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IFAU – OFFICE OF LABOUR
MARKET POLICY EVALUATION

Public or private job matching for immigrant workers – an outline of a Swedish social experiment

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WORKING PAPER 2001:10

Public or private job matching for immigrant workers – an outline of a Swedish social experiment*

by

Kenneth Carling, Helge Bennmarker and Anders Forslund**

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Abstract

Evaluations of labour market programs and other related measures typically make use of observational data. This paper presents an outline for producing experimental data in the interest of testing a proposed measure targeted to unemployed immigrant workers. The idea is to offer them placement services provided by a private recruitment company as well as by public employment offices. The assignment of unemployed immigrants to the two providers will be random and the operating conditions kept as similar as possible.

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1 Introduction

In Sweden, like in many other European countries, the unemployment rate remains high and many newcomers to the labour market, e.g. immigrants and young people, struggle to find an employment. This is of course a problem for the job-seeker, but also for society. In Sweden a substantial number of measures has been taken or suggested in order to improve the situation. We present in this paper one such measure and discuss the evaluation of its impact. The measure is to incorporate private recruitment companies, in addition to the existing public employment offices, in the task of matching employers and immigrant job-seekers. The evaluation of the measure will use the principle of randomisation, often thought of as a social experiment. Historically, social experiments have seldom been conducted to evaluate the impact of new labour market policy measures, and this project could thus help in the understanding of social experiments as a strategy for evaluation.

1.1 Background

Relative to Swedes, job-seeking immigrants at the public employment offices have a considerably lower flow into employment. The transition rate is approximately 50–70 percent lower for immigrants, after adjusting for other factors known to affect unemployment duration. The median unemployment time is about 25 weeks for a Swede and about 40 weeks for an immigrant, who is seemingly identical to the Swede except for the fact that he/she is an immigrant. Moreover, the expected unemployment duration is about 45 weeks for a Swede and 75 weeks for an immigrant.¹ It can also be noted that the unemployment rate among Swedes (16–64 yr.) was 5.5% in 1998, while for immigrants born outside the Nordic countries the corresponding rate was 19.5% (Wessberg, 1999). These gloomy numbers have called upon the government to try out whether placement services, i.e. matching employers and job-seekers, provided by others than the public employment office could reduce unemployment duration, and thereby the unemployment rate, for immigrants.

To appreciate the proposed new measure for placement services, it is necessary to have a basic understanding of the historical and present situation. A

¹ The numbers refer to newly registered job-seekers with a non-Nordic citizenship (Carling et al, 1996, 1999).

main characteristic of the Swedish labour market is the active policy pursued and executed by the public employment offices. For instance, in the interest of preventing long periods of open unemployment, job seekers have been put into government-financed or subsidised training and employment programs on a large scale. There are about 500 public employment offices, spread geographically over the country. Among other things they offer labour market training, hold registers of job-openings and monitor unemployment insurance. However, the principal task for the offices is to provide placement services to job seekers and thereby assist in keeping the unemployment rate down. Until 1993 job-matching was a public monopoly in Sweden; legislation prevented private competitors to perform similar tasks. Since then hiring and recruitment companies have emerged and are growing in importance. Nonetheless, they remain small in job-matching compared with the public offices. On the other hand, the public employment offices do not, through their placement services, cover a great deal of the job-matches in the labour market.²

1.2 Social experiment

The idea to try a new approach to placement services for immigrants was first put forward in the Budget Bill of the year 2000, in which it is stated that “the government will initiate the tryout of new means for job-matching”.³ In a memo from the Ministry of industry, employment and communications the idea was further developed. A special investigator (the first author of this paper) was instructed to produce an outline for a social experiment in line with the intentions laid out in the memo. The outline has later been discussed at meetings with the Ministry of industry, employment and communications, the Ministry of finance, the National Labour market board and the Office of labour market policy evaluation.

