

BROADENING PERSPECTIVES ON SOCIAL POLICY

# CONTRACTING- OUT WELFARE SERVICES

COMPARING NATIONAL POLICY DESIGNS  
FOR UNEMPLOYMENT ASSISTANCE



*Edited by*

Mark Considine and Siobhan O'Sullivan

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*Series Editor: Bent Greve*

The object of this series, in this age of re-thinking on social welfare, is to bring fresh points of view and to attract fresh audiences to the mainstream of social policy debate.

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# **Contracting-out Welfare Services**

***Comparing National Policy Designs for Unemployment Assistance***

*Edited by*

**Mark Considine and Siobhan O'Sullivan**

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# ***Introduction: Contracting-out Welfare Services: Comparing National Policy Designs for Unemployment Assistance***

**Mark Considine and Siobhan O'Sullivan**

With welfare reformers in almost every country experimenting with forms of privatization and what its advocates have called 'supervisory approaches to poverty' or 'a new behaviouralism', it is timely to present this book. Dedicating a book to the governance of quasi-markets in welfare services attests to the momentous nature of the radical redesign the welfare state has undergone over the past two decades. A similar reinvention has occurred across numerous policy fields and has affected most social services. Yet nowhere have the changes been more radical, and the results more pronounced, than in the realm of welfare-to-work, employment services privatization and jobseeker activation. All too often, social policy commentators are forced to lament that reforms were 'oversold' by policy makers, things at the local level did not change all that much or major parts of the reform agenda of governments were effectively subverted by system inertia. Not in the case of employment services.

In 1992, Lawrence Mead argued that:

dependency politics is growing in importance not only in the United States, but in the West as a whole. In Europe, disputes over the social behavior of low income groups, often immigrant communities, have become more contentious than traditional conflicts between organized labour and capitalism (Mead 1992: 3-4).

Deep concern for the large number of citizens who had become permanently dependent on unemployment benefits or related forms of social security such as single-parent payments or disability pensions profoundly undermined whatever trust remained in large, bureaucratic, inflexible responses to poverty. By the 1990s, a spirited debate had surfaced on both the political left and the right, concerning the extent to which welfare entitlements had helped generate perverse effects, including the twin problems of state paternalism and dependency.

No government responded to this challenge with greater enthusiasm than Tony Blair's New Labour. They took to public service reform with a zeal not seen since Gladstone and with obvious gestures to the US and the heyday of welfare reform under Roosevelt. Political devolution, strategic partnerships at local level, the various 'New Deals' for those on benefits and a new enthusiasm for engaging the private sector created a powerful momentum throughout the public sector. Blair and Bill Clinton had also forged a temporary consensus around new centre-left policies which aimed to 'square the circle' by adopting part of the right's critique of welfare and of the effect of passive welfare, but joining it to a better funded program for increasing opportunity in both education and work.

These new principles of obligation and activation were hybridized and adapted to become a new regime of innovations across the Organisation for Economic Co-operation and Development (OECD), involving the strengthening of obligations for welfare recipients to earn their income support, the contracting-out of services and the reform of pension systems themselves to link them to workforce participation wherever possible.

Central to the response identified by many policy makers was the idea of New Public Management (NPM). According

to the logic of NPM, traditional bureaucratic instruments based upon norms of standardized treatment and universal service are best replaced by outcome targets, quasi-market contracting and efforts to engage employers and other users in service delivery. Welfare and employment ministries in many OECD countries are now more likely to purchase services than to deliver them, more concerned with regulating contracts than managing public servants and are increasingly concerned with managing an economy of incentives and opportunistic manoeuvres than with traditional forms of bureaucratic organization. Yet this spread of service outsourcing only tells part of the contemporary welfare-to-work story. Described elsewhere as 'a decisive turn away from universal state services and standardized responses to social problems' (Considine 2001: 2), in order to appreciate the vastly different conception of jobseeker assistance today, compared to just 15 years ago, one must also take account of the impact of a new notion of 'activation' which began to influence policy makers in the 1990s and challenged thinking about welfare entitlement.

