

# Local Worlds of Marketization<sup>1</sup>

## Employment Policies in Germany, Italy and the United Kingdom compared

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The majority of the European countries have experienced a turn towards activation policies during the last two decades (Serrano Pascual et al., 2007, van Berkel/Borghini 2008, Bonoli 2010, Aurich 2011; Graziano 2009 and 2012). The interlinked aim to increase employment rates by integrating formerly excluded groups into the labour market requires new forms of governance and new structures of policy implementation. One of these policy changes concerns the marketization of employment and social services (Considine 2001, Newman 2001), an important part of policy delivery in most welfare states although in very different forms and extents. Since the local level plays a crucial role in delivering policies (Künzel 2012, Green/Orton 2012) an important element, and the main focus of the paper, is the level of discretion of local actors and its relation to activation interventions.

This paper draws on the findings of three qualitative case studies on the organisation of activation policies in three most different countries regarding worlds of welfare: Germany, Italy and the UK. It develops a theoretical framework of regulating marketization in regard to activation, and analyses the three empirical cases according to it. The findings show a link between the regulation of market-based interventions (i.e. type of marketization, outsourcing decisions, and purchaser-provider split) and the level of discretion for local actors with regard to these measures. Local contexts of policy-making and their suitability and willingness to become marketized will affect the usage of local discretion.

# 1. 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 2012). 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 paper, 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 analyse 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 policy makers. 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 paper discusses governance reforms and marketization against the backdrop of activation policies in three different worlds of welfare and activation, namely Germany, Italy and the United Kingdom. We will then develop a theoretical framework of regulating marketization in regard to activation, which we will apply to three empirical cases, one in each country covered by this study. The national developments of the three countries will be then checked against what is happening at the local level.

## 2. 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 persons, 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 and new forms of governance. In this regard, among the aspects of governance most frequently discussed are decentralisation, marketization, collaboration/network and NPM (van Berkel et al., 2012, Considine and Lewis 2003). It can be assumed that decentralisation and NPM allow for more leeway of action on lower levels of policy implementation. Marketization and collaboration, on the other hand, aim at broadening the set of actors from classical actors (e.g. public employment service, PES) to other actors assumed to have more knowledge about needs of unemployed individual (Considine 2001:28), either because they are more close to the beneficiary group (NGOs for example) or due to external mechanisms (market actors).

However, as already outlined above, the introduction of marketization in employment policies goes beyond the aim to broaden the scope of actors involved in service delivery and has often taken place in the context of NPM discourses (Pollitt et al 2007), often justified by the assumption that contestability will increase provision efficiency and effectiveness. By marketized services, we mean measures and instruments where the delivery is based on a competitive selection procedure. Marketization it has become common characteristic of service provision, albeit if in different forms (Van Berkel et al., 2012) and to different degrees,

across European countries. Diversity seems to exist across various dimensions, such as the relationship between purchaser and provider or between the provider and the client. Nevertheless, the question remains how these different forms of marketization are implemented. This can only be answered taking into account the scope of action which local actors have towards the provision of marketized services. As will be outlined below, different forms of regulating these services exist, as well as different scopes of local leeway to implement the marketized measures. In this paper, based on the analytical framework developed below, we aim at analysing both these dimensions (the regulation of the services itself and the level of local discretion they imply) in the UK, Germany, and Italy. As it will be stated, the analysis shows a clear link between the regulation of market-based interventions and the level of local discretion regarding their usage.

### *Marketization as a New Form of Governing the Provision of Labour Market Services*

As outlined above, activation reforms increased the scope of labour market services provided to the unemployed. Marketization brings two new aspects into the governance of social policy: competition and tendering. The tasks to be outsourced can vary from simple job placements to more complex social services. Criteria for selecting a competitive provider include cost and quality (van Berkel et al., 2012) and the performance is usually rewarded in form of financial payments (Considine and Lewis 2003), either based on strict (outcome) or soft performance measures (process-related) (van Berkel et al., 2012). Contracts can be designed in short-term or long-term and they can be targeted at different groups of unemployed.

The different characteristics of marketization of concern in this paper are the level of control that national or sub-national public bodies exert over potential providers (requirements that need to be met by them); service delivery discretion (process specification: what is to be delivered); and service users' choice over providers. Though, marketization is not a standardized phenomenon or a static process (van Berkel et al., 2012), it makes sense to assess

marketization models as shown in table 1: ranging from no- to full-regulation and hybrid types in between. These types of marketization, based on regulation characteristics, are related to the degree of discretion of local actors in implementing marketization, and to the purchaser-provider split as it is mentioned below.

According to van Berkel et al., (2012b) ideal-typical marketization involves a clear split between purchasers and providers of services, in order to encourage efficiency and responsiveness to citizens' preferences, although in most cases this split is not strictly implemented. Therefore, the governance of marketized activation measures is not only regulated regarding the characteristics of the measure (delivery, clients' choice and providers' control), but also regarding the discretion that core agencies in the field of activation have towards these services.

The regulation of the services, how strictly the purchaser-provider split is implemented, and also where the decision on outsourcing is taken (centralised or decentralised) are crucial for the implementation of marketized activation services, as they allow more or less local discretion. Figure 1 summarizes the link between the regulation of marketization, the level of local discretion, and the purchaser-provider split.