² The public employment offices’ estimated share of vacancies is about 1/3, meaning that in every third case of all hirings, the vacancy was reported to an office. The remaining 2/3 cover formal channels, such as newspapers, and informal channels such as hiring of previous employers (i.e. re-employment) and other contacts. Internal recruitment within the company was not considered in calculating the share of vacancies. Another measure of market share is the fraction of job seekers that found information about their job at the public employment office; in a survey of unemployed persons who had later found a job, 22 % reported that the job came through a public employment office. (Ams Utredningsenhet, 1999)

³ In the Budget Bill, it is also explicitly stated that the target group for any such measure is immigrant workers. The strong interest in this particular group of workers is linked to their poor labour market situation (cf section 1.1).

The discussion relating to the memo and the outline has produced the following basic design: the performance in placement services of a private firm will be compared to public offices. This will be done in several sites. In each site an office of the private recruitment and hiring firm (below called private office) will compete with an office of the public employment service (below called public office). The private offices will thus offer placement services like the public office. The experiment will only include mediating jobs to external employers (Recruitment to the own company will thus not be part of the experiment). Moreover, the experiment will be controlled to allow safe conclusions about differences in placement service ability between the private company and the public office.

Controlled experiments have the advantage of placing the competitors on an equal base, making the comparison fair. These can be contrasted to uncontrolled situations where there is a risk of unfair selection of the subjects studied. If, for instance, the unemployed themselves were to choose whether to use the public or the private alternative, then there is no guarantee that those choosing the private alternative would be comparable to those choosing the public one. This problem is eliminated in a well-conducted experiment where the subjects are randomised.

However, in Sweden, as well as in other European countries, controlled social experiments within the labour market area have been few. The only known Swedish social experiment was performed in the town Eskilstuna in the 70's and it was used to determine the effect of intensified placement service (Björklund & Regnér, 1996). In the US, on the other hand, many states use this methodology to evaluate the expected effect of new planned labour market programs (Katz, et al. 1998).

It can be noted that a controlled experiment is the most popular methodology in many other fields, such as medicine, psychology and science, whenever a hypothesis is to be tested.

1.3 Hypothesis

The hypothesis is that a private office faster and to a larger extent can mediate jobs to unemployed immigrants than the public employment office can.

The hypothesis can be motivated by differences between private and public offices regarding ways of organising their placement services. It can also be argued that the staffing activity conducted by the private offices generates additional knowledge about employers, e.g. qualification requirements for person-

nel and need for future recruitment. Since the public employment offices only have a market share of approximately 1/3 of vacancies, as described in section 1.1, it appears plausible that private offices could provide job seekers with additional information about vacancies.

1.4 Organisation

The experiment will be planned and conducted by a study secretariat. The secretariat will consist of researchers from the Office for labour market policy evaluation and an governmental administrator with good knowledge about the Swedish labour market institutions. The study secretariat will be responsible for designing the experiment in a way (i) to make it feasible and (ii) to make sure that firm conclusions about the hypothesis can be drawn. A supervising group will be attached to the secretariat. It will consist of representatives from the Ministry of finance and the Ministry of industry, employment and communications. A decision to end the experiment prematurely is made jointly by the supervising group and the study secretariat, or by the government withdrawing the task.

To clarify all details the experiment will be described in a protocol. When the protocol is written a workshop will be held, giving acknowledged researchers in the field an opportunity to scrutinize the protocol. After the workshop all theoretical issues should be well thought-out.

2 Experimental design

2.1 Essential features of the experiment

Public and private offices will be compared regarding ability in placement service. To ensure that both actors have equal opportunities regarding the job seekers they are to serve, the experiment will be controlled. Allocation of job seekers between the two competitors will be done using randomisation. The randomisation will be pre-stratified on characteristics presumed to have a large influence on the outcome. This will improve the power of discriminating between the competitors.⁴

⁴ Pre-stratification will also be helpful in the process of determining the degree of homogeneity of the effect across sub-groups and sites.

It might be the case that the two competitors are stimulated to perform better in the experimental setting than they would otherwise. To estimate this effect for the public offices there will also be an external control group. It will consist of public offices not participating in the experiment. Since these can be followed in the Labour market board Event database, there should be no need for extensive surveillance using questionnaires. Their performance should, thus, not be strongly affected by the fact that they are used as controls, which makes them feasible.

