

Why Public Employment Services always fail

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

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Abstract:

The question is why public employment services (PES) always seem to fail, especially in terms of job broking. It is a general finding across Western countries that very few job matches are facilitated by the PES; despite variations in the effort and resources that governments put into the system. The article explains this failure of PES with a doubled sided asymmetric information problem at the labour market. The point is that even though PES potentially reduces the 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 the employees try to avoid the “worst” employers. Therefore the PES are caught in low-end equilibrium that is almost impossible to escape. This situation is illustrated by qualitative interviews with 40 private employers from six different European countries.

Keywords:

Asymmetric information; employers; job broking; low skill workers; public employment services

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Introduction

In the end of the 19th and in the beginning of the 20th century most European countries established some kind of national labour exchanges, which mainly were occupied with job broking, i.e. to match workers with employers. The creation of public employment services (PES) was promoted in 1919 by the newly formed International Labour Organisation through the adoption of conventions that recommended the abolition of private agencies and the development of a national-based system of job brokerage under state control (Thuy et al. 2001). For ILO the main aim of PES was to protect workers from the abuses and malpractices of some employers and private employment agencies.

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The employers also had an interest in placing job broking in a “neutral” state institution. If the task was taken by the unions they could exploit this position. However despite the consensus about PES these institutions have always been debated; especially their ability to be effective job brokers (Thuy et al 2001:41). In last two decades there has been a strong focus on the organisational structure of the PES. One way to frame it is that PES were created as an attempt to correct “market failures” in job matching, whereas contemporary changes are an attempt to correct the failures of the public governing of PES (e.g. Mosley and Speckesser 1997, Walwei 1996; Clasen and Clegg 2006). It seems to be a shared assumption in the contemporary reform attempts that both the key to understand the failure of the PES and the key to improve the PES is to be found in the organizational setup.

It is difficult to evaluate the real impact of the contemporary reforms but one can observe that the performance of PES in terms of job brokering remains low. As showed for example by the data collected in the 2001 ISSP survey (International social survey Program) only few respondents indicate that they heard about their job through PES, the average was 6.8 percent (author A: 2010:16). If we consider the six countries covered by our analysis, the share range from three percent in Switzerland to 12 percent in West Germany. In the other four countries the rate of jobseekers who heard about their job through PES are four percent in Hungary, five percent in Denmark, six percent in Italy and 10 percent in Slovenia. Despite variations it is clear that no country has established a PES with high market shares. Therefore it is still relevant to ask why PES always seems to fail in job broking.

Our thesis is that the answer is to be found in the “nature” of the labour market and not (only) in the organizational setup of PES. In the first section, we provide our theoretical explanation of the failure of PES in job brokering. In the following sections the theoretical point will be illustrated by means of qualitative interviews with 40 private employers from six different European countries. After introducing the data the third, fourth and fifth section describe the limited use of PES and the general mistrust in PES. Section six illustrates seemingly 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 for a good reputation for the PES. The last section summarises our main conclusions and discusses implications for PES.

Double sided asymmetric information and “lemons” at 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. At least since the 1950s economists have broadly recognized that labour markets deviate considerably from the simple neoclassical competitive market model presented in textbooks (Adnett 1987; Autor 2008). Due to the heterogeneity of both workers and working conditions (wage, working time, location, etc), labour markets are characterised by limited and incomplete information, which makes instantaneous market clearing almost impossible and search processes costly. Therefore the PES could in theory play a crucial role in gathering local extensive knowledge about the employers and the employees. It is for this reason

that PES have usually been represented as a possible solution to “market failures” in job matching (Walwei 1996).

However, it is important to recognise that besides the general task of job brokering the PES have also been given a special task of helping disadvantaged workers. One of the main historical reasons for the creation of PES was to prevent malpractices and fraudulent activities to the detriment of weaker categories of workers e.g. migrants, women and unskilled workers (Lee 2007; Martinez 1976). In modern times this original justification, which in some countries almost led to a state monopoly on job placement, has gradually waned in Western countries. However, the PES still have a special obligations to help disadvantaged groups. In Thuy’s (et al 2000) comprehensive volume on PES they argue in the introduction that “*the rationale for the PES role is on the one hand it improves labour market transparency and on the other hand it offers special help to those who might otherwise be disadvantaged in the labour market*” (2001:xvi).

