GUDRUN BIFFL

DEREGULATION OF PLACEMENT SERVICES

THE CASE OF AUSTRIA

Until the 1990s job placement was seen as a public function in which the Public Employment Service (PES), based in the Ministry of Labour, played the central role. Under the influence of the general tendency to deregulation and privatisation, reforms of the PES took place. In the course of the 1990s, reforms gained momentum and culminated in a concerted action by the European Commission to modernise the Public Employment Services of the member states as a contribution to the European employment strategy. The PES plays an important role in the implementation of the EU employment policy by providing information, brokerage and market adjustment services to employers and job-seekers.

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The National Action Plan for Employment assigns the Labour Market Service (LMS, the Austrian PES) a key role in the implementation of the employment guidelines. Job matching is the core business of the LMS; another important feature is the implementation of labour market policies to reduce the mismatch between labour supply and demand. Furthermore, the LMS provides information about labour market developments. Since the LMS administers and pays out unemployment benefits, registers job-seekers and job vacancies, it has a good insight into the development of labour markets and thus plays an important role in rendering labour market mechanisms more coherent and easily understood. Information about the labour market is a source of empowerment of every actor in the labour market. It is a public good which increases the efficiency of the job matching process and ensures equitable access to information.

Labour markets in the 1960s and 1970s were affected by mass production technology in which standardised work processes dominated. In those circumstances, the state monopoly of job placement was considered adequate, especially as the majority of workers looking for jobs and the majority of job openings were either for unskilled and semiskilled workers or for highly skilled workers with an apprenticeship training. Since apprenticeship training provides standardised skills, job matching al-

lows economies of scale thus favouring a single agent/monopoly. With the onset of flexible specialisation in the 1980s job matching took on a new and more complex dimension. Job content and skills required for filling a job became more fluid and at the same time more fragmented. The types of skills demanded and supplied became less obvious, thus increasing the need for more detailed information to increase the efficiency of job matching. In the light of the change of the predominant production paradigm, deregulation and liberalisation extended to the sphere of labour market institutions. The deregulation of the Public Employment Services, the link between the labour market and the people seeking work, was the first major target for reform. A ruling by the coalition government in 1990 was the trigger for a reform process which blended well into the EU strategy of modernisation of PESs in the 1990s *(European Commission, 1998)*.

A quick overview of the historical development of major labour market indicators highlights the change of labour market mechanisms. It is in this context that the need for institutional reform becomes evident. Compared to other EU countries, Austria has rather reluctantly conceded to institutional restructuring (see *European Commission,* 1999). Liberalisation remains limited. The regulatory philosophy in Austria is based on credentials certified by labour market institutions; authorities face a major challenge when it comes to incorporating market mechanisms into the domain of public policy.

LONG-TERM SWINGS IN LABOUR SUPPLY

During 1999 some 3.7 million[1] people were in the labour force, of whom 3.5 million were employed (including 371,000 self-employed) and 222,000 unemployed. The unemployment rate was thus 6.0 percent[2], after being 6.5 percent in 1998, the highest unemployment rate since World War II. Labour demand and supply exhibit significant long-term swings. In the early 1980s Austria moved from a labour market regime characterised by labour scarcities, to one of increasing labour surplus. This is reflected in the following:

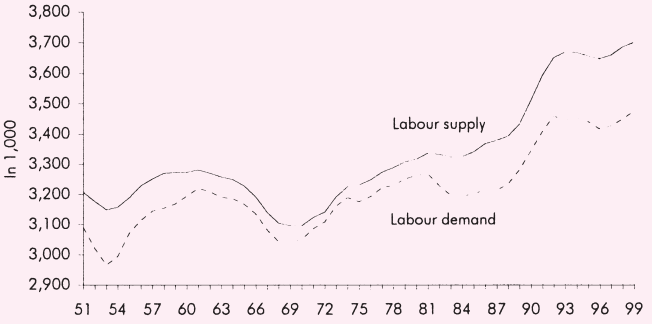
- In 1960 (the first year of full employment after the end of World War II) 3.2 million people were employed, only 278,000 or 8.7 percent less than in 1999. The number of unemployed then amounted to 79,300, i.e., an unemployment rate of 2.4 percent. Between 1960 and 1999 total labour supply has thus increased more than demand (+426,000, +13 percent).
- In the course of the 1960s, total labour supply declined as a consequence of educational policies (prolongation of compulsory education and promotion of higher education), social policies (universal coverage of different types of employment by retirement pension schemes) and emigration. In order not to let labour scarcities hamper economic growth unduly, Austria introduced a foreign worker programme (the Swiss model) in the early 1960s to offset the loss in labour supply. However, labour supply growth gained momentum in the second half of the 1970s for a number of reasons: the rising inflow of foreign workers, increasing labour supply of women in the early 1970s as a result of a boost to women's education and the introduction of individual taxation, and the entry of the baby boom generation into the labour market in the late 1970s.
- In the early 1980s, major industry restructuring took place to meet the requirements of a new world order, calling for labour demand adjustments. In the wake of restructuring, unemployment began to rise beyond the non-inflationary full employment rate. Towards the end of the 1980s and in the early 1990s labour demand took a boost. But it was short lived. This was the result of a prolonged cyclical economic growth phase due to an exceptional rise in export demand from Germany following reunification. However, the demand shock was accompanied by a sudden increase in labour supply, which was solely due to a rising inflow of foreign workers[3]. Since labour supply increased more than labour demand, unemployment did not decline. In order to slow-down unemployment growth, severe restrictions were imposed on the entry of foreign workers to the labour market both from abroad and from within the country, maternity leave was prolonged from one to two years, paternity leave was introduced, and generous early retirement schemes were not dismantled. In spite of the ensuing slow-down in labour supply growth, unemployment continued to rise, since labour demand growth came to a halt in 1992.
- In the early 1990s, Central and Eastern European countries entered the scene as new trading partners of the West. This meant that Austria's labour intensive manufacturing sectors like textile, leather and clothing industries, food industries and others lost their competitive edge. Austria's membership to the EU, on the other hand, hastened deregulation of former sheltered public