For the private company, on the other hand, there is no relevant external control group. This might give the private company the opportunity to allocate additional resources to the offices under study, thus resulting in an unfair comparison. To avoid this, three steps will be taken. First, job-seekers will be asked to estimate the quantity of resources used them. Second, the offices in the study will be compared to other offices (in terms of profit and other performance measures) over time to check for unexpected short-term losses due to extensive resources to the job-seekers. Third, it is desired the experiment is defined as a project within the organizations, in that separate books are held.

There should be equal opportunities between the competitors regarding information. Since there is a law forcing employers to report vacancies to the public office⁵, it is necessary to give the private company access to this information.

There will also be equal opportunities between the competitors regarding economic resources. The private company will, thus, be given compensation for each job seeker allocated to them. The amount will be calculated from the accounts of the public offices, and will thus be the mean cost of placement services to this category of job seeker.

2.2 Sites

The experiment will be conducted in at least three towns in Sweden. The reason for suggesting more than one town is to avoid too much dependence on circumstances that are specific to a certain public or private office. This also gives the opportunity to study the effect of the experiment in sites that have different characteristics.

⁵ Despite the law all vacancies are not reported to the public offices. Cf. footnote 2.

For a town to be considered, it will need to fulfil a number of criteria: (i) It should have a well-diversified economy. (ii) The recruitment and hiring company should already be established. (iii) A sufficient number of unemployed fulfilling the inclusion criteria (see section 2.4) should be available.

2.3 Placement period

The placement period for each participant will be limited to five months from randomisation. The time is decided upon by, on the one hand, the need for the placement service to run long enough to have a measurable impact. On the other hand, the participating job seekers must not be deprived of the possibility to benefit from active labour market politics, such as employment training and recruitment subsidies, for too long. Of importance for the balance is that the jobs should not only be mediated, but the job-seeker should also enter on his duties during, or immediately after, the placement period. The placement period should thus not be too short. By including only job seekers that are considered able to accept a job immediately (see section 2.4 item (iii) below) and thus are not considered in immediate need of labour market training, the loss of this possibility will be less important. Five months is considered an appropriate placement period balancing these two desires.

2.4 Participants

The intention is to apply the measure to immigrant workers. However, it is necessary to be more precise about who will be offered to participate in the experiment. The following six criteria define the target population for the experiment.

(i) Born in a non-Nordic country. The experiment is intended only for non-Nordic immigrants.⁶ The major problem in the Swedish labour market is among those who have emigrated from a non-Nordic country. There is surely a great deal of heterogeneity within this group, but the formal knowledge about this is very limited, and therefore the experiment is directed towards non-Nordic immigrants in general.

⁶ This criterion is a government requirement

(ii) 20–64 years old.

(iii) Ready and able to take on a job immediately. It is only for those who are considered able to take on a job immediately that it is ethically reasonable to withhold the opportunity to participate in labour market programs over a course of five-month. "Able to take on a job immediately" is defined by the public offices, using the Labour market board classification system.

(iv) Newly registered at the Employment office. To obtain firm conclusions about the effect, it must work in isolation of other factors. For instance, if job seekers with a long, previous, registration period at the employment offices were to participate in the experiment, potential effects could not be unambiguously attributed to differences in placement service efficacy. Including this group in the experiment would mean that job-seekers allocated to the public office would remain with their previous service, whilst those allocated to the private company would change from one service to another. A difference in outcome between the two competitors would then possibly be due to the change itself rather than to a difference in the performance of the two competitors. Using only newly registered job seekers places the two competitors on equal terms. Moreover, it would be complicated to construct an external comparison group from other databases, such as the Labour market board Event database, if the target population included others than the new-registered. Another important circumstance is that labour market programs often would be considered within a five-month period for those with a long ongoing registration period. Participation would then be forced to end for these people.