In an optimistic scenario one can argue that these two tasks go nicely together. By creating transparency the PES could help workers that would otherwise be subject to the well known mechanism of statistical discrimination. This recruitment strategy refers in neo-classic economics to the use of average characteristics of groups to predict individual workers attributes (Becker 1957; Arrow 1973). The simple fact of belonging to a certain gender or race group, or to possess a low educational level, may leave a negative mark on the perceived productivity of a given individual, i.e. a productive worker might be classified as unproductive. PES could avoid such market failures by providing information to the employers. This just enhances the problem of understanding the failure of the PES.

We will solve the theoretical puzzle by advancing our understanding of the “nature” of the labour market. We will do so by means of very basic rational choice theory. This line of reasoning leads to a more pessimistic scenario, which highlight the very fundamental conflicts between the tasks that the PES are asked to perform. Our basic argument is that the main problem for PES is that employers and employees are not only looking for information; most of all they are looking for trustworthy information. The employers usually have difficulties in foreseen whether an employee will work hard, if he/she will not cause troubles or if he/she will soon quit the job. Only the jobseeker may know it. And at the same time he or she will have a clear incentive to present him or herself as a reliable and productive person. The situation also partially works the other way around. The employer has a clear incentive to present the workplace as a place with good work conditions, nice colleagues and good career opportunities, even if this is no the case. This situation where both the employer and the jobseekers are in lack of trustworthy information can be labelled the double sided asymmetric information problem of the labour market (Author A 2008; 2009).

One can think of different ways to solve, or at least mitigate, this problem. An obvious solution is to use an internal labour market, i.e. when the recruitment takes place within the same company (see e.g. Doeringer & Priore 1971). In this case both the employer and employee know what they will get, i.e. the information is not asymmetric anymore. In cases where information cannot become symmetric one could argue that PES could play a crucial role. In rational choice theory it is classic solution to involve the state as a “third part” that can provide some guarantees of

the quality of the exchange. Just to take one example the state sometimes guarantees that food sold as ecological is indeed ecological. In this case the consumer cannot know and the farmer has a clear incentive to use such a label (the information is asymmetric). Therefore a trustworthy “third part” is needed.

However, at the labour market it is almost impossible for the PES to be perceived as a trustworthy third part. The problem is that PES is required to help all kind of jobseekers and especially those having problems finding a job. Thus, the employer cannot trust that the PES will bring the best labour. And the other way around the PES is also required to help all kind of employers and often especially those who cannot find labour. Therefore the employees can neither trust the PES. The problem is increased by the fact that there are “lemons” in the market. Such a market is described by Akerlof in his famous article about used cars (1970). The owner knows something about the car, which the buyers do not know, e.g. whether it is a “lemon” (a bad assembled car) or not. And the owner has a clear incentive to hide the facts if the car actually is a “lemon”. Therefore the buyers are extremely cautious when buying a used car and the price is typically too low. The low price often makes owners of the good cars to redraw their car from the market. Thereby the share of “lemons” in the market increases, which makes buyers even more sceptical. The predicted result is that in the end only “lemons” will be in this market (see e.g. Rasmussen 1991).

This situation can also be found at the labour market where employers are afraid of hiring a “lemon”. Employers know that other employers have a clear incentive to fire unproductive workers. Therefore unemployment is the worst signal one can send to an employer. It is much easier to find a job when you already have one. A few studies have identified this effect by showing that it is much easier to find jobs for unemployed that come from a closed down workplace than for unemployed that are come from a workplace that just has reduced the workforce a little (Gibbons & Katz 1991, Frederiksen et al. 2006). The argument is that in the latter case the new employer will know that the former employers probably have fired the least productive workforce, whereas in the case of company closure more productive workers will be among the unemployed. This makes the job of the PES extremely difficult (se also Kamiat 1996).

The employers know that the PES has many potential “lemons” in their databases and therefore they will try to avoid hiring through PES. The PES might tell the employer that now they have a good worker ready. But the employer cannot trust the PES, as the employer knows that PES has a special obligation to help the worst off. Therefore PES becomes a last resort for getting labour. This situation also works the other way around, i.e. on the employee side. Since jobseekers know that PES are often considered a last resort for recruitment they will suspect that PES would have many bad jobs in their databases; employers can also be described as “lemons”. Moreover, jobseekers know that PES will probably offer whatever job vacancies they have. So using PES also becomes a sub-optimal solution for jobseekers. Therefore only the disadvantaged categories of workers will use the PES, which, as in Akerlof’s example, increases the “lemon” problem. So PES are trapped in a self-reinforcing vicious circle that appears difficult to break. The tragedy is that

PES, instead of reducing effects of statistical discrimination, might involuntarily reinforce them by adding a (further) negative mark to their job candidates.