Studying the implementation of marketized activation policies therefore requires an analysis of existing regulation in this policy field in order to understand the room of manoeuvre implementing actors have. However, if we are interested in the translation of activation principles via marketization of service-delivery, we must as well study the usage of the local discretion. Which local factors influence the adaption and implementation of market-based activation services by local actors? This question should be addressed in an explorative manner on the basis of three in-depth case studies.

### 3. Research Design

We chose our research design in a way to represent most different cases of welfare regimes and worlds of activation: one Anglo-Saxon, one Continental and one Southern European welfare state (Esping-Andersen 1996, Ferrera 1996). From the literature, it would be expected the Anglo-Saxon case (UK) to be more prone to marketization than the Continental (Germany) or the Southern European case (Italy). At the same time, the UK traditionally highly centralised policy-making (Minas et al., 2012) stands out compared to the other two cases (Bonoli 2001). The theoretical reasoning – which follows historical neo-institutional premises (Pierson 2000) – supporting the hypothesis is that, in times of welfare state retrenchment (Ferrera and Hemerijck 2005) less state-centred welfare states will be more inclined to provide more opportunities for private actors or social enterprises to act as policy implementers.

Therefore, due to the relevant and traditional role of the family in the Southern European case and the highly relevant role of the social partners in the Continental case, we will expect the UK to have gone further in the direction of marketization, with Germany and Italy showing less marketized activation policies but higher levels of local discretion. The paper aims at testing these hypotheses by analyzing the regulation of marketized interventions in each country in the context of activation reforms. Our study is based on an in-depth analysis of the legislative regulations of marketized ALMP-instruments in each of the three countries. Here, we will identify the different types of regulations of market-based interventions and identify the room for manoeuvre for implementing actors. The detailed analysis of national expenditure on market-based interventions, in the framework of active labour market policies (ALMPs), show the extent to which ALMPs are market-based. On the basis of EUROSTAT ALMP qualitative reports (EU COM 2013) and the EUROSTAT ALMP database, we provide data for both optional and obligatory marketized interventions in Italy, UK and Germany. In addition, by going beyond the analysis of regulative aspects, the role of the usage of local discretion in the

implementation of marketized interventions and its effects on service delivery is of crucial interest. Here, we aim at exploring local factors influencing the usage of the discretion.

The local cases which were chosen for this explorative analysis are Edinburgh (UK), Milan (Italy) and Oldenburg (Germany). From a methodological standpoint, the research has been conducted via documentary analysis and, for the local case studies, 73 interviews with key stakeholders have been conducted – 21 in Edinburgh<sup>2</sup>, 29 in Oldenburg<sup>3</sup> and 23 in Milan<sup>4</sup>. All interviewees hold senior roles, such as head of department, director, or senior manager, within their organisations and are in charge of at least minor decisions regarding the usage of market-based interventions in their territorial unit. Interviews took place in the spring/summer of 2012. Questions focused on operational governance of activation policy development and implementation and on the relations between policy levels, fields and stakeholders. The selection of interviewees was done following the so-called positional method (Denzin and Lincoln 2005) and the interviews, which lasted an hour on average, were mostly recorded, and transcribed, were analysed using a method of qualitative content analysis (Mayring 2003).

## **4. Market-Based Interventions in Activation Policies in United Kingdom, Germany and Italy**

### *United Kingdom*

Marketization of labour market policies in the UK has taken place since, at least, the 1970s, with a progression since then towards contracting-out, competition and targets (Damm 2012, Hudson et al., 2010, Freud 2007). One of the main arguments for the use of marketisation has been the claim of efficiency and effectiveness (Davies 2010), despite mixed evidence (Davies 2010, Hudson et al., 2010, National Audit Office 2006, Hasluck and Green 2007). Employment policy and income maintenance transfers are controlled centrally, while there is administrative decentralization via Jobcentre Plus (JCP). UK employment policy has therefore been characterised as “centralised localism” (Lødemel 2001, in Lindsay and McQuaid 2008).



From the 1990s, ALMPs, usually consistent with work-first approaches (Lindsay et al., 2007), have increased in the UK. Current welfare policies are generic in terms of groups targeted, access is generally determined by unemployment length and service users do not have a choice of provision or provider. There has been a net-widening of individuals mandate to participate on national welfare-to-work initiatives.

Client services are the dominant active labour market instruments in the UK, and marketization is highly specialized and well established in this field. Vocational training in the UK in many cases is not directly linked to ALMPs<sup>5</sup>, due perhaps to the fact that it is funded by central devolved governments through skills agencies<sup>6</sup>. We can identify a closer interaction between basic training aspects and client services, expanded now through the recently introduced skills conditionality in activation policies<sup>7</sup>. There are a number of national 'Get Britain Working' welfare-to-work programmes (GOV.UK), which the Department for Work and Pensions (DWP) contracts-out nationally, to private, public or third sector organisations. There is no discretion by local government or JCP in national initiatives, unless specified. The level of provider discretion depends on the nature of the programme and contract. The short-term unemployed and 'inactive' groups are the responsibility of JCP, which provides direct support and advice, and refers clients to external provision; in some cases it contracts-out other services (such as training and placements or specialist provision) although contracts are with the DWP (DWP 2007). JCP role, function, and service delivery are determined nationally by the DWP, although providers and partners may vary across the country. Local discretion is very limited, although more flexibility in service provision is being introduced by the current Coalition Government (JCP 2011) through the Flexible Support Fund.