[1] The data base is social security data for dependent employment, census data in connection with social security data for self-employment and registered unemployment data (employment services). Due to statistical breaks the microcensus does not provide reliable time series for labour market data.

[2] Unemployed as a percentage of labour force (administrative data base); as to the definition, data base and international comparability of unemployment rates in Austria see *Biffl* (1997).

[3] For a detailed account see *Biffl* (1992, 1996A).

Figure 1: Long-term labour supply and demand



Source: WIFO.

and quasi-public sector services (telecom, banking and insurance, postal services). Employment growth took a steep dive as a result. But industrial restructuring was necessary in order to increase productivity and thus regain the former international competitive position. In this economic and labour market environment, the unemployment rate increased and reached an all-time high of 6.5 percent in 1998. It began to decline slightly in 1999 to 6 percent as a result of specific labour market policy measures in the context of the National Action Plan, directed mainly at reducing the number of long-term unemployed, while the demographically induced slow-down in labour supply growth assisted the decline in unemployment.

SUDDEN RISE OF LABOUR MARKET TURNOVER IN THE MID 1980S AND 1990S

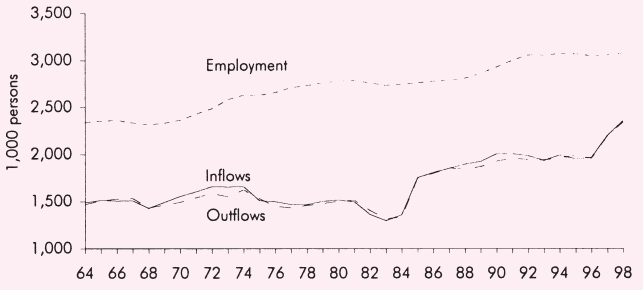
The volume of reallocation of workers depends upon the turnover of employment, i.e., the flows into and out of employment. Inflows into employment may be the result of school-leavers first entering the labour market, of persons re-entering after a spell of unemployment, a period of education and training, a phase outside the labour market to fulfil unpaid household work and direct job-to-job change. Outflows on the other hand, are the result of retirement into old-age or disability pensions, into the household or other unpaid work, into adult training and education and the like. There is therefore at any point in time a stream of persons entering and exiting the labour market, while employers replace jobs (replacement need) or find personnel for new types of jobs (growth needs) or restructure the workforce in the internal labour market due to some jobs becoming obsolete while others are created in response to changing demand and technology.

Statistics on the total volume of turnover are not available in Austria. But social security data convey an idea about job turnover for wage and salary earners, the major groups of workers on the labour market. These data include not only job fluctuation in the external labour market but also in internal, firm-specific labour markets. The annual inflows and outflows from employment covered by social security are available from 1964 until 1998 on a statistically comparable basis. This data shows that there is considerable turnover on the Austrian labour market with very pronounced cyclical movements. Turnover increased in the period of extreme labour shortages of the late 1960s and early 1970s (dominated by voluntary quits as a consequence of good job prospects), declined in the period of severe economic downturn and the onset of micro-economic reform and restructuring in the early 1980s and increased again abruptly in the mid 1980s and mid 1990s as, apart from a compositional change of labour supply and demand, new forms of employment became more prominent.

The volume of reallocation of workers measured by the sum of the yearly inflows into employment and outflows from employment is very high in Austria by international standards.