Even if we can assume that the problems in the labour market are most severe for those who are not only immigrant, but also long-term registered, the arguments given above speak unambiguously in favour of restricting the population to include only new-registered job seekers. Knowledge about which methods are most effective in mediating jobs to new-registered immigrants should also give guidance about how long-term registered immigrants can be given assistance in finding jobs. Shortened unemployment spells should also result in a lower long-term unemployment. Moreover, long-term unemployment will be studied for the two competitors in the long-term evaluation, see section 3.2.2.

Finally, the low rate of flow into work among immigrants is a general immigrant problem, see section 1.1. Even highly educated immigrants, who might be underrepresented among the long-term unemployed, have worse labour market prospects than native Swedes. By letting the experiment include new-

registered job-seekers, the whole population of unemployed immigrants can be studied, and it will be possible to draw more general conclusions about measures needed for immigrants seeking job.

(v) Not de-registered from public employment offices lately. This criterion excludes job applicants with a short work spell in the regular labour market following a previous period of unemployment. These job-seekers are, like long-term unemployed, likely to be considered in need of labour market programs.

(vi) Informed consent. Requiring an informed consent is a way of making sure that all participants are all fully aware that participation is voluntary, and what participation implies. This is thought to decrease the dropout rate and increase compliance. Furthermore, labour market training is not allowed during the experimental period, which may affect the participants' labour market prospects. Hence, it is, for ethical reasons, necessary that the participants are aware of this fact. Finally, sensitive information about the participants will be registered and Swedish legislation accordingly requires informed consent.

2.5 Effectuation

Job-seekers who fulfil the criteria for participation in the experiment are identified upon registration at the public office. Randomisation is then performed immediately by phoning a randomisation centre. Participants are registered at both the randomisation centre and at the public office, giving the secretariat an opportunity to monitor the conduct. The private company is then immediately to be informed about job seekers that have been allocated to them. During the following five-month placement period all job-seekers are registered in the data system provided by the Labour market board, and accessible at each employment offices, according to normal procedures. The private company will have access to the data system via a contact person at the public office. The job-seekers will also be followed using questionnaires. By using questionnaires the secretariat can monitor the quality of the data in the database, and additional data usually not asked for can be gathered.

Crossover, i.e. subjects switching from one competitor to another, is likely to occur during the course of the experiment. This form of non-compliance may cause difficulties in the analysis of the experiment. The following principles will apply to *participants* in the experiment

- Participants who have been randomised to receive placement service from the private company will at any time have the right to return to the public

office, and by doing so in this sense end their participation in the experiment. They will however still be followed, and the data will be used in evaluations, see section 3.2.1.

- A participant who has been randomised to receive placement service from the public office will if she so wishes be able to seek job through a private recruitment company at her own expense. Information about this will be gathered, but participants will besides this be followed according to normal procedures.

The following will apply to *the private and public offices*

- The private company will not employ participants (through staffing) during the study period. The private company is thus deprived of a possibility that the public office does not have; thus the two competitors are given equal opportunities.
- Public office and private offices will only offer participants placement service during the placement time. No one will thus be able to participate in any labour market program during the placement period. Because the probability of employment is likely to be affected by participation in active labour market programmes, we hereby eliminate differences in outcome that is due to a different use of these measures.

3 Evaluation issues

3.1 Follow-up

An implementation study will be performed one year after the experiment has begun. Interim analyses will also be performed during the running of the experiment, for ethical reasons. These are done to ensure that the private company is not performing essentially worse than the public office. The interim analyses will be co-ordinated with the implementation study.

The assignment will be given to a person independent of the organisations that have initiated or are effectuating the experiment. The purpose of the implementation study is to find out whether the experiment is conducted in accordance with the protocol, in other respects in a desired manner, and that the conduct has not induced complications that will cast strong doubts about the outcome of the experiment. For this to be possible, the study secretariat will make all data available to those who are conducting the implementation study. A re-

port will then be produced and submitted to the supervising group and the study secretariat.