To make things worse many employers and employees can actually “meet” through a recruitment channel that solves the problems of double sided asymmetric information. This channel is informal networks (Grannovetter 1974). Some 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 already employed function as a third part between employers and jobseekers. This recruitment channel is known in the literature as “extended internal labour market” (e.g. Jenkins 1984; Adnett 1987). When employers hire through an already employed the latter can provide trustworthy information about the new worker (given the assumption that the already employed 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 to avoid “lemons” among workers and employers. And it is easy to understand why it is difficult for the PES to compete with this recruitment channel.

So far the theoretical argument leads to the very pessimistic prediction that PES will always be a last resort for 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 non-trustworthy players through various “games” behave trustworthy then they will gain a good reputation. Such a reputation might even work when a new player enters the game. The argument is that a good reputation can quickly be lost. And the new player might think that the other player will not risk the cumbersome established reputation by cheating in the next game. In the market for used cars one can introduce a car dealer that has established a good reputation and thereby a customer might think that the car dealer will not risk losing this reputation by selling a “lemon”.

It is, however, difficult to establish a good reputation for the whole PES in a country. Besides the real existence of “lemons” the problem is that it is very difficult to announce that the PES will screen for “lemons” among unemployed and “lemons” among employers. In practise the local employment office and its front line personal might try to create a good reputation among the local employers by not selling “lemons”. And if they do so for a period employers might begin to trust them (because they know the local PES will not risk losing this reputation). It is more difficult to screen for “lemons” among employers and thereby create a good reputation among workers looking for job. Naturally, the PES do have mechanisms to sanction unemployed that do not engage in a facilitated job match, which reduce the importance for PES to have a good reputation among unemployed. But as we shall see below these opportunities to sanction actually makes it more difficult to convince the employers that PES can make a good screening of the workers.

Exploring practices and perceptions among private employers in six European Countries

In the following sections we will illustrate the consequences of 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 Spring 2009. Seven interviews were conducted in each country except Denmark and Slovenia where only six was conducted. The interviews were conducted by partners within the RECOWE network. A common semi-structured interview guide was used, i.e. the guide both included closed and open ended questions. The interviews of approximately one hour were conducted in national languages and were afterward translated into English. The country selection gives us a variation, e.g. in terms of business cycles, employment protection legislation etc., but we expect the mechanism caused by doubled sided asymmetric information to be present in all six countries. Only Slovenia provides a somewhat exceptional case, as employers by law are forced to announce positions through the PES. But as we shall see such legislation does not change these mechanisms much. 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 makes the study a best case for the use of the PES. PES have a larger market share in this sector of the labour market than among educated segments, which e.g. can be explained by the fact that these companies usually are in very prize competitive markets. In such a market we can assume that the role of PES may be of more importance, as it might reduce the cost of job search. 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. The argument is that 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 for long term unemployed, which PES often has 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 further introduction to the data and access to interview guide).

The non-use of public employment services

The private employers were asked through which channels they recruit unskilled labour. The interviewer emphasised that it was not a matter of announcement but more a matter of how the contact typically was established. The most used recruitment channel is waiting list or direct application. Fifteen employers "very often" use this channel and eighteen "often" use this channel (together 83 percent). This is the recruitment channel with the lowest search costs for the employer but this is probably not the only explanation for the extensive use. This channel probably also include 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 some of these workers and companies already know each other, which reduce 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" use this channel and 21 "often" use this channel (together 75 percent). There can be a number of advantages by using this channel (it is e.g. 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" recruit through private employment agencies, public employment agencies or "other contacts in the sector". The least used channels are newspapers and Internet bases. These were only used by around one fifth of the companies.

The overall picture is that for these companies the PES is positioned in-between the preferred informal channels (waiting lists/direct applicants and own employees) and non-preferred formal channels (newspapers and on line job boards). Still most of the companies do not use the public employment services. The qualitative interviews clearly demonstrate that most employers do perceive the PES as a last resort. It seems to be the case for employers across countries, across sectors, and across size. Our data confirm what was observed from the ISSP survey, namely that Germany and Slovenia seems to be a best cases for PES. Larger companies also seem to be a little more inclined to use the PES, which might be explained by the fact that larger company can easier deal with the risk of employing a "lemon". The theoretical argument is that you are more risk averse if you buy one car than if you buy hundred cars. Nevertheless, the human resource director of a large German cleaning company (around 2500 employed) 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*" (GE1 Clean). The same statement is given by the manager of a large (89 employed) German supermarket; "*... it works without the employment agency. We have a lot of applications so that I can always fall back on people. I would not have any reason to use the public employment agency*" (GE4 super large). The GEO of a Swiss cleaning company (180 employed) stated that "*we can do with out it, because we have a lot of direct applications and our current employees often recommend the company to people who are looking for work*" (CH2 clean). 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.