California's Greater Avenues to Independence (GAIN) program had been the largest program of public assistance to the unemployed in the largest state in the US. In 1994, the Manpower Demonstration Research Corporation (MDRC), an influential non-profit evaluation agency, published the results of a three-year study of GAIN (Riccio et al. 1994). The evaluation drew 33,000 welfare recipients from the California welfare rolls and randomly assigned them to a study group and a control group. The conclusion was that the GAIN program itself was successful and that Riverside was the most successful county. The measures of success were the gains in earnings for those who undertook the program and the savings in welfare payments.



The Riverside model included a range of important differences compared to models trialed elsewhere. But despite multiple variables, the narrative that has developed around the Riverside case highlights a set of program features that have now achieved the status of accepted wisdom among policy makers. The first thing that evaluators noted about Riverside was that its managers made less commitment to education and training and certainly less to longer term educational deficits such as sending clients back to school to improve literacy and numeracy. Instead the local strategy was to focus upon job search and immediate placement into available job vacancies. Even where the job was not what a client was looking for or very happy about, the philosophy was to take this job now and then apply for a better one from the stronger position of being employed. Efforts were also made to reduce the capacity of clients to defer their job search obligations because of part-time work, training or childcare responsibilities. In all these cases, the program still required the client to participate in job search activities for up to 15 hours per week.

The staff in the program closely monitored their clients to see that they were active and motivated to take jobs that were offered and that they could resolve any issues that might make a successful job start more difficult. Having the right clothes, sorting out transportation and childcare, and having a clear understanding of the employers' expectations all played a part in this local strategy. The motivational message was strongly focused upon family values.

This commitment to what would later be called a 'work first' approach was complemented by very active engagement with local employers. Specialist staff with marketing skills were hired to manage these critical relationships with local employers. The key to success was

the job agency's ability to offer employers immediate service so they would come to rely upon them for filling temporary vacancies and managing the stress of sudden departures. The promise was to send a suitable applicant the same day the employer lodged the request, to follow-up the placement and to see that he or she was happy with the resulting placement. The manager of the Riverside program also spent time promoting this pro-employer image in the local media and through existing employer networks. He further promoted a strong culture of performance among staff of the agency through his own motivational messaging and through the rapid dissemination of data about finding and filling vacancies.

While we might be unsure about what in particular made the Riverside model more successful than others, evidently it was an approach to employment assistance whose time had come. Critics of welfare were tired of hearing that clients lacked motivation, tended to avoid programs if they could and refused jobs if they felt something better would soon be available. Nor did the high cost of providing the educational skills missed at high school seem to these critics to be justified by the modest employment outcomes they appeared to produce. And most of all the growing coalition of welfare critics expressed dismay that local employers could have vacancies on their books, find it hard to get applicants or committed workers, while around the corner were welfare recipients sitting in an expensive public agency discussing other preferences they might have for work. Riverside became the poster child for program design throughout the OECD. What was needed was a program that was 'work first' but with tough requirements for participation and hard time limits for the receipt of benefits.

A new language of 'tough love' began to replace the liberal canon of entitlement. Where welfare programs worked

best, they appeared to contain a good deal of pushing and prodding, and even stronger tactics to force claimants to take jobs. Plainly the new science of welfare had become an administrative discipline, a science of governance in which those delivering programs and those receiving them each had to be carefully activated through a new regime of exhortations and incentives, honed to achieve an explicit and exemplary change in behaviour. The tidal wave of administrative reform that would follow this shift in outlook by policy makers would carry as its leitmotif the charismatic figure of the Riverside manager, throwing the rule book of public assistance out the window with one hand and pointing all clients to the first available local job with the other. The new administrative methodology aimed to be uncompromising - no excuses accepted, no exceptions allowed. With that the contemporary notion of 'activation' was born. It would forever change the case manager/jobseekers relationship. It would also have serious implication for the purchasers/provider relationship as governments sought ways to employ and then activate contracted agencies in order to eventually activate the end user.

The willingness of policy makers to take radical steps in relation to welfare-to-work may be indicative of the service users' status. In short, those in receipt of employment assistance are more often than not poor and disenfranchised. This is particularly so in the case of the long-term unemployed. Is the state emboldened when service recipients are predominantly marginalized? Or is the explanation for the depth of the reforms to be found in the relationship between welfare-to-work and its new economy? After all, innovative labour market management now has material consequences for welfare recipients, employers, and perhaps most importantly, for those private for-profit and not-for-profit agencies that have grown

wealthy and politically powerful as a result of their new roles in delivering these public services.