The current national welfare-to-work policy for the long-term unemployed is the Work Programme, which replaces a number of previous programmes. It is mandatory for up to two years for certain benefit claimants (DWP 2012a) and sanctions are imposed for non-participation. Providers have complete service discretion due to the black-box approach to

service delivery. The approach aims to increase flexibility that should, it is claimed, allow individualisation and effectiveness. There are a number of concerns on the capacity/ability of providers to meet complex needs of users, based on previous programmes' evidence, but there is not enough publicly available data at present to determine provision in the Work Programme. The level of in-housed or outsourced services provided the prime providers interviewed varied. Similar to other national initiatives, payment is by results, although the criterion to draw full payment includes a longer sustainability requirement. Differential payments depending on the benefit type that the service user is claiming have also been introduced, attempting to tackle the 'creaming' and 'parking' effect of outcome-based activation programmes (Casebourne et al., 2006 in Davies 2010). The tendering process has been novel to some extent due to the requirement for organisations to have no less than a £20 million annual turnover: as a result, many private, public and mainly third sector organisations were unable to compete (Damm 2012). The requirement to have supply chains could balance this exclusion, although there are no further requirements in their use. Longer contract length (up to 7 years) aims to tackle criticism of short-contracts continuity difficulties.

Local councils have responsibility for local employability and economic strategy, but not for employment policy. Interviewees mentioned that local strategies are constrained by central government policy and budget allocation. Local government-funded employability services are mostly contracted-out through tendering (CEC 2011). In Edinburgh, outcome-based contracts are developed around the Hub Contract (an employability pipeline approach) which aims at making services seamless by wrapping around the individual. An interviewee tellingly recalls the reasoning behind the contract: 'you will get far more actual on-the-ground integration from a contractualised arrangement than from another 10 years' worth of encouraging collaboration'.

In summary, marketization in national UK employment services has not implied client choice of service or provider and local discretion is very low or non-existent in most cases. This is the

case for services directed to the short-term unemployed (provided via JCP) and for the long-term unemployed. Local government employability provision has arguably increased choice, although grant funding could have achieved similar results. Generally bids are assessed in terms of cost/quality although there have been concerns that national contracting is heavily decided on cost.

Local discretion by JCP could allow individualisation and localisation of service-provision. It is difficult to assess if bigger contracts such as the Work Programme, will bring individualisation, although sustainability and differential payments could encourage that. Nevertheless if competitive contractualisation promotes unrealistic targets set up by providers in order to win contracts (Damm 2012), due to funding decisions based on cost (Osborne et al., 2012, Simmonds 2011), the effect could be of inadequate support for those hardest to help. It is interesting nevertheless that in order to achieve multi-stakeholder coordination (horizontal coordination), the Work Programme at national level, and the Hub Contract at local level could rationalised the providers landscape through contracts acting as case-management 'centres'.

The most dominant marketization type to be identified in national activation policies in the UK is therefore client regulation, followed by provider regulation in terms of cost and outcomes and service regulation for the short-term unemployed although currently decreasing, especially for the long-term unemployed. Furthermore, the UK is the only country with a clear purchaser-provider split (van Berkel et al., 2012).

### *Germany*

German labor market policy is formulated at the national level and traditionally characterized by corporatism and hierarchical governance of the public employment service<sup>8</sup>. Vocational training was for a long time focused on the industrial model and delivered by social partners' related training institutions or public providers. Social assistance as well as social services such as counseling, housing, etc. are to a great extent under subnational responsibility. Here,

service delivery was and is highly dominated by – often large and well organized – third sector organizations, in cooperation with public actors.

Since the beginning of the 1990s, NPM reforms were introduced especially in local public administration, which affected also social services (Dahme et al.,2008). Although contracting-out of formerly public social services increased, this contracting-out is not always based on competitive tendering but on non-competitive commissioning. Nevertheless, competitive tendering can also be found in social services and the idea to open the market for new actors has also been implemented for the social sector. With regard to labor market policies, several reforms –the Hartz-reform package<sup>9</sup> being the most important –introduced market-based instruments and NPM structures step-by-step. In addition, the role of social partners in tripartite self-government was not abolished but significantly constrained. Marketization in ALMPs was limited to training and placement until 2012, when additional ‘activation measures’ targeted on increasing the opportunities for labour market integration were added to the scope of marketized services: These do not focus solely on quick labour market integration but can have the aim to reduce placement obstacles as a first step before taking up a job.

With regard to the organizational dimension of the currently existing instruments, we can identify competitive contracting-out of service delivery and a voucher system. In the case of the voucher system, the dominant marketization type is provider regulation, while we can identify full regulation in competitive contracting-out:

(1) The voucher system has been introduced in placement (2002) and training (2003). Since very recently (2012), the ‘activation and placement voucher’ can also be used for additional activation measures. The use of vouchers is voluntary but the choice by the client is limited to accredited providers. In addition, clients’ choices often seem to be dependent on case managers’ information, as Bruttel (2005) states, for both types of vouchers the practice of

consumers' choice might not always be applicable due to information asymmetries and personal restrictions.