The negative perceptions of unemployed sent by the PES

The qualitative interviews clearly indicate that most employers are suspicious about persons sent by the PES. The situation is naturally worst where the employers believe that the labour market provide good job opportunities. The GEO of a Swizz construction company (200 employed) 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. In this field of work, it means that there is a problem and that his reputation is not good. You can leave a job at 8 am and find a new one at 10 am, if you are a good worker*" (CH7 build). The same argument is made by a director of a Swizz chain of cafes (180 employed); "*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” (CH6 café). The manager of a Danish supermarket (65 employed) who has not experienced any problems finding workers states that if it was to become the case then “you need to use all possible channels. But you also know that the people who are known to the public employment agencies are there for a reason. So you tend to be a bit apprehensive when it comes to these persons....” (DK1 retail). The daily manager of a Danish meat factory (350 employed) state 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 down here. So we do not use that” (DK5 meat). The co-owner of a German laundry company (75 employed) stated that “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” (GE3 laundry).

Our interviews confirmed that job applications coming directly from PES are often perceived as not being motivated. Moreover, besides the motivation issues, there is also the question about the trustworthiness of the individuals provided by the PES. Especially in the service sector we find employers concerned about 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*” (HU1 cleaning). The same argument is put forward by the owner of a small Hungarian supermarket. Asked about why the PES is 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 jobs itself requires that*” (HU2 supermarket)

The problem with non-observable characteristics is a general problem at the labour market but the negative perception of the job motivation of 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 the PES were able to pre-screen applicants the employers might doubt that the PES will tell the truth.

The low trustworthiness of information given by PES

In the interviews we have tried to measure the level of trust employers have in the information provided by PES. The employers were asked how important a positive recommendation from PES and other sources is for the employment chances of an (unskilled) worker. As expected the highest importance are given to recommendations given by the employers’ own employees. 22 percent answered that this was of “very high importance” and 37 percent answered of “high importance”. This confirms the role played by networks in delivering trustworthy information at the labour market. Another typically source of recommendations are former employers. Here we both asked

about oral and written recommendation 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”. In contrast written recommendations were indicated to 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 a face to face interactions increase the trustworthiness of the recommendation.

Most important for our purpose is the finding that the employers clearly put less emphasis on recommendations given by PES. None of the employers answer that such a recommendation is of “very high” importance and only eight percent indicated “high importance”. This is a remarkable difference. The interviews also indicate a divide between private and public employment agencies. The employers have more trust in the recommendations given by the private agencies; 11 percent indicated “very high importance” and 29 indicated “high importance”.

Following our rational choice argument, we can advance two explanations, which further explains the low value of recommendations given by PES. The first problem is that employers are aware that the PES besides taken care of job match also works as a control mechanism. This is normally considered to be a benefit for the employers (secure supply of labour) and society in general (reduce the costs of benefits). But the employers know that this control functions makes it difficult for the PES to observe the true job motivation of unemployed. The director of the Swizz café chain argues 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*” (CH 6 café). The 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. A person who wants to work can find a solution, for example our company. When I was queuing at the public employment agency I was listening to the conversations of other unemployed (i.e. the employer had once experienced 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*” (HU 1 cleaning). Naturally the validity of the observation can be questioned but it is easy to follow how employers can come to have the perception that it is difficult for PES to see the true job motivation of the unemployed.

The second problem is that even if PES are able to distinguish between motivated and non-motivated they might not tell the truth to the employers. The public employment agencies are in fact given the task of helping “lemons”. Therefore it is very difficult to trust the public employment service. This line of reasoning is clearly confirmed by our qualitative analysis. A manager of a Danish cake factory (50 – 100 employed) 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* (DK3 cake). The director the Swizz café chain also argued that PES “*they are not reliable enough. They tend to hide things in order to successfully reinsert an unemployed*” (CH 6 café”). Again one can naturally discuss the validity of this perception, as most of the interviewed employers do not use the PES.

