived to be too many, while a German employer (supermarket, 89 employees) reported that '*...just recently, I had two applicants from the public employment agency who hardly spoke German. How can the employment agency propose people – in retail where*

communication plays an important role – who haven't mastered the language? Finally, some companies simply had problems with the bureaucratic procedures of the PES.

The reasons for these bad experiences with employers' actual contact with PES are thus similar to those behind the negative perceptions and prejudices reported in the previous sections. The generalisability of these accounts can naturally be debated. Are most unemployed really not motivated? Do PES personnel in general not know the needs of employers? And are PES typically too bureaucratic? The validity of these statements is also debatable. It might be easy for employers to say that a negative experience is caused by the employee and not the company itself. But theoretically, this might not be of much real importance; to quote the famous Thomas Theorem: 'If men define situations as real, they are real in their consequences' (Thomas & Thomas 1928). Thus, if employers define these situations as real, it is very likely that PES will lose any chance of a good reputation, which is the only way to be perceived as a trustworthy third party.

Conclusion and implications

In recent years there has been a strong emphasis on the organisational setup of PES: Their organisation may be too bureaucratic, frontline personnel not competent enough, or their resources insufficient. By contrast, this article has focused on the environment in which PES work. Our argument is that PES' failure as efficient job brokers originates in the very nature of the labour market. It is plagued by what we label the double-sided asymmetric information problem: Employers try to avoid the worst employees but this is difficult because the information is asymmetrically distributed: The worker is better informed about his or her own capabilities. At the same time, employees try to avoid the worst employers, but this is also difficult because, again, the information is asymmetrically distributed: The employer is better informed about the real work conditions he or she offers. And both have an incentive to present their labour or respectively their

workplace in the best possible light, which the other party naturally realises. This situation does create a need for a third party. However, it is very difficult for the PES to function as that reliable third party, for the reasons we have discussed in the previous sections. Our prediction is that PES will usually be used by both employers and employees only as a last resort, and therefore they get caught in the low-end equilibrium that seems almost impossible to escape.

These mechanisms have been illustrated by means of 40 in-depth interviews with private employers in six different European countries. The employees' perceptions of PES were outside the scope of this article. To study best the problem of PES, we focused on unskilled labour. The interviews confirmed that employers perceived PES as a last resort for getting labour. Most of the employers had negative perceptions of the unemployed handled by PES. The fact that these persons had to rely on the PES was often considered a bad signal and their work motivation was questioned. It was also shown that most employers felt they could not trust the information given by PES. The employers questioned the ability of PES to select motivated from non-motivated workers, and many feared that the PES would not tell the whole story on a given applicant. The data material also indicates that employers who had used PES often had negative experiences, either with the provided applicants or with PES administrative procedures. The latter finding indicates that the organisational problems of the PES are probably not negligible.

Our findings do not lead to a single best solution to how to better organise PES. The main conclusion is that PES, since their very creation, have had to deal with dilemmas which recent policy developments just seem to have worsened. However, recognising these dilemmas might help to qualify the discussion of PES' function as job-brokers.

A first possibility is to (re-)establish a public monopoly on job-brokering. This is a rather remote possibility as it contravenes current European legislation and ILO conventions. Furthermore, the Swedish, Slovenian and Hungarian cases demonstrate that it not enough to pass a law that

requires employers to report vacant positions to PES, for they can do so without ever actually hiring PES candidates. One needs to turn to the former communist countries to see cases of real monopoly. Until the mid-1990s the Italian PES were also close to having a state monopoly on job-brokering. Such a monopoly can potentially turn PES into the dominant job-brokers, but the drawbacks of these systems are well-known (cf. Ichino 1982 and Ferrera and Gualmini 2004 for a description of the Italian system). Our conclusion is that Beveridge's idea of turning PES into the dominant job-broker within a capitalist economy is simply impossible.

A second possibility would be just to maintain the contemporary setup and let PES continue to function as a last resort for both employers and employees. In such a scenario, PES should be seen as institutions that try to make ends meet when everything else fails. Our findings suggest that within such an organisational setup, frontline personnel can potentially improve PES' function as job-brokers by establishing a good reputation. A Swiss study actually claims that the probability of an unemployed person finding an occupation through PES is three percent higher when PES caseworkers establish and maintain direct contact with employers (Behncke *et al.* 2007). However, the question is naturally whether it is worth the effort. It is extremely difficult to make a cost-benefit analysis in this field. But our interviews indicate that – at least within the current organisational setup – this positive reputation effect has a modest potential.

A third possibility would be to free PES from the mandate of conducting work tests and/or the task of helping the weakest workers. This brings PES closer to initial Swedish setup in which it simply focuses on finding the most productive worker for the employer, or the most appealing employer for the worker. Our interviews did reveal that in two cases (in Italy and Germany) the employers were satisfied with PES because staff had been able and willing to make a tough pre-selection to find the required very specific type of workforce. The problem with this option – which basically imposes the logic of private agencies on PES – is that the work tests are not conducted and

the weakest workers risk being left without any help. Also, one could question the wisdom of spending public resources on facilitating job matches between the most productive workers and the best employers, which appears even more relevant in the context of the expansion of private employment services and internet resources which potentially lower the need for public assistance in job matching.