(2) There is competitive contracting-out in training (since 2005, partly also before), placement (since 2002) and 'activation measures' (since 2012). All tendering processes are organized by the regional directorates of the FEA, which act as purchase centers. However, the leeway of local Jobcenters and employment agencies to define which kind of measures they need is relative high although they do not select the providers. The selection process is based both on cost and quality. There is no service users' choice with regard to these measures. Cost-efficiency and quality are mentioned as positive aspects while a lack of suitable training providers in rural areas and the destruction of existing cooperation structures due to competition are complains (Bernhard et al., 2008:28). It has been criticized that social partners' related training providers have been favored before due to close relationships based on local tripartite structures (Kemmerling and Bruttel 2006). All private placement measures are judged as being easily subjected to 'creaming' practices.

With regard to regulation, we can observe differences between training and placement/activation: while all training measures are obligatory and either contracted-out or voucher-based and therefore in no case provided by the PES, placement by private providers is optional. This means that there is no local discretion with regard to the decision whether training should be provided market-based or not, while the local PES can decide if they want to provide placement services in-house or outsourced. Therefore, both the decision on outsourcing and the purchaser-provider split depend on the service to be provided.

Concerning the local practice, interviews showed that this difference in local discretion is definitely relevant for implementation: from the perspective of the local PES in Oldenburg, placement is mostly seen as a task for the public employment service. Both the delivery- and redemption rate of placement vouchers and the competitive contracting-out of placement services are quite low compared to the national average (Bundesagentur für Arbeit 2011).

There are very few private placement providers in the region. However, when it comes to the new possibility of outsourcing activation measures, the usage of contracting-out has increased. Due to the quite high local discretion ('a gum-paragraph' as one interview partner put it) with regard to service delivery, Jobcenter actors use this instrument to finance individualized and integrated measures (linking basic skills with psycho-social counselling, etc.). Vouchers are perceived as more or less an inadequate instrument for beneficiaries in need of activation measures since they are often overwhelmed with the required choice.

When it comes to training, we can find a totally different picture: local discretion in terms of the content of training measures is quite high and training-planning is based on their own analysis of the regional labor market. Nevertheless, outsourcing of training is obligatory, be it voucher-based or via tendering. In Oldenburg, vouchers are the most relevant instrument in training both for the Jobcenter and the employment agency. According to the results of the local case study, clients' choice is not a problem in most of the cases. Although the introduction of the market-based training has broadened the scope of providers, the PES still seems to cooperate with the same local providers if possible. Competition among training providers is mentioned as a crucial hinderer for effective service delivery, since cooperation and alignment is reduced.

Both private placement (since 2012) and training providers (since 2003) offering voucher-based measures, or participating in tendering-processes need to be accredited. This accreditation has been done until 2012 by de-facto public certification institutions while now the independent National Accreditation Body (DAkks, *Nationale Akkreditierungsstelle*) has taken over the responsibility. Results of the local case study emphasize what has been outlined in literature (Jantz and Klenk 2012): both accreditation and the complex tendering process privilege larger providers. Therefore, market entry relies on accreditation and tendering rules which have been dominated until recently by the de-facto purchaser, the Federal Employment Agency. Nevertheless, although providers' selection is highly formalized and local discretion is

that low, local PES actors seem to find ways to keep alive established cooperation with certain actors.

To sum up, local PES actors therefore have a relative high leeway when it comes to service delivery, but local discretion is low with regard to providers' control. The results of the German local case study show that local PES actors do certainly use this discretion in service delivery, which has impact on the scope of providers, the efficiency of service delivery and as well policy integration. Especially the recently installed possibility of contracting-out activation interventions and the high leeway in designing these measures lead to individualized and integrated services. Nevertheless, marketized instruments can be hinderers of cooperation since their high regulation strengthens the dominant position of the Federal Employment Agency.

#### *Italy*

In Italy, with respect to labour market policies, PES and education/vocational training, in 1997 a comprehensive reform was adopted at the national level aimed at setting the stage for a process of decentralization of administrative functions to regional and local levels and marketization with respect to job counselling and temporary work. More specifically, the 1997 Law known as the 'Treu Package' ("Measures for the promotion of employment") innovated employment policy in a number of aspects. First, a gradual process of deregulation was undertaken through the provision of so called 'atypical', flexible contracts. The new legislation introduced "temporary agency work" contracts and measures aimed at increasing part-time jobs. Second, the traditional predominance of passive policies was limited, moving towards a more "equilibrated policy mix" (Graziano 2004) through the development of ALMP aimed at facilitating labour insertion especially of young people and disadvantaged groups. Third, the public monopoly on placement services was ended by allowing private temporary work agencies to fully operate. This policy innovation represented a fundamental change in Italian employment policy, as it relied on the acknowledgment that private actors and market

mechanisms could give a beneficial contribution to labour market performance (Jessoula and Alti 2010). The new marketization trend was further consolidated in 2003 with the so called Biagi Law which provided further opportunities for private agencies to perform labour market policies beyond mere temporary work (Jessoula et al., 2010). Currently, about 70 private agencies perform employment services functions at the national level (CIETT 2011:12), which include – beyond temporary work – job counselling, vocational training, career transition services, outsourcing and long term employment opportunities. Nevertheless, in Italy the overall number of ‘agency workers’ is still particularly low, also in comparative perspective (CIETT 2011:27).

