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Unemployment and employment offices' efficiency: What can be done?

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Abstract

Regional employment offices provide placement services to job-seekers and employers and organize active labor market programs. In this paper, we carry out a quantitative evaluation of the employment offices' performance in Switzerland based on production efficiency measures. We use Data Envelopment Analysis (DEA) to estimate the performance of all employment offices and then account for factors in the local operating environment that are outside managerial control. This approach, and the ranking of employment offices, may easily be interpreted by policymakers and provides guidelines for raising the efficiency of the public employment service. Our findings suggest that there is considerable room for improved efficiency in employment service, which could lead to a lower level of structural unemployment. We also find that differences in the external operating environment have a significant influence upon the efficiency of employment offices.

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1. Introduction

The unemployment problem is most often tackled by pointing to business cycle conditions or excessive labor market regulations, at least at the macroeconomic level. More recently,

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employment and training programs, and other active labor market measures, are being evaluated to gauge their effectiveness in reducing unemployment duration, or guaranteeing new jobs with acceptable earnings [1]. In this paper, we take another route and look at how the number of jobless people, or the mean duration of unemployment, can be affected by the “technical” performance of employment offices, which typically aim at finding people jobs and act as a crucial intermediary between firms and job-seekers. We consider employment offices as production units which use inputs to generate some form of output, be it exits from unemployment or a lower duration of unemployment spells.

The purpose of this paper is to examine the technical efficiency of the Swiss public employment service using a two-stage procedure. In the first stage, data envelopment analysis (DEA) is used to compute technical efficiency for all regional employment offices (REOs, hereafter) operating in Switzerland during the period 1998–1999. In the second stage, a regression model is used to analyze the impact of external factors of the operating environment on the variation in technical efficiency scores across employment offices. Our results provide a relative ranking of employment offices with respect to their ability to meet pre-defined targets, which can then be used as a guideline for greater efficiency amongst the offices.

Our study was motivated by enforcement, in year 2000, of a new agreement between the Swiss federal authorities and cantons regarding the introduction of performance-based budgeting of regional employment offices [2]. This agreement was struck as Swiss unemployment policy was shifted in 1996 from a passive income maintenance program to active labor market measures aimed at faster reintegration of the unemployed into the labor market. Performance-based budgeting of REOs is part of a set of active labor market measures providing them with an incentive to become more efficient in lowering structural unemployment. Evaluation of employment offices’ performance is a necessary condition for implementation of the budgeting scheme and, more importantly, it helps to identify best practices in their internal management. Such practices can then be replicated and, so, improve the overall efficiency of the Swiss public employment system.

Although the economics of public employment services is a topical issue, Cavin and Stafford [3] have noted how little published literature is available on the performance standards of employment services. While the situation has not changed much, more recent literature includes [4–7]. Important production frontier literature on the matching efficiency of local labor markets includes [8–10]. This literature is based on the theoretical matching function framework of Blanchard and Diamond [11] and concentrates on the relationship between vacancies and unemployment. We argue that this framework is not suitable for assessment of REO efficiency in Switzerland, as vacancies are registered by the employment offices themselves. Swiss employment offices can thus easily appear more efficient simply by reporting a lower number of available vacancies.

The evaluation of Swiss REO performance [5] is currently carried out by Corrected Ordinary Least Squares [12]. Another Swiss study [6] used DEA based on a matching approach between the unemployed and vacancies. Neither [5] or [12] consider REO production factor inputs such as personnel and capital. These studies provide benchmarks for comparing outcomes achieved across REOs. We contribute to the understanding of employment service delivery by proposing an alternative model of the economic activity of REOs. It accounts for the targets of employment

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