Since the mid 1980s, 60 to 70 percent of the wage and salary earners experience some status change in the course of a year. About two thirds of the flows are the result of a movement within internal labour market, i.e., movement along internal career ladders or intercompany transfers, and seasonal demand fluctuations. Thus about 25 percent of the Austrian work force or some 760,000 persons are on average recruited externally in the course of a year. This figure is very high in international comparison. It puts Austria's labour turnover into the top league of EU countries, in spite of rather strict employment protection legislation (*Mayrhuber – Url*, 1999). This may come as a surprise in the face of weak long-term employment growth. The large gross employment flows are to some extent due to an above average share of sectors with high seasonality in total employment (tourism, construction, agriculture and forestry), but the main reason seems to be the importance of small and medium sized firms in total employment, which, by definition, rely mainly on the external labour market and therefore exhibit sizeable labour turnover. One may conclude from this, that labour market segmentation is limited in Austria, in particular labour market rigidities due to insider-outsider forces (*Biffl*, 1999A). The predominance of small and medium sized enterprises make large internal labour markets with complex career possibilities the exception rather than the rule.

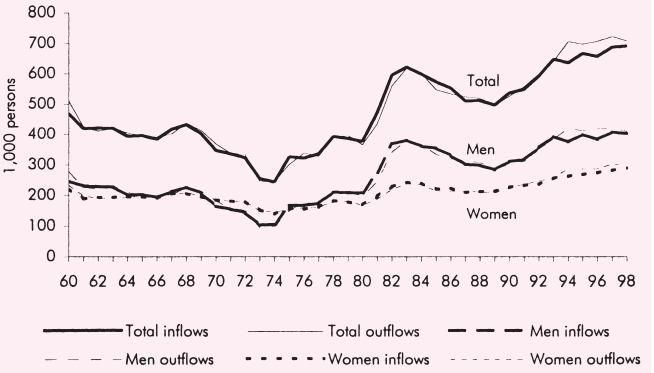
Figure 2: Employment and turnover



Source: Central Association of Austrian Social Security Institutions.

Figure 3: Development of unemployment flows

Sum over the year



Source: Labour Market Service.

Apprenticeship training, the dominant skilling system of the Austrian work force, explains why even highly skilled workers (tradesmen) face significant job turnover as their skills are standardised and clearly identifiable, making them easily substitutable (low transaction costs). In a period of labour surplus, firms may go for frequent adjustments of employment (seasonal and cyclical) without losing firm specific skills.

Nickell (1995) points out that recruitment strategies of firms depend on the gross flows of potential workers. In periods of labour scarcity search costs for firms are high, so labour turnover tends to increase as workers move to the highest bidder – this was the case in the late 1960s and early 1970s.

As unemployment rises, transaction costs of firms decline and job turnover may rise as firms give up hoarding labour in periods of a slow-down of output growth. This was not the case in Austria until the mid 1980s. In 1984, however, reallocation of labour suddenly increased as economic recovery gave rise to an increase in employment. Flows into employment expanded rapidly as the baby boom generation moved into the age group with the highest participation rates. At the same time, outflows from employment increased as generous early retirement schemes became the preferred vehicle for downsizing nationalised industries (iron and steel in particular)[4].

The concurrent rise of employment inflows and outflows in 1984 was the result of massive structural change of labour supply and demand. It was the beginning of a new era of labour market mechanisms, which is marked by high and rising labour turnover.

Women and younger workers with limited seniority entered the labour market in large numbers while older workers, who had stable jobs, exited. But it was not only the composition of labour supply which was conducive to high labour turnover. Tertiary employment also brought about a change in employment practices, which are marked by numerical rather than functional flexibility (upgrading of human resources)[5].

Frictional unemployment, due to employees changing jobs or the geographical location of employment, may be a significant component of high labour turnover. But the level of frictional unemployment is not necessarily indicative for the general level of unemployment. Countries with a limited amount of frictional unemployment may have high unemployment rates, e.g., Belgium, or low ones, e.g., Japan. Countries with a high degree of frictional unemployment, e.g., USA, Canada, or Australia, also exhibit a wide spread of unemployment rates. This goes to show that, apart from labour turnover, other factors may affect unemployment levels. Efficient job matching institutions can play a major role in preventing frictional unemployment from turning into long-term unemployment.

RISE IN UNEMPLOYMENT DUE TO INCREASED LONG-TERM UNEMPLOYMENT

Unemployment reached rock-bottom in 1973 with 31,300 registered unemployed[6] and increased thereafter, at first slightly, and from 1981 onwards more or less continuously until 1998, when an unemployment level of 238,000 was reached. According to flow data, unemployment dynamics started to change in the wake of the eco-

[4] For a detailed account see *Biffl* (1996B) and *Pollan* (1997).

[5] For more information on the typology of micro-economic labour market flexibility see *Biffl* (1999B).

[6] Since foreign workers were predominantly employed in construction and tourism, seasonal unemployment was exported to a large extent.

Figure 4: Concurrent rise of unemployment and long-term unemployment

Source: WIFO. – [1] More than 6 months unemployed as a percentage of total unemployed.