In general, in the case of employment policies, the central government via the Ministry of Labour and Social Affairs remains the key actor. Although central institutions via specific directorates have also generally carried the main responsibility with respect to the other tasks that fall under its sub-section "Social shock-absorbers and incentives for occupation", from the mid-1990s there have been clear signs of the creation of a new, open and multi-level governance model: since for several new policy programmes, regional levels of government including provinces, regions and municipalities have gained increased influence and responsibility in these services (ISFOL 2008).

Social assistance has traditionally been covered primarily by local administrations and over the past twenty years local public administrations have increasingly ‘marketized’ several services (as in Milan). The reforms adopted in the late 1990s tried to introduce a national scheme in order to close the gap with other EU countries where minimum income schemes had already been developed. In this respect, the 1998-2001 period did witness the experiment of a nationally managed social assistance scheme in the form of minimum insertion income (RMI). This activation measure was meant for unemployed citizens living on an income below a certain threshold. The guidelines were set on a national level, to be further determined and implemented by the regions, in cooperation with the municipalities and local health centres.



Furthermore, in the field of social assistance in the formulation of the Local Programming Plans, the reform called on local non-institutional actors (such as NGOs, trade unions and individual citizens) to participate in the local programming (and implementation) activities. This was an open door to subsidized private social assistance services, which were offered by NGOs or cooperatives in the various fields of social assistance policy. More specifically, private actors have been involved in local welfare via public administration contracting-out, accreditation and partnerships in the co-formulation of local welfare plans. Within the social assistance policy field, the main private actors have been non-profit actors, unlike those who have become increasingly relevant in employment policy. Given the fragmentation of Italian social assistance and the large differences across the country regarding both the levels of need and the availability of resources to meet these needs, it is impossible to provide a general picture concerning the activation services available for Italian social assistance recipients (Madama 2010).

Opening the provision of employment services to private actors has partly been a consequence of the flexibilization of the Italian labour market, which has been accompanied as mentioned previously by the establishment of (private) temporary work agencies for matching supply and demand where temporary work and work on fixed-term contracts is concerned. The dominant marketization types to be identified in Italy are full regulation (in training and social assistance) and client regulation (in employment services). With respect to activation, whether services are provided in-house or outsourced is decided by (local, i.e. provincial) public agencies. In fact, since there is the opportunity of outsourcing for all active labour market instruments, both traditional employment services and vocational training – which is the most relevant part of active labour market instruments in Italy (cf. figure 1) - have been ‘marketized’. Therefore, we cannot identify a clear purchaser-provider split but a decentralised decision on outsourcing in employment policies.

Marketization has been even more evident in the case of social assistance policies. For example, in the case of Milan (one of the most important and populated Italian cities) by the end of 2000s the overall employment and social assistance policy<sup>10</sup> accounted for roughly 40 per cent of the local total expenditure on social assistance policies<sup>11</sup> (Suriano 2011:14).

In summary, the intense period of reforms (1997-2012) has promoted a new governance architecture that allocates political-administrative responsibilities to the state, regions and municipalities on the principle of vertical subsidiarity, and at the same time increasing marketization with respect to both labour market and social assistance policies has occurred. The (possible) benefits of marketization are still to be fully assessed but some preliminary remarks can be put forward. First, marketization is much more developed in the social assistance sector than in the labour market policies. The latter set of policies have been only marginally touched by marketization trend since the passive policies are still managed by (primarily national public bodies) and (decentralized) PES are the most important providers. Vocational training has been significantly reformed, both in terms of decentralization and marketization, and this has particularly empowered the regional level of regulation since in several regions vocational training agencies have to be 'accredited' by regional public authorities. The former set of policies, being traditionally organized at the local level, have gone through quite an intense marketization process which has created new opportunities for private actors in social service provision: the above mentioned example of Milan shows how relevant outsourcing may be in local social assistance policies. Second, in terms of labour market policies the main consequence of the new public-private mix has been greater targeting of employment services – although this regards only a very limited amount of workers, as highlighted above. Third, in the social assistance sector marketization has not only better targeted the services provided but also enables them to be better monitored by both private (or 'social private', as they are often labelled in Italian) companies and public institutions.

## 5. Comparative Discussion

As the country analyses outline, all our three cases have experienced marketization to some degree. Nevertheless, we can observe differences in the extent to which labour market instruments are based on competitive contracting out in the three countries. Figure 2 illustrates these differences on the basis of those interventions which are included in the EUROSTAT ALMP-database: it shows the share of expenditure on market-based interventions with regard to the total active labour market expenditure, including 'labour market services' which are often contracted out.<sup>12</sup>

Here we can observe that in the UK almost all active measures are market-based, while Italy and Germany show much lower figures. However, we can observe increasing marketization in both countries between 2005 and 2009 (no current data available). All national programmes have experienced marketization, and attempts are visible to regulate these also in regard to their local implementation. Whereas in the UK most market-based interventions are highly regulated on the national level (with regard to clients, providers, and/or delivery), in Italy there are only few regulations, for example on providers. In Germany, marketization is most highly regulated, which might be the result of merging a national scheme (employment policy) with an inherently local scheme (social assistance).