While we can only speculate as to the reasons why welfare-to-work has been the locus of significant policy experimentation, what is not in doubt is the widespread nature of the phenomenon. As the book's title 'Contracting-out Welfare Services: Comparing National Policy Designs for Unemployment Assistance' suggests, the widespread willingness of policy actors around the world to design and then redesign their welfare-to-work system makes this an ideal field for comparative policy analysis. In the Australian case, the approach to the public management of employment services taken by federal governments on both the right and the left has earned Australia an international reputation as a bold social policy reformer. Yet despite being the first country to introduce a fully privatized delivery model, steered by a rigorous contract management system and operated in a relatively benign labour market, the reform impetus has not achieved equilibrium and the Australian government has become involved in continual restructuring of the system. It is for this reason that we refer to Australian employment services policy process as 'the reform that never ends' (Considine 2005). But while the Australian experience is one of ambitious employment service redesign, this is by no means a uniquely Australian story. As the diversity of scholars featured in this collection demonstrates, the trajectory of reform is widespread, as is academic interest in the study, analysis and critique of the changes.

This volume represents a new high water mark in the field of employment services scholarship, yet participants draw on a much longer intellectual legacy. In particular, our contributing authors have all been influenced by research into NPM, social policy, public policy, activation, the welfare state, the third sector, 'flexsecurity', mission drift

and quasi-markets. This book confirms employment services delivery as a discrete field of research and uses employment services as a case study to advance academic understanding in relation to a host of broader principles and concepts.

This book began as a round table hosted by the University of Melbourne in February 2013. The round table attracted chapters from ten speakers spanning seven countries. The round table audience included employment services PhD students and our industry partners Jobs Australia (JA), the National Employment Services Association (NESA) and Westgate Community Initiatives Group (WCIG). All round table participants were invited to submit an article for consideration, but submissions were also accepted from those who were unable to make the long journey to Australia.

The international perspective brought to bear on the topic is evidenced by the first two chapters, both of which take an international comparative approach. In [Chapter 1](#), Katharina Zimmermann, Patrizia Aurich, Paolo R. Graziano and Vanesa Fuertes from Germany, Italy and the UK compare those three countries in relation to activation policy. In particular, the authors wish to identify the impact of ‘marketized integrated activation policies’ on different types of activation arrangements. In their own words:

‘marketization in the delivery of activation policies strongly emphasizes both individual responsibility and the need of a broader scope of actors to ensure targeted services. However, the way these activation principles are translated into practice strongly depends on their implementation at the local level, framed by the discretion local actors have with regard to the marketized services’ (p. 12).

An exploration of activation via marketization is well facilitated by a comparison of Germany, Italy and the UK, because each country has undertaken marketization to different extents, via various levels of government and the use of a range of policy mechanisms. The authors find that the local context matters and that local discretion and the local policy history inform how activation policy is translated into actual service delivery practice. In [Chapter 2](#), Ludo Struyven from the Netherlands adopts a comparative approach examining the way in which quasi-markets developed in Australia, the Netherlands and Belgium. He asks:

what brought the two reform countries Australia and the Netherlands to make a similar choice for the restructuring of their PESs [public employment services]? How is it that Australia evolved after just a few years from an open to a closed market, whereas this did not happen in the Netherlands? [And] why did Belgium (Flanders) not opt in the period studied for a new administrative structure with more scope for market competition, despite a far-reaching reform plan? (p. 34).

He argues that the move towards service privatization does not necessarily equate to system convergence and that ‘the three countries studied each follow their own path regarding the direction in which the system is evolving’ (p. 48). Struyven carefully paints a complex picture and outlines the way in which various stakeholders influence system reform and re-reform.