Figure 5: Average duration of unemployment

Source: Labour Market Service.

nomic recession in 1974-75. An increased turnover of the unemployed brought about the virtual stagnation of the average annual stock of unemployed between 1975 and 1981 at 55,000. The changing demographic structure of labour supply, i.e., the rising number of groups of workers who tend to belong to the secondary labour force (women, youth and foreign workers), was a contributory factor in the increased labour turnover. Since the increasing inflows into unemployment were more or less offset by a boost in outflows, i.e., the duration of unemployment spells fell, stocks remained fairly stable until 1981 when a severe recession set in. At the same time, as budget and current account deficits were running high, the long overdue restructuring and downsizing of nationalised industries came into being.

The yearly inflows into unemployment, which had risen from 325,900 in 1975 to 471,200 1981, took another boost in the wake of economic recession and intensified economic restructuring. Economic recovery in the mid 1980s reduced the inflow rate into unemployment, but only until the late 1980s. Then the abrupt inflow of foreign workers into the labour market brought about increased competition amongst workers inducing a rise in inflows into unemployment despite substantial employment growth. As economic growth slowed down, employment growth came to a halt in 1992, thus fuelling unemployment growth. Inflows into unemployment did not abate until today; in 1998 inflows into unemployment numbered 691,300.

In the 1990s increased competition as a consequence of entry into the EU and the opening up of markets in Central and Eastern Europe fuelled restructuring.

Employment increases in economic upswings were not sufficient to offset labour supply rises. As a consequence, unemployment increased and long-term unemployment, in particular, began to build up. The ratio of yearly inflows into unemployment to the stock of unemployed declined from 6.8 : 1 in 1981 to 2.9 : 1 in 1998. Since outflows did not keep up with inflows the duration of unemployment crept up from 8 weeks on average in 1981 to 18 weeks in 1998.

LARGE SWINGS IN VACANCIES REGISTERED WITH THE LMS

Information on job openings is available from a variety of sources. Time series of job openings registered at the PES are available from 1960 onwards. In addition job advertisements in the print media have been collected and analysed since 1994; enterprise-based surveys are undertaken occasionally as additional information on the recruitment behaviour of firms. The data on job openings registered with the employment services complements the employment and unemployment information relating to the state of the labour market and the role of the LMS in the market for job matching.

The time series of vacancies of the LMS exhibits strong cyclical and medium to long-term fluctuations. In the late 1960s and early 1970s, labour markets were marked by a demand surplus. From the mid 1970s until the mid 1980s, job openings followed a declining trend. With economic recovery and successful industrial restructuring, the number of vacancies rose after 1984. The exceptional economic growth period in the late 1980s and early 1990s, induced by German reunification, produced high levels of vacancies. Since the additional jobs were largely filled by foreign workers, registration of the vacancies at the LMS was a precondition for obtaining a work permit. In spite of this, the high levels of vacancies of the early 1970s were never again attained. In 1973 the number of job openings registered with the employment services was

Figure 6: Development of job openings

Stocks

Source: Labour Market Service. With the introduction of equal opportunities legislation in the mid 1970s the differentiation of job openings by gender was meant to be discouraged by introducing the option for gender neutral registration of vacancies. As the objective was not fulfilled, notification of job openings to the LMS had to be gender neutral by law since 1986.

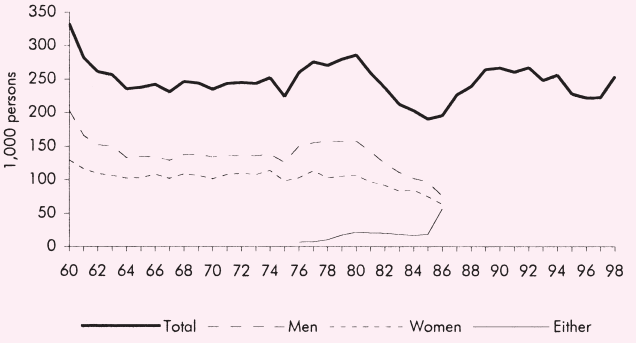
66,100 – more than double the unemployment figure. In 1990 56,000 job openings were registered at the LMS, while the ratio of unemployed to vacancies had risen from 0.6 : 1 to 3 : 1. The swing from a situation of extreme labour scarcity in the early 1970s to one of growing labour surplus since the 1980s is, however, somewhat exaggerated in unemployment/vacancy ratios. Labour supply could be easily supplemented by foreign workers in the early 1970s, unemployment was exported, however, since foreign workers often did not have the number of working days necessary to qualify for benefits and thus registration as unemployed.

In the course of a new wave of industrial restructuring after 1992 vacancies declined rapidly, and at 19,000 in 1997 almost reached the lowest level of registered vacancies of the early 1980s (1982 15,200). The economic upswing of 1998 allowed a recovery of the number of job openings to take place, continuing well into 1999.

In that context, it should be noted that a high level of vacancies is not necessarily a valid indicator of a particularly efficient labour market or of better employment performance. Certain institutional or structural features are conducive to low labour turnover, e.g., high degree of worker protection, low share of part-time work, limited degree of flexible work arrangements (e.g., fixed-term contracts, temporary work agencies, workers at home), high share of self-employed. If a large proportion of work takes place in private households (limited transfer of household work onto the labour market or undocumented work of household helpers like au-pairs, cleaning, etc.) the vacancy data reported from firms will underestimate the actual volume of work compared to more market work oriented economies. Differences in vacancy rates over time and across countries do, however, provide some insight into the variation in the dynamics of the labour market.