At the same time, we find differences in the way in which market-based interventions are regulated, and in the degree of local level discretion. So: what are the drivers of these different patterns of marketization? First of all, marketization seems to depend to some extent on the policy field in question: in Germany training and labour market services (such as job brokerage, counselling, etc.) are both of relevance in contracting-out, in the UK is mostly client services and in Italy training which matters more respectively.

Especially in Germany marketization differs broadly between training and client services in terms of the marketization type, the purchaser-provider split, and the decision on outsourcing. In Italy, we can find different marketization types for employment services and training but

conformity regarding the decision on outsourcing and the purchaser-provider split. In UK, there is no such difference between the types of measures due to the fact that vocational training is less directly linked to ALMPs, however some variations are observed concerning services targeted to the short- or long-term unemployed.

Figure 3 shows the variance in the decision on outsourcing: here, all labour market interventions based on competitive contracting out were summed up and compared to the total LMP-expenditures (including passive benefits, which were excluded in figure 2).

In the UK, all market-based measures are contracted out; local actors have no choice in this question. In Italy, we find a totally different picture: here, the decision on outsourcing is decentralised and local actors have an increasing opportunity to decide autonomously. In Germany, this question depends on the type of measures. However, the degree of discretion is low as only about 2 per cent of these interventions (labour market services) are optional, while the others (vocational training) are necessarily to be outsourced.

However, local discretion does not only depend on the decision on outsourcing, but also is influenced by type of marketized services' regulation and the purchaser provider split. Table 2 summarizes the findings of the analysis of the regulation of market-based interventions in all three countries.

We can observe a clear link between the regulation of market-based interventions and the level of discretion regarding their usage, which is significantly low in the UK, very high in Italy, and in Germany depends on the type of measures. However, what do these results tell us about implementation of activation policies on the local level?

In Germany, we can observe a contradictory constellation of institutional designs: an attempt of nationalization via regulating the use of market instruments is counter-acted through local policy implementation, which is related to formerly local schemes based on strong relationships with the social partners. Marketization in this context is not necessarily seen as

helping to achieve greater labour market integration, especially as it is so highly regulated and thus relatively inflexible. The higher the leeway of local actors the lower seems to be the interest of outsourcing these interventions: local actors do not see a necessity to broaden the scope of actors to ensure targeted services, due to an already well-established broad landscape of service provision; marketization is not judged as an adequate measure to ensure individual responsibility which is perceived as relevant for some unemployed, but not as a general aim to be enforced. However, the argument of cost-efficiency has been made by several local actors.

In the UK there is a more centralised institutional context: on the one hand the national-local link is secured through bypassing the local level through direct contracts of providers with the DWP. But even where there are instances of local policy making (employability programmes), these are evidently framed by a national context and use almost exclusively marketized approaches. There is a broad scope of actors on services provision, and horizontal coordination is seen as necessary in a mostly fragmented landscape (e.g. the integrated Hub-Contract). Recent reforms maintain a high level of individual responsibility, could increase local discretion of PES, and could impact on the provider landscape by using marketization to rationalise it.

The relatively high degree of marketization on both levels in Italy might be due to the combination of rather unregulated and flexible national marketization programmes and a local level more akin to implementing interventions that favour private actors. On the one hand, the principle of subsidiarity prevalent in Southern European welfare states might be more conducive to the acknowledgement of individual actors rather than of collective efforts. On the other hand, marketization of the rather undeveloped social assistance scheme faced no opposition from weak networks of local stakeholders. Again we see an influence of the policy field and its history: Whereas social assistance policy as a local programme experiences high degrees of marketization, employment policy experiences barriers to marketization since it is based on management of national bodies and public local providers. Despite this difference it

is interesting to note that marketized programmes in employment policy in Italy have seen greater involvement of private actors than marketized programmes in social assistance policy, which are based on the involvement of 'social' providers, such as NGO's, cooperatives and self-help groups.

## **6. Conclusion**

This explorative study set out to describe and analyse both regulation and implementation in marketization of activation policies in different types of welfare states. Marketization certainly has become an important part of policy delivery in most welfare states. Despite minor national differences, in all of our cases we can observe national reforms emphasising marketization and regulating different aspects of it. Here, we can observe a clear link between the regulation of market-based interventions and the level of discretion for local actors with regard to these measures. The type of marketization, the decision on outsourcing and the purchaser-provider split are highly relevant determinants of regulating market-based instruments. As the analysis showed, regulations often depend on the type of interventions, which also leads to different levels of discretion.

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. For example, even though local discretion is relatively high both in Italy and Germany, we observe much lower degrees of marketization in Germany and more opposition to use market-based interventions: The local context in this case is framed by long-established networks between public actors and social partners, thus inhibiting the involvement of a broader set of actors. In the UK levels of local discretion are weak and the national level has secured the implementation of marketization via a centralised system that combines regulating access of

clients and service providers. In Italy, national policy history has been partly supportive and partly inhibitive to marketization. On the local level, however, it seems that the marketized character of interventions was over-shadowed by the general changes in social assistance, which had only recently been introduced.