Many of the countries examined in the two comparative chapters were used as case study jurisdictions by other contributing authors. Our own contribution, [Chapter 3](#), coauthored with Phuc Nguyen, is focused on Australia. In it we consider the relationship between NPM and mission drift, from a unique perspective. We track the evolution of

an Australian third-sector employment services provider as it grew from a small kitchen table, church-based charity into a \$15 million enterprise. We complement that case study with data collected from CEOs and Boards of other not-for-profit employment services providers in order to investigate the extent to which large-scale government contracting has altered Board membership, process and ambition. We conclude that service privatization has changed the very nature of those who set the direction of third-sector service agencies. Those we interviewed emphasized the importance of being professional, business-like and emulating the for-profit sector. This raises important questions about the broader impact of employment services privatization. Is it changing the very nature of the third sector? Are employment services the types of services not-for-profits should be delivering? Furthermore, if not-for-profits feel driven to emulate the for-profit sector, do they remain distinctive? If yes, in what ways? And finally, does it matter?

In [Chapter 4](#), Rik Van Berkel from Utrecht University's School of Governance focuses on the Dutch system and does so from a front-line perspective. He explores the dynamics between activation, 'risk selection' and the administration burden placed on client-facing staff. Van Berkel's study suggests that the relationship between the three is not as straightforward as might be imagined. Using extensive interview data, Van Berkel argues that on the question of risk selection, the process is complex and can happen at a range of points along the service continuum. He concludes that 'when studying processes of risk selection, research needs to analyze the entire service provision chain and to look at decisions taken by providers and purchasers throughout the service provision process' (p. 87).

Many social policy scholars, in particular employment services specialists, have been closely monitoring developments in the UK over the last three to five years. Two chapters are centred around the UK's bold reform agenda. In [Chapter 5](#), Isabel Shutes and Rebecca Taylor from the London School of Economics (LSE) and the University of Birmingham respectively concentrate their analysis on the impact of conditionality in funding which they argue 'commodifies those out of work by attaching financial value to placing them in work' (p. 92). Within the context of the Work Programme, the authors find that conditionality in funding informs the types of agencies willing and able to deliver services, the 'mission' of those that do deliver services, the capacity of agencies to specialize and the willingness of providers to invest extensively in jobseekers. They also argue that it encourages 'creaming and parking'. James Rees, Adam Whitworth and Eleanor Carter, [Chapter 6](#), are also concerned with 'creaming and parking' within the context of recent UK employment services reforms. In their chapter, they find that despite careful system design aimed at minimizing adverse incentives, practices such as creaming and parking "were not just endemic [...] they could also be seen as a rational response to the current payment by results model and its misalignment with the actual support needs of individual claimants across and within the claimant groups". (p. 116). The authors argue that funding differentiation between cohorts was the primary tool used by the policy architects to achieve their objective of 'differentiated universalism'. However, that design has not been effective as evidenced by different placement rates between different classification groups. Rees, Whitworth and Carter conclude that 'the Work Programme at present seems...to be reinforcing, exacerbating and making systemic the negative impacts of employment disadvantages' (p. 124).



In [Chapter 7](#), Matthias Knuth provides a German perspective. He examines a special program known as 'Perspective 50plus', implemented to assist jobseekers over the age of 50 receiving minimum income benefits. Knuth argues that the success associated with Perspective 50plus cannot be attributed to particular processes used to assist older jobseekers. Rather, positive outcomes are linked to innovative governance arrangements. For example, program participation was voluntary at both the Jobcentre and client level. Moreover:

'targets were straightforward and clearly defined with regard to employment outcomes and their quality and duration ... sanctions in case of missing the targets were very soft, but underperforming did have consequences. All this created a sense of ownership different from standard operations compared to which the procedure was more bottom-up, more specifically targeted, and tied to locally specific action plans (p. 142).

The Perspective 50plus case study is used by Knuth to further answer the more abstract question: 'how [should] hierarchical rules and market transactions...be designed as to allow network relations to flourish and bear fruit' (p. 145)?

Finally, in [Chapter 8](#), Avishai Benish makes a rather unique contribution by examining the purchaser/provider relationship in Israel. Much active labour market policy research is European or Australian focused. It is therefore particularly interesting to view the challenges presented by NPM from a relatively new jurisdictional perspective. Benish argues that:

the Israeli case, still understudied in activation scholarship, offers an excellent context for studying transformation in public accountability... As a radical case of privatization, in which significant discretionary powers were devolved to for-profit street-level activation agencies (including the power to sanction participants from receiving income support payments), it may help us to understand and critically evaluate how accountability changes under privatized service delivery systems (p. 152).