Figure 7: Development of inflows of vacancies

Sum over the year



Source: Labour Market Service.

Job openings, stocks and, even more so, inflows, are good leading economic indicators. The high labour turnover and the important role the LMS plays in matching labour supply and demand becomes evident in the flow data:

- In the period of pronounced excess demand for labour, 245,000 job openings were registered in the course of the year. Thus in 1972, the ratio of inflows to the stock of job openings amounted to 4 : 1. The average time span for a vacancy to be filled amounted to 14 weeks then.
- In contrast, in 1998 254,000 job openings were registered with the employment offices in the course of the year, i.e., the absolute number of inflows of vacancies into the register has remained remarkably stable in the long run, unlike unemployment flows. However, the stock of vacancies declined as the vacancies could be filled much faster: in 1998, it took on average only 5 weeks to fill the vacancies. The ratio of inflows to the stock had thus increased to 11 : 1 in 1998.
- The decline in the average duration to fill a job in the last 8 years illustrates that in periods of substantial and rising labour surplus, search costs for labour, in particular the time span necessary to find a suitable replacement or new recruit, declined significantly.

UNEMPLOYMENT AND VACANCIES – THE BEVERIDGE CURVE

The change in the labour market regime from a period of excess demand in the late 1960s and early 1970s to a period of excess supply in the course of the 1980s and 1990s, can best be visualised by the Beveridge (or U-V) Curve.

- The link between the unemployment rate (unemployed as a proportion of labour supply) and the vacancy rate (vacancies as a proportion of labour demand) demon-

Figure 8: Average time span to fill vacancies

Source: Labour Market Service.

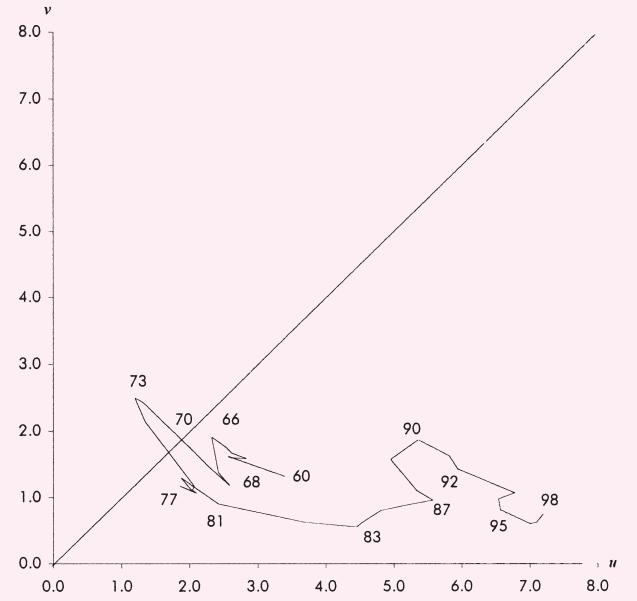
strates not only that labour demand tended to equal or even surpass labour supply in the late 1960s and early 1970s[7] while the points fell more and more below the dividing line in the course of the 1980s and 1990s, indicating a continued rise in excess supply of labour.

- The curve also shows that the matching process of labour supply with demand may have become more inefficient over time, as the points moved further away from the origin. The question about the causal forces for the move away from the origin remains to be answered. Is it the result of an increasing mismatch between skills demanded and supplied? Or is it rather the result of a compositional change of industries and occupations towards sectors, which have a higher U-V ratio? It may be that the changing production paradigm, i.e., the transition from an industrial society characterised by mass production of industrial goods to a post-industrial society marked by the industrialisation of services, is linked with an increasing disparity of skills demanded by the market and supplied by the education and training system, which by its very nature lags behind market demand. In such a transition phase, which Beveridge would have characterised as one of "structural unemployment", the dispersion across sectors of the ratio of unemployment to vacancies may increase as a result of a longer matching period. Assuming that it takes longer to match non-standardised skills than traditional, standardised skills, an outward shift of the Beveridge Curve has to be expected, without implying less efficient matching processes.
- The outward shift of the U-V Curve may, however, also be the result of an increased labour turnover due to a rise in frictional unemployment. A rise in frictional unemployment does not imply that job matching has become more inefficient. It only states that people are

[7] Points around the dividing line show equality between unemployment and vacancy or full employment, as Beveridge would have defined it.