Activation principles such as individual responsibility and the need of a broader scope of actors to ensure targeted services are therefore only to a small extent translated into practice via marketization of service delivery. Although the objectives of a NPM paradigm are obviously inherent in marketized activation measures in all countries, they do not seem to affect local implementation effectively which is more dependent on local discretion and affected by local policy histories. In summary, notwithstanding a common marketization trend, its reach and its multilevel domestic adaptation varied in function of the embedded relationships (and its legacy) among levels of governments and stakeholders and not – as hypothesised – in function of the welfare regime type. Moreover, this study calls for a more in-depth analysis of the implementation of market-based interventions in more local entities in different types of countries, linking the level of local discretion defined by regulation of interventions with the local context.

## Notes

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<sup>1</sup> This paper is based on research conducted within the framework of a European FP7project (LOCALISE – further information [www.localise-research.eu](http://www.localise-research.eu)).

<sup>2</sup> Two interviews were conducted with national and local government officials, four with public agencies, twelve with service providers and three with local experts.

<sup>3</sup> Seven interviews were conducted with the PES, six with public administration, two with municipal politicians, four with social partners, seven with service providers, and three with other organisations.

<sup>4</sup> Six interviews were conducted with local government, ten with local bureaucrats, one with the public employment service, three with service providers, and three with federations.

<sup>5</sup> In some instances training is directly mentioned within active policies, such as Sector-based Work Academies.

<sup>6</sup> Skills Funding Agency in England and Wales (a partner organisation of the Department for Business, Innovation and Skills), and Skills Development Scotland in Scotland (an executive non-departmental public body of the Scottish Government).

<sup>7</sup> Introduced in England in August 2011 and Scotland June 2012. Claimants of Jobseekers Allowance or Employment Support Allowance work-related activity group can be mandated to undertake skills activity (DWP, 2012b)

<sup>8</sup> The German public employment service is the Federal Employment Agency (FEA), a public body under tripartite self-government. Service delivery for the relative status maintaining, earnings-related and limited unemployment insurance (UB I, *Arbeitslosengeld I*) is implemented by the local employment agencies. Service delivery for the tax-financed, flat-rate and needs-tested so-called unemployment benefit II (UB II, *Arbeitslosengeld II*) is administered in the local Jobcenters, which are in the majority of the cases a cooperation between municipalities and FEA

<sup>9</sup> The Hartz-reforms between 2003 and 2005 introduced highly relevant changes in governance structures, labor market instruments and the minimum income system of German labor market policies.

<sup>10</sup> It included – beyond public institutions – 148 foundations, 220 social cooperatives, about 200 associations, 147 voluntary organizations and 206 self-help groups (Suriano 2011:6).

<sup>11</sup> Which accounted for an overall outsourcing value of 645 Million euros.

<sup>12</sup> This means that the expenditure of all single measures based on contracting-out were summed up and compared to the total expenditure, except passive benefits. EUROSTAT LMP category 1 includes labour market services such as counselling, Public Employment Service administration, job brokerage etc., while the categories 2-7 contain measures on training, employment incentives, job creation or start-up incentives (cf. EUROSTAT 2013)



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Table 1: Type of marketization

Marketized Services' Regulation	Service users' / clients' choice	Providers	Service delivery
Unregulated	Client choice	No controls (based primarily on cost)	No controls (only outcome performance)
Client regulation	<u>No client choice</u>	No controls (based primarily on cost)	No controls (only outcome performance)
Provider regulation	Client choice	<u>Criteria imposed (e.g. cost and quality, etc.)</u>	No controls (only outcome performance)
Service regulation	Client choice	No controls (based primarily on cost)	<u>Process or type of service determined</u>
Full regulation	No client choice	Criteria imposed (e.g. cost and quality, etc.)	Process or type of service determined

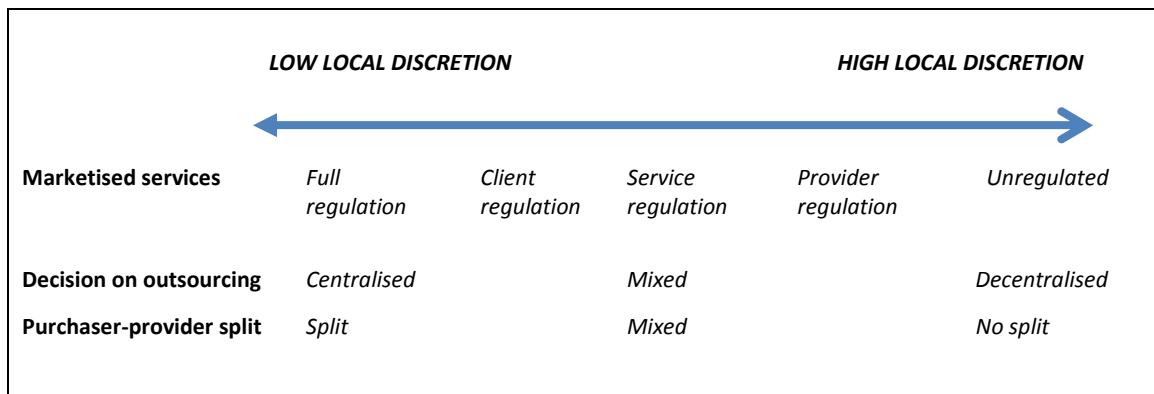
Source: own depiction, based on van Berkel et al., 2012