Nevertheless, one of the few companies that “very often” recruit through the PES - a Swizz supermarket chain (7500 employed) - actually seems to experience this problem. The deputy head of the human resource department states that “...our main complain is that sometimes public agencies tend to what to make a really quick placement and tend to hide some elements of the beneficiary” (CH5 retail). Nevertheless, no matter if 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 seems to be a few exceptions to the rule. Five employers actually stated that they “very often” recruit through the PES. Maybe these exceptions could reveal how the PES could escape the low-end equilibrium. But a closer look at the interviews with these employers does not leave much hope for the 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 announce vacancies at the PES. Theoretically this naturally reduces the perception that the PES only serves bad employers, i.e. one side of the asymmetric information problem is eased. But the Slovenia interviews clearly indicate that the employers remain very suspicious towards the labour provided by the PES.

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 the PES are definitely not the preferred channels of recruitment. We only found one case where the employer used the PES “often” and where the employer seems to be satisfied. This was an Italian company (120 employees) that produce plastic component to cars. Besides using the PES this director of the human resource department actually stated that a recommendation from the PES was of “high importance”; even of higher importance than recommendation from own employees. The main reason for this seemingly successful collaboration can be found in the way this company uses the PES. The director states that “...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” (IT4 automotive). Thus, part of the secret might be that this employer does not ask the PES to find standard labour – whereby they might end up sending a “lemon” – but ask the PES to find a specific professional figure. The same seems to be the case for a German employer, which also is satisfied with PES (though the company “rarely” recruit 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” (GE7 vegetable). 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 the PES might be able to build a reputation, which enables them to be seen as a trustworthy third part. However, if we are to infer from the

experiences of the Italian employer this reputation very much seem to be a reputation of the individual caseworker and not of the PES organisation as such. The director states that *“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 individuals... (IT 4 automotive). The same can be found in other interviews. The Human resource director of an Italian catering firm (970 employed) e.g. states that “...some public employment offices offer very good services, whereas other do not. According to me, this depends on the persons which work there and on the relationship that we manage to establish” (IT2 catering). The employers might develop trust to a specific caseworker which creates a possibility for collaboration. But the problem is that reputation, when it works, remains fragile, as one bad experience might be enough to lose it. Theoretically, it is exactly because it is fragile that it works.*

The fragile reputation and the negative experiences

That reputation is fragile does come up in the interviews. The human resource director a Danish company that produces parts to windmills e.g. stated that 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 ... (DK4 machine). The problem is that those few employers who have used the PES seem to come up with negative cases. The human resource director of an industrial Hungarian company (1250 employed) e.g. stated that “we have a negative experience, not with the public agency itself, but the people sent by the agency. They do not really want to work. ... There was a case when I was ready to employ somebody sent by the public agency, and during the selection interview the person asked about the level of compensation. He said that the payment level offered was hardly higher than the different social benefits obtained during unemployment. I was really astonished by this attitude” (HU 7 industrial). Another example is a German employer that tell a story about labour sent from the 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” (GE2 meat).*

Besides experiences with a lack of job attitude among applicants bad experiences can also originate from a mismatch in terms of qualifications. A German employer told that *“...Just recently, I had two applicants from the public employment agency who spoke hardly German. How can the employment agency put forward people - in retail where communication plays an important role – who haven’t mastered the language?” (GE4 SUPERLARGE). Finally some companies simply have bad experiences with the bureaucratic procedures of the PES (SL3 supermarket). Another employer experienced that the PES send 30 applicants which was perceived to be too many (SL5 cleaning2).*

The generalisability of these experiences can naturally be discussed. Are most unemployed really not motivated? Does PES personal in general not know the need of the employers? And are the PES typically too bureaucratic? The validity of the statements can also be discussed. It might be easy for employers to say that a negative experience is caused by the

employer and not the company it serves. But theoretically this might not be of much real importance; to phrase 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 lose the reputation, which were their only chance to be perceived as a trustworthy third part.