Figure 9: Beveridge Curve: stocks

In percent



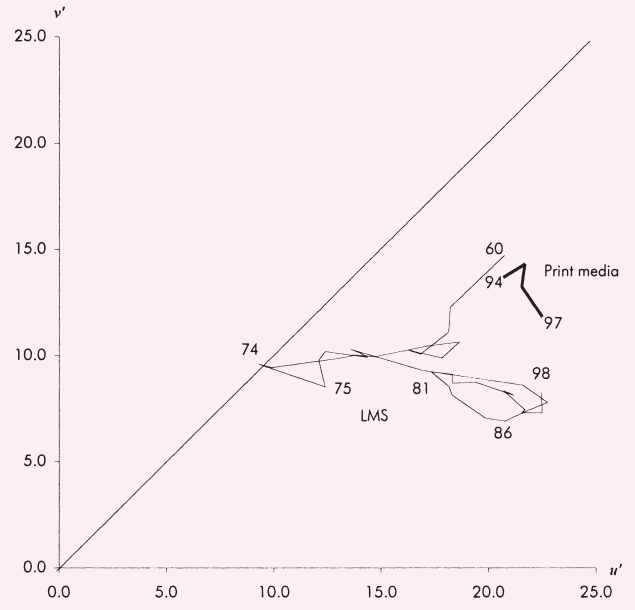
Source: WIFO. – v . . . vacancies in relation to the sum of vacancies and employment, u . . . unemployment in relation to the sum of unemployed and employed.

moving more often in and out of jobs, for many by their own choice. This may have the effect of a more efficient job matching as the skills demanded and supplied are reallocated according to the most efficient use.

- The outward shift of the long-run U-V Curve may also result from an increased duration of unemployment, either because unemployed, covered by adequate unemployment benefits, have become more choosy over time in accepting job offers, or firms have become more demanding in their choice of applicants.
- In 1987 the Beveridge Curve took a slight shift back to the origin, but shifted outwards again in 1990. And in 1994, the year the LMS became an independent public agency, the Beveridge Curve shifted back to the origin somewhat. Does this perhaps mark the beginning of more efficient supply and demand matching procedures? Or does it reflect a reduction in labour market rigidities of the kind noted in the immediately preceding point?
- If one calculates a Beveridge Curve based on flow data (inflows of vacancies/employment in relation to inflows of unemployed/employment) greater efficiency of job matching does not seem to have taken place since 1994. According to this data, the LMS does not play a more important role in matching job openings and unemployed.
- Furthermore, if one calculates a U-V Curve on the basis of registered unemployment data and vacancies in the print media (1994-1997), one comes to the conclusion

Figure 10: Beveridge Curve: flows

In percent



Source: WIFO. – v . . . vacancies in relation to the sum of inflow into vacancies and employment, u . . . unemployment in relation to the sum of inflow into unemployment and employment.

that the matching of demand and supply has deteriorated since 1994. The vacancy rate based on print media is higher than the LMS rate. The Beveridge Curve based on print-media vacancy rates suggests that the labour market regime of the mid 1990s was similar to the one in the early 1960s. To what extent increasing mismatch is responsible for the outward shift of the U-V Curve is a matter for further investigation.

INCREASING MISMATCH OF REGISTERED UNEMPLOYED AND VACANCIES IN THE 1990S

A comparison of registered unemployed and vacancies over time demonstrates that not only the levels of unemployment and job vacancies drifted apart, particularly since the early 1990s, but also the structure by occupation and skills. A regional mismatch indicator may be calculated from 1964 onwards – according to this indicator regional mismatch of labour demand and supply was the highest in the 1960s and declined with minor fluctuations until 1992. Ever since then the regional mismatch of vacancies and unemployment increased and reached, in 1998, a level similar to the second half of the 1970s.

An occupational mismatch indicator[8] calculated for the period 1987 to 1998 (vacancies and unemployed by 31 occupations) shows that the mismatch coefficient increased since 1991 even though the occupational groupings are very large, thus hardly capturing the skill components of occupations demanded and supplied. Also the regional mismatch increased after 1992, following a long period of decline.

The main picture one gets from comparing the occupational and skill composition of the unemployed and vacancies, is that the structure of unemployment becomes more heterogeneous while that of job openings registered with the LMS remains rather traditional. The majority of job openings continues to be in metal and electrical industries (1998 17.5 percent of all job openings) and tourism (1998 17.1 percent of all job openings), closely followed by trade (1998 12.7 percent, in particular sales personnel) and construction industries (1998 9 percent). In all these occupations unemployment continues to run high – but at the same time, unemployment starts to build up in clerical jobs (1998 15.2 percent of all unemployed), in transport services jobs, and since 1995, also in teaching professions without at the same time having a counterpart in job openings in these occupations registered with the LMS.

Firms tend to use the LMS primarily as a recruitment channel for unskilled labour (1998 47.7 percent of all job openings registered with the employment service, 1988 46.9 percent), and skilled workers with apprenticeship training (1998 42.1 percent of all job openings, 1988 45.4 percent); this appears to be a long-standing tradition which so far does not seem to have changed in the wake of the reforms of the PES.