Table 2: Varieties of Regulation

	UK	Germany	Italy
Regulation of Marketized Services	Client regulation or full regulation in some client services	Training: full regulation Client services: provider regulation	Training and social assistance: full regulation; Client services: client regulation
Decision on outsourcing	Centralised	Mixed (depending on type of intervention)	Decentralised
Purchaser-providersplit	Split	Mixed (depending on type of intervention)	No split
LOCAL DISCRETION	LOW	DEPENDING ON TYPE OF MEASURE	HIGH

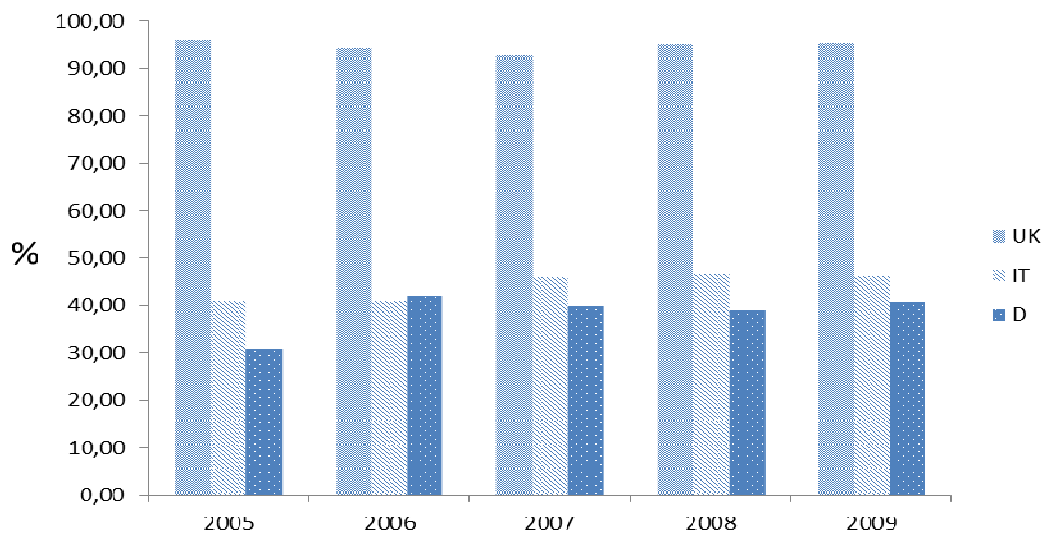
Source: own depiction

Figure 1: Regulation of marketization and discretion of local actors



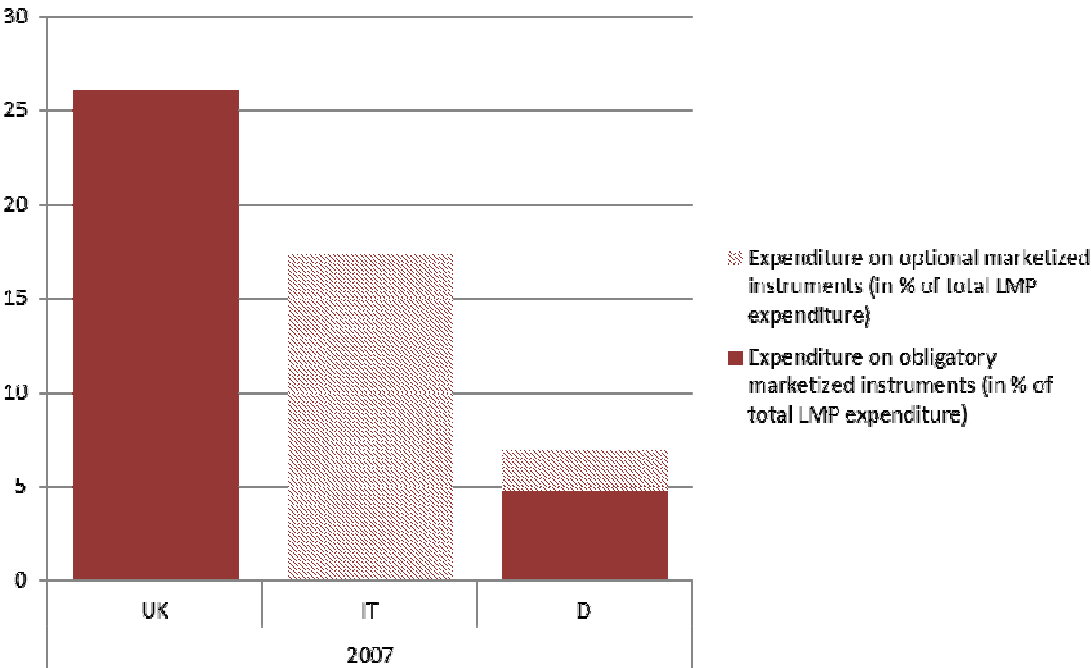
Source: own depiction

Figure 2: Market-based interventions as share of expenditure on active labour market policies (ALMP 2-7) and labour market services (ALMP 1)



Source: Eurostat, own calculations

Figure 3: Market-based interventions as share of total LMP-expenditure (2007)



Source: Eurostat, own calculations