Conclusion and implications

The question was why public employment services always seem to fail. Most previous studies have tried to find an answer to this question by means of organisational theory; maybe the organisation was too bureaucratic, maybe the frontline personal is not competent enough or maybe they receive scarce resources. By contrast, this article provides a rational choice explanation. Within a rational choice framework it is actually fairly simple to understand why PES always fails in job brokering. The problem is that the labour market is haunted by a double sided asymmetric information problem. The employers try to avoid the worst employees but it is difficult because the information is asymmetrically distributed; the worker is better informed about his or her capabilities. At the same time the 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. And both have an incentive to present the labour or the work place in the best way, which the other part naturally realise. This situation does create a need for a third part. But it is typically already employed at the company that function as a third part. An already employed can deliver trustworthy information about a new worker (assumed that the employed wants to uphold a good relationship with the employer) and at the same time this person can also deliver trustworthy information about the employer (assumed that the employed wants to uphold a good friendship with the applicant). By contrast, it is very difficult for the PES to function as a reliable third part. The first problem is that the PES also have to help the worst categories of unemployed (i.e. less skilful or motivated). This makes employers very suspicious about the labour handled by the PES. The PES becomes a last resort for finding labour. This in turn also makes the employees suspicious about the employers that might actually use the PES. Maybe these employers offer so bad work conditions that they cannot find labour through the other channels. Therefore workers will also use PES as a last resort. There the PES get caught in a low-end equilibrium that seems almost impossible to escape.

These mechanisms have been illustrated by means of 40 in-depth interviews with private employers distributed in six different European countries. In order to make a best case for the PES we focused on unskilled labour. The interviews clearly confirm that employers perceived PES as a last resort for getting labour. Most employers had negative perceptions of the unemployed handled by the PES. The fact that these persons had to rely on the PES was often considered a bad signal and their motivation was questioned. It was also shown that most employers felt that they could not trust the information given by the PES. The employers questioned the ability of the PES to select among motivated and non-motivated and many feared that the PES would not tell the

whole story of a given applicant. The data material also indicated that employers, which had used the PES, often had examples of negative experiences; either with the provided applicants or with administrative procedures of the PES. The latter finding indicates that the organisational problems of the PES are probably not irrelevant. Nevertheless, it only confirms the idea that PES are caught in a low-end equilibrium, which is very hard for the PES to escape.

Finally, we will discuss which implications our theoretical argument and our data could have for the role of PES as job broker. One possibility is naturally just to acknowledge that PES are in a very difficult situation and that they function as a last resort for employees that cannot find jobs and employers that cannot find labour. In such a scenario PES are seen as institutions that tries to make the ends meet when everything else fail. Our findings do suggest that the frontline personal potentially can establish a reputation that can make the employers trust the PES, which might help a little. A Swiss study actually found that the probability of an unemployed to find an occupation through PES is three percent higher when the PES caseworkers establish and maintain a direct contact with employers (Behncke et al. 2007). However, the question is naturally whether it is worth the effort. It will be extremely difficult to make a cost benefits analysis but based on our theoretical argument and the presented data we doubt that it worth the effort – neither ordinary workers and employers nor disadvantaged workers seem to benefit much from the PES's job brokering function.

Besides the “nature” of the labour market many of the problems for PES is caused by the situation that they are asked to help disadvantaged employees (and employers) and to control for possible misuse of social benefits. One could imagine that PES could be good job brokers if they were freed from the latter two tasks. In such a scenario the PES were free to simply focusing on finding the most productive worker for the employer or the most appealing employer for the worker. Our interviews did reveal two cases where the employers were satisfied with the PES. And in both cases the employers were satisfied because they required a very specific type of workforce and the PES personal had been able and willing to make a tough pre-selection. The problem with this option (which basically imposes the logic of private agencies) on PES, is naturally that disadvantaged workers are left without any help. Thus, the question is naturally why one should spend public resources on facilitating a job match between the most productive workers and the best employers.

In our opinion the most promising scenario is to free PES from the task of (direct) job brokering. This strategy will accept that the double sided asymmetric information problem simply makes it impossible for the PES to effectively engage in direct job match. Instead the PES could use the resources on helping the disadvantaged employees, e.g. simply by qualifying them to use the ordinary channels of recruitment. Thus, disadvantaged groups can e.g. be learned how to write job applications, they can be learned how to use their networks, and they can be given formal qualifications. The basic argument is that in general disadvantaged groups are better off without the stigma connected to being send by the PES. 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 proved to be extremely effective for future employment (e.g. Author A 2002) and the most obvious

explanation is that they (using Akerlof's terms) allow both employers and workers to make a long "test drive". These programs potentially also create informal networks between disadvantaged groups and employed at the labour market. Thus, the argument is that despite given up on job brokering the PES are not left without tools to combat the double sided asymmetric information problem at the labour market.

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