In contrast to the static skill structure of registered vacancies, the educational attainment of unemployed is becoming more varied. While the proportion of unskilled labourers (1998 43 percent of all unemployed) and skilled blue-collar workers (with apprenticeship training, 1998 39.5 percent) is still very high, more and more persons with lower and upper secondary vocational training and university education have become unemployed. The change in the skill structure of the unemployed suggests that the functional mechanisms of the labour market are changing. A number of factors are at work here – the financial squeeze on the public sector (lean state) has an

[8] Occupational mismatch: $OMM = \sum_{1}^{j} \left| \frac{V_j}{V} - \frac{U_j}{U} \right|$,

V . . . vacancies, U . . . unemployed, j . . . occupations ($j = 1, \ldots, 31$). The coefficient may have values between 0 (complete identity of the two structures) and 1 (complete dissonance of the two occupational structures, i.e., no job opening for any unemployed within the same occupation).

Regional mismatch: $RMM = \sum_{1}^{i} \left| \frac{V_i}{V} - \frac{U_i}{U} \right|$,

i . . . regional states ($i = 1, \ldots, 9$).

Table 1: Skill requirements for job placements and educational attainment levels of the unemployed

	1988		1996		1998	
	Unemployed	Vacancies	Unemployed	Vacancies	Unemployed	Vacancies
	Percentage shares					
Compulsory education	47.8	46.9	44.3	51.3	43.1	47.7
Apprentices	37.3	45.4	39.6	41.2	39.5	42.1
Lower secondary education	5.9	3.0	6.3	3.4	6.5	3.9
Upper secondary general education	2.5	0.1	2.6	0.1	2.7	0.1
Upper secondary vocational education	2.9	3.3	4.1	2.9	4.8	5.1
Tertiary education	2.5	1.3	2.9	1.1	3.4	1.1

Source: Labour Market Service.

immediate impact upon the employment opportunities of university graduates (currently in particular legal professions, teachers and medical personnel), technological innovations affect above all clerical professions, and microeconomic reform processes, in general, make for an increasingly heterogeneous group of employed as well as unemployed.

The increasing disparity of the skill structure of unemployed and vacancies registered with the LMS suggests an increase in the skill mismatch between the clients of the PES on the labour demand and supply side.

MORE UNIVERSAL COVERAGE OF JOB OPENINGS IN PRINT MEDIA THAN BY LMS

Enterprise surveys show that the print media are used more often than the LMS to find a suitable person to fill a job opening, particularly if the jobs require highly skilled personnel for non-standardised work in white-collar occupations. Since the LMS has little insight into this area of job openings, it embarked upon a systematic analysis of this data in the early 1990s in order to gain more information about labour demand in the highly structured and specialised services occupations[9].

The number of vacancies offered in the print media in 1997 (most recent data available) amounted to 369,000 over the year, i.e., it surpassed the LMS inflows by 145,900 (65.4 percent). The level of job openings in the print media surpassed that of the LMS register in every Federal state except Burgenland, Lower Austria and Carinthia. The largest positive divergence in relative terms occurred in Vienna and Tyrol.

The educational requirements of job openings differed between the print media and the LMS. Between 1994 (the first year of the time series of print media vacancies) and 1997, the print media have consistently advertised more job openings for every medium to higher educational attainment level. Only job openings for people with no more than compulsory education, tend to be reported to the LMS to a larger extent than to the print media.

Table 2: Job openings according to the print media and the Labour Market Service statistics

	1996			1997		
	Print media	LMS	Relation print media to LMS	Print media	LMS	Relation print media to LMS
			In percent			In percent
Vienna	110,803	40,042	276.7	93,435	38,454	243.0
Lower Austria	33,806	35,489	95.3	28,501	34,422	82.8
Upper Austria	49,580	32,807	151.1	72,942	35,210	207.2
Burgenland	3,348	6,885	48.6	3,610	6,925	52.1
Carinthia	20,971	22,562	92.9	20,191	22,121	91.3
Styria	32,669	27,957	116.9	43,738	27,704	157.9
Salzburg	43,715	22,899	190.9	30,923	22,629	136.7
Tyrol	82,752	24,957	331.6	54,429	25,279	215.3
Vorarlberg	25,948	9,737	266.5	21,058	10,194	206.6
Austria	403,592	223,335	180.7	368,827	222,938	165.4

Source: Labour Market Service.

The greatest number of job openings in the print media are in services, whereas the LMS has a concentration of occupations in the secondary and the primary sectors. Job openings in tourism constitute the largest number of any occupation, both in newspaper advertisements and LMS data. Jobs in the construction sector tended, until recently, to be primarily advertised in the LMS. Since 1994, the discrepancy between LMS data and advertisements has been reduced in certain occupations, in particular for unskilled workers, educational services, technicians and tourist services. But it has increased in other services jobs, in particular business oriented services. However, it is evident that, since 1994, the LMS has not been particularly successful in attracting many job openings in areas which had not been its traditional focus of job matching; nor has it been able to consolidate its dominance in its traditional areas.

