

## **Professor Dan Finns kommentar i samband med FORES-seminarium om framtidens arbetsförmedling (25 april 2018)**

“A couple of important points: Bruno’s paper is very important in bringing all that important information of randomised trials together. It is something that has been screaming to be done and he does it very elegantly, very theoretically. However, I take strong exception to the idea that this is the only evidence available: rather this is a hierarchy of evidence which means that this is the way we can make judgements about whether private providers reduce costs or improve services.

The strength of my critique of that comes from studying those other countries over a long period of time where experimentation with private providers have gone beyond relatively short term and small-scale experiments, usually implemented alongside a very strong and a very self-interested public employment service. They are implemented now in a context where the UK and Australia as well as Ireland, have gone down a particular route where they essentially have quasi markets and, in Australia, for market competition.

These systems bear studying; we have much knowledge about them as well, and not simply from RCT-trials. Bruno goes into this, and for obvious reasons, RCTs are barely done in most countries, but we do have strong evidence available from implementation studies, from audit inquiries, from productivity commissions in Australia. There is a strong body of evidence available about what private providers have been able to deliver in that context, as well as to what sorts of problems and that comes with that.

Okay, so a couple of other observations as my first two minutes are running up. What I think Bruno’s paper does is to highlight what some of the risks and advantages are of using private operators. I just want to touch of some of the advantages before I touch on some of the risks.

The advantages; one of the things that private operators bring is specialised expertise, for many kinds of reasons; the public employment service won’t have the capacity or the interest to develop that. Traditionally in many countries, not just the Anglo countries that I am mostly focused on, public employment services, ministries have contracted with non-profit organisations to provide services for people with disabilities or learning difficulties i.e. That is clearly where a lot of the expertise exists and that expertise can be bought in as to when the public sector needs it. It doesn’t make sense to try to develop that sort of expertise solely within the public employment sector.

The other advantage that the operation of private contractors brings to the table is the advantages of contestability and competition. The driving force behind many of the reforms in countries like the UK and Australia was the poor performance of the public sector. That was the starting point, usually generated by some kind of scandal or some kind of eruption of a lack of confidence in what was being delivered by the public sector. So, it is not like we are comparing one or several organisations that deliver very well in the public sector against several organisations that deliver poorly, or don’t act with advantages in the private sector.

Competition has lots of advantages. I think reading some of the papers that Bruno looks at, one of the things that I find quite interesting is that, traditionally and technically – and we may well have a discussion about this afterwards - what typically happens with these experiments is, we will try to use performance-based contracts with a bunch of providers and we do some things initially and then test it against what the public sector is doing. So, what we are talking about is, that we are just testing general services that are just coming off the ground within a provider network that is actually learning what to do at that same time, we then compare that against a public employment service that is well established, has good employer links, already has established ICT-systems etc.

And one of the things that is interesting to me and we found this is the UK when we experimented with what we called employment zones, it is that when you introduce competition into an area, the performance of the public sector improved as well, this was due to the competition, so there is a real strength out there.

You can expand and contract services more easily, particularly in response to the economic cycle. Brutally we have been through an experience like that in the UK at the moment, when we expanded a programme called “the work programme”, a pay by result program, a prime contractor model, which essentially enabled the services to engage with two million referrals over a three to five-year period and they did so at a point when the public employment service would have been overwhelmed. The advantage for the government is of course, because this was done by contracts during a period when long-term unemployment was falling, this means there are no more public servants that you still have to employ. The contractor goes out to the market, so crudely that is a brutal thing. It also means that the programme was exactly targeted at that big stock of long-term unemployed people that was left after 2008 and 2009 and as this type of unemployment declines, so too do the contracts.

Cost reductions and efficiency gains are two obvious points. Cost reductions: The work programme and the national audit office, which is a money scrutiny body, you have similar functions in Sweden as well, they basically made the judgement of the work programmes, that: yes, there were problems with it; yes, the quality was compromised. But actually, what happened is that the programme also delivered almost the same amount of services, with the same amount of people into jobs but for half the price of previous programmes, many of which were contracted out. So yes, cost efficiency can be generated but it may not show in randomised trials because they can't show it. But there still is strong evidence that these things exist.

There is also an advantage of changing the systems to create innovation systems gains. One of the most obvious impediments for this is due to the lack of investments in the public employment. Look, I have studied employment services in many countries and one of the things that are always there, is the problem of IT- and management systems. We typically have to deal with today's problems with systems from the 80s and the legacy of previous systems. If you contract things out you get a way to get rid of dead weight as well because you are able to build new systems from scratch and thereby get innovations going. You get rid of the dead weight.

However, there are many serious risks with contracting out and Bruno deals with them such as creaming and parking which is the language we all know as well as the

economic risks of displacement, dead weight and substitution and those things. But many of these risks are in the public sector as well as in private sector.

There are risks that are particular to the contracting out as well such as market failure, and becoming too reliant on a small amount of monopoly type of providers. The key point that I want to make is that you can manage these risks. And what we should be using evidence to do, amongst which is econometric evidence, but what we should be using a wide body of evidence to do, is to understand how we make good contracts and how we do it.

There are key government tools. The first thing is how we design contracts and how we procure services. You have lots of choices. Do you want to have hundreds of small providers as I think you had in your job coaches' programme or do you want to go down the UK route with a small amount of very large well-encapsulated providers on whom you can shift financial risks? These are key kind of choices you have to make and there are different outcomes and different balances between them.

Contract design itself. How much should be on payment by results, how much on quality, how much should you have service user feed-back in it? The crucial thing about this is that it is not just about contract compliance and monitoring whether people are ticking boxes and doing the right administrative things, important as that is. The other kind of dimension is about dialogue with providers. These are learning contracts. You have to be able to shift and adapt as problems emerge and as issues come up on the ground.

Finally, there is the key role of the public employment service. They can work in partnership with private operators and make services work more efficiently or they can do the opposite.

I will finish with one last observation. One of the key things that is important in contracting out is variation in performance between different providers, as there is variation in performance within different offices of public employment service. That variation is the key force in driving up the performances of providers and service quality. That has been a key force in Australia where they have gone from a network of some three hundred providers into a network of fifty providers that over time have shown to be among the best performers”.