3.2 Evaluation

3.2.1 Short-term effects

An evaluation will be performed after the active phase of the experiment. It will focus on the short-time effects of the experiment, defined as exits to work within five months from randomisation⁷. The performance in job-matching and placement services is thus compared. The evaluation will primarily be done according to the "Intention to treat" principle - the outcome will be evaluated for all randomised job-seekers irrespective of whether they complied to the randomised allocation or not.⁸ The outcome of the experiment will also be examined in subgroups of the population, using information such as year of immigration, country of birth, working experience and education.

The assignment will be given to a person independent of the organisations that have initiated or are running the experiment. The study secretariat will make all data available to those who are conducting the evaluation. A report will then be produced and submitted to the reference group and the study secretariat.

3.2.2 Long-term effects

Five years after the initiation of the experiment, an evaluation of the long-term effects will be performed⁹. The purpose is to see whether the short-time effects remain, which would not necessarily be the case if there were a difference in quality of jobs mediated between the public office and the private company. An example of differences in quality is the frequency of temporary jobs. The

⁷ The following parameters will be estimated and used as outcome measures: proportion of job-matches, total sum of hours of the offered jobs, and the duration of unemployment until a job-match. Additionally, data on how participants view their jobs will be gathered.

⁸ The most important reason for applying this principle is to avoid giving the private company incentives to push back the least employable subjects to the public office. This will generally lead to a conservative estimate of the effect of the measure. However, it might be that the public office chooses to provide these subjects a less intensive help, making the comparison invalid. This group of crossovers will be given special attention. If it is found that the outcome for this group is lower than expected, an "on-treatment evaluation" will be performed.

⁹ The following parameters will be estimated and used as outcome measures; proportion of job-holders and the income distribution of the experimental subjects.

evaluation is also aiming at producing knowledge about the importance of the initial period of placement service on long-term unemployment.

4 Discussion

The basic idea to improve placement services for immigrants evolved from the work on a government bill in 1998. The Ministry of industry, employment and communications formed a working party for the project in May 1999. The Ministry of finance, the National labour market board and the Office of labour market policy evaluation were invited to participate together with the ministry of industry, employment and communications. The choice of method (social experiment) was the result of discussions in this group.

It should be observed that there is a potential conflict of objects present in the design of this activity. The design which is the best to permit a good evaluation does not necessarily need to be the best if the purpose is to “reach good results”, even if it is unclear what this means in the absence of a complete evaluation. In our suggested design the possibilities to evaluate the effects have been the guiding principle. The above mentioned potential conflict of interests is still perhaps only superficial. If we by this experiment get strong indications that the private company is more effective in placement service for immigrants in the Swedish labour market, then this knowledge should form the basis for a new more effective future policy.

What would be the recommended policy given this result? The experiment will test a quite specific hypothesis, which is whether recruitment companies can help more quickly in matching jobs than the existing public employment office. The recommended policy would therefore be to offer unemployed immigrant workers placement services through recruitment companies instead of

the public employment office. Alternatively, it would be to encourage the public employment offices to learn from the recruitment companies.^{10,11}

Finally, we note that the involvement of many parties in the early planning process has been advantageous for the project. In social experiments there might be a risk that the project evolves in one direction and that it is difficult to reverse it for political reasons. With researchers involved, planning can focus on the evaluation issues from the very beginning and the need for fast answers to major issues can be balanced to the demand for scientific rigour. It is thus our belief that the early involvement of labour market researchers in this project can serve as an example for future projects.

¹⁰ Note, however, that the experiment will test only the outcome during the first five months of unemployment and exclude the impact of regular labour market programs.

¹¹ An observed difference in ability can either be due to economics of scope, i.e. that private offices are better in job matching because they are also into staffing, or to a difference in technical efficiency. The design of the experiment has been guided by the intention to find out *if* the two competitors perform differently, and not *why*. In drawing conclusions from the experiment the issue of why they perform differently might still be important. It affects both how one should modify public offices, and whether only staffing firms should be considered in a privatisation. Thus, data will be collected to try to find out why the competitors might perform differently.

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