Finally, a fourth possibility is to acknowledge the doubled-sided asymmetric information problem and simply free PES from the task of direct job-brokering. In our opinion this is the most promising strategy. However it has two severe implications for the wider functioning of PES: First, it alters the role of the PES in the administration of unemployment benefits, notably in the enforcement of workfare policy. If PES are no longer asked to deliver concrete vacancies, the work test needs to be replaced with a ‘search test’, wherein benefit claimants are required to document that they are actively looking for a job. Second, it alters the task of helping the weakest jobseekers. In such a setup it is no more a matter of sending weak jobseekers to vacant positions which PES have in stock. Such weak workers are probably better off anyway without the stigma of being sent by the PES. Instead, the PES will now try to re-qualify disadvantaged workers, provide guidance in using the informal channels of recruitment, and provide access to job information through nationwide on-line databases, etc. Another useful tool is to give employers wage subsidies for a limited period if they hire a person from a disadvantaged group. These programs have in some countries shown positive results (e.g. Author A 2002), for which the most obvious explanation is that they (using Akerlof’s terms) allow both employers and workers to take a longer ‘test drive’. These programs potentially create informal networks which have proved effective in mitigating the doubled-sided asymmetric information problem.

References

Adnett, N. J. 1987. 'State employment agencies and labour market efficiency', *Cambridge Journal of Economics* 11, 3, 183-196.

Akerlof, G. A. 1970. 'The market for lemons: Quality uncertainty and the market mechanism', *Quarterly Journal of Economics*, 84, 3, 488-500.

Atkinson, J. 1985. *Flexibility, Uncertainty and Manpower Management*. IMS Report, 89, Brighton: Institute for Manpower.

Autor, D. 2008. 'The economics of labour market intermediation: an analytic framework', *IZA discussion paper*, 3705.

Behncke, S., M. Frolich and M. Lechner. 2007. 'Public employment services and employers: how important are networks with firms?', *IZA discussion paper series* no. 3005.

Beveridge W.H. 1931. *Causes and cures of unemployment*. New York: AMS Press

Clasen, J. and D. Clegg. 2006. 'Beyond activation: reforming European unemployment protection system in post-industrial labour markets', *European Societies*, 8, 4, pp. 527-553.

Ebert R. and H. Holzer. 2004. 'Overview of labour Exchange Policies and Services', in D. E. Balducci, W. E. Randall and C. O'Leary (eds), *Labour Exchange Policy in the United States*, Kalamazoo, MI: The W.E. Upjohn Institute for Employment Research, pp.1-31.

Ferrera M. And G. Gualmini. 2004. *Rescued by Europe?, Social and Labour Market Reforms in Italy From the First Republic to Berlusconi*. Amsterdam: Amsterdam University Press.

Frederiksen, A., R., A. Ibsen, M. Rosholm and N. Westergaard-Nielsen. 2006. 'Labour Market Signalling and Unemployment Duration: An Empirical Analysis Using Employer-Employee Data ', *IZA Discussion Paper*, 2132.

Gibbons, R. & L. Katz. 1991. 'Layoffs and Lemons', *Journal of Labor Economics*, 9, pp. 351-80.

Granovetter, M. S. 1995. *Getting a Job. A Study of Contacts and Careers*. Chicago: The University of Chicago Press (2nd edition).

Jenkins, R. 1984. 'Acceptability, suitability and the search for the habituated workers. How ethnic minority and women lose out', *International Journal of Social Economics*, 11, 7, pp. 64-76.

Ichino, P. 1982. *Il collocamento impossibile*. Bari: De Donato.

King D. S. & B. Rothstein. 1993. 'Institutional Choices and Labor Market Policy. A British-Swedish Comparison', *Comparative Political Studies* 26, 2, pp. 147-177.

King D. S. & B. Rothstein. 1994. 'Government legitimacy and the labour market: A comparative analysis of employment exchanges', *Public Administration*, 72, 2, pp. 291-308

Kuddo, A. 2009. 'Employment services and Active labour market programs in Eastern European and central Asian Countries', *Social Protection Discussion Paper*, World Bank, 2.

Mosley, H. and S. Speckesser. 1997. 'Market share and market segment of Public employment services', *WBS discussion paper*, FS 97-208.

Okeke, S. 2001. *Arbetsförmedlingens marknadsandelar 1999 och 2000*. Stockholm: Arbetsmarknadstyrelsen

Pedersen, J. J. 2009. 'Anbefalinger, jobsamtaler og virksomhedernes valg ', in C. A. Larsen (ed.) *Ledighedsparadokset*, Copenhagen: Frydenlund Academic, pp. 88-100

Rasmussen, E. 1991. *Games and Information*. Oxford: Basil Blackwell Ltd.

Spence, A. M. 1973. 'Job Market Signalling', *Quarterly Journal of Economics*, 87, 3, pp. 355-374.

Thomas, W. and D. S. Thomas. 1928. *The child in America: Behavior problems and programs*. New York: Knopf.

Thuy, P., E. Hansen and D. Price. 2001. *The public employment service in a changing labour market*. Geneva: ILO

Walwei, U. 1996. 'Performance Evaluation of public employment services', *Labour Administration Branch document*, 47, Geneva: ILO.