Benish concludes that a distinction between public and private accountability is a false dichotomy. rather, there is a need to think in terms of a hybrid accountability model because 'decades of public sector welfare delivery, it seems, have created certain public expectations of how discretionary powers should be operated and how they should be accounted for, and these expectations remain when the functions are privatized' (p. 162).

While each of the chapters included in this book utilizes a national/program case study, and each considers employment services policy in general, and activation practices in particular, they are nonetheless unique and stand-alone contributions to the literature. It is our hope that combined they make a significant contribution to scholarship, and practice, in this important field.

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# 1

## ***Local Worlds of Marketization<sup>1</sup> - Employment Policies in Germany, Italy and the UK Compared***

**Katharina Zimmermann, Patrizia Aurich, Paolo R. Graziano and Vanesa Fuertes**

### **Introduction**

Most western European welfare states have experienced a turn towards so-called activation policies during the last two decades. Different policy reforms have increasingly put the emphasis on activating individuals who are out of work by implementing various governance and programmatic changes, in different policy schemes, such as social assistance, unemployment protection and disability benefits.

From a broader perspective, these activation policies are often embedded in the context of broader reforms which imply changes beyond the simple introduction of new measures in existing systems. Already in the late 1970s/ early 1980s, the concept of New Public Management (NPM) (among others: Pollitt *et al.* 2007) came up and led to a shift in the perception of the role of the state in public discourses. In this framework, several countries have - especially since the late 1990s - adopted reforms tackling the relationship between the state, the individual and the providers of welfare services. On the one hand, most activation reforms strengthen individual choice and responsibility by the introduction of financial incentives or sanctions. On the other hand, the provision of a very broad

range of labour market measures and social services exists in order to increase individual employability (Aurich 2011). In both dimensions, we often can observe a certain trend towards what has been called 'marketization' (among others: van Berkel *et al.* 2012b). Although marketization is not the only relevant governance aspect of activation reforms, it has nevertheless become an important part of policy delivery in most welfare states, often supported by the assumption that contestability increases the efficiency and effectiveness of provision. However, marketization is not a clear concept itself, and national reforms under this label show a variation on regulation characteristics, which hold the potential to crucially affect activation policies in practice. However, the outcome of activation significantly depends on the lower tiers of policy implementation, where legal changes are implemented and often adapted to a given local context. An important element in this regard, and the main focus of the article, is the level of discretion of local actors and its relation to activation interventions. The argument we make is that marketization in the delivery of activation policies strongly emphasizes both individual responsibility and the need of a broader scope of actors to ensure targeted services. However, the way these activation principles are translated into practice strongly depends on their implementation at the local level, framed by the discretion local actors have with regard to the marketized services. This discretion varies across different activation schemes according to different policy regulations and institutional setups. Therefore, this study is set out to describe and analyze the regulation and explore the implementation of marketized integrated activation policies in different types of activation schemes.

The analysis shows a clear link between the regulation of market-based interventions (i.e. type of marketization, outsourcing decisions and purchaser-provider split) and the

level of local discretion for local policymakers. With regard to the usage of this discretion, the explorative results show that it depends on the local contexts of policy-making and their suitability and willingness to become marketized. Therefore, notwithstanding a common marketization trend, its reach and its multilevel domestic adaptation varies in function of the embedded relationships (and its legacy) among levels of governments and stakeholders, rather than in function of the welfare regime type.

First, the article discusses governance reforms and marketization against the backdrop of activation policies in three different worlds of welfare and activation, namely Germany, Italy and the UK. We then develop a theoretical framework of regulating marketization in regard to activation, which we apply to three empirical cases, one in each country covered by this study. The national developments of the three countries are then checked against what is happening at the local level.

## **Activation Policies and Marketization**

Activation policies aim at integrating broader parts of the population into the labour market. The approach developed in the 1990s is based on the assumption that long-term unemployment can have detrimental effects on individual employability thus manifesting structural unemployment (Jackman and Layard 1991), and, therefore, groups with significant barriers to labour market participation needed to be integrated into employment. Thus, in order to address the complex problems of unemployed and socially excluded people, individual responsibility (often expressed by compulsion and incentives) was complemented by the provision of client-centred counselling and multiple social services tailored to individual needs. The provision of such services requires new structures of policy implementation