RECRUITMENT STRATEGIES OF FIRMS IN THE MID-1990S

Information on recruitment strategies by firms is available for 1995 and 1996[10]. In principle, a firm may use a variety of recruitment channels depending on the national infrastructure for placement and the types of skills needed. The survey provides information on structural features of labour demand. The vacancy concept is not strictly de-

[9] As to the methodology and detailed analysis see *Labour Market Service* (1996). The rate of coverage depends amongst other factors upon the share of newspapers included in the survey. Parallel and multiple job placements are excluded.

[10] The survey was carried out in August on a nation-wide basis by Synthesis, a labour market research institution, on behalf of the Federal Labour Market Service.

Table 3: Inflows of vacancies by educational attainment in the print media and the LMS statistics

	Print media	1996 LMS	Relation print media to LMS	Print media	1997 LMS	Relation print media to LMS
			In percent			In percent
Compulsory education	131,823	137,434	95.9	114,580	133,785	85.6
Apprentices	181,002	70,771	255.8	157,384	72,725	216.4
Lower secondary education	15,895	5,340	297.7	11,108	5,852	189.8
Upper secondary education	23,980	58,541	41.0	25,889	7,512	344.6
Tertiary education	11,178	1,171	954.6	13,751	1,853	742.1
Others	39,714	2,024	1,962.2	46,115	1,211	3,808.0
Total	403,592	275,281	146.6	368,827	222,938	165.4

Source: Labour Market Service.

fined[11], i.e., it is left up to the firm and its conception of job openings, which renders the interpretation of the data rather conjectural. The enterprise survey of August 1996 covered a total of 2.1 million employed persons (compared to 3.1 million wage and salary earners in the total economy). Firms were actively engaged in searching for an additional 81,700 workers (compared to a total of 19,800 registered job openings at the public employment service in August 1996). Thus the vacancy rate, calculated as the number of vacancies in percent of the total job potential of the private sector, was 3.7 percent (compared to less than 1 percent in the total economy as shown by registration data)[12]. The largest number of job vacancies in relation to total potential demand has been in the southern regions (Carinthia and Styria) with 5.9 percent, followed by the eastern regions (Burgenland, Vienna and Lower Austria) with 3.2 percent. The westernmost regions had the lowest vacancy rate with 3 percent.

Labour market dynamics differ by firm size and industry. In August 1996, small to medium sized firms (between 20 and 99 employed persons) had the highest vacancy rate of 5.2 percent, followed by firms with 0 to 4 employees (3.8 percent) and 5 to 19 employees (3.6 percent). Larger firms tend to recruit within their internal labour market. It is therefore not surprising that their vacancy rates are below average. As to the economic sectors with above-average vacancy rates: the leaders tend to be high-tech segments in the economy (9.8 percent), followed by tourism

Table 4: Inflows of vacancies by occupation according to the print media and the LMS statistics

Sum over the year

	Print media	1994 LMS	Relation print media to LMS	Print media	1997 LMS	Relation print media to LMS
			In percent			In percent
Agriculture and forestry	3,583	6,849	52.3	1,590	8,589	18.5
Mining	34	4	850.0	8	1	800.0
Stone- and mineral workers	408	1,048	38.9	491	658	74.6
Construction	20,693	28,976	71.4	24,778	19,783	125.2
Metal workers, electricians	33,292	24,874	133.8	43,428	23,630	183.8
Wood and paper processing	8,310	8,069	103.0	7,008	5,663	123.8
Leather, textile, clothing workers	4,522	4,765	94.9	2,400	2,812	85.3
Printers, graphics	930	1,071	86.8	917	1,564	58.6
Chemicals	373	1,538	24.3	333	1,215	27.4
Food processing	4,661	4,885	95.4	2,590	3,378	76.7
Operators	2,687	2,651	101.4	4,158	2,486	167.3
Unskilled workers	47,574	22,675	209.8	18,247	19,209	95.0
Trade, sales personnel	55,544	20,093	276.4	48,610	21,150	229.8
Transport workers	16,814	12,114	138.8	12,862	8,623	149.2
Services	606	265	228.7	799	151	529.1
Tourism	107,202	62,262	172.2	91,574	56,197	163.0
Domestic services	10,534	3,100	339.8	5,154	2,615	197.1
Cleaning	15,304	16,394	93.4	10,226	10,946	93.4
Personal services	6,351	2,610	243.3	5,202	2,469	210.7
Other services	1,864	911	204.6	700	1,092	64.1
Technicians	16,030	3,851	416.3	21,732	5,704	381.0
Administration	379	1,244	30.5	1,083	135	802.2
Legal, business services	1,835	376	488.0	3,900	281	1,387.9
Office jobs	41,891	18,650	224.6	38,843	17,539	221.5
Health	10,486	4,477	234.2	7,981	3,855	207.0
Education	8,593	2,331	368.6	7,006	3,193	219.4
Total	420,500	256,083	164.2	284,317	164,614	172.7

Source: Labour Market Service.

(8.2 percent) – an employment sector with high seasonal employment which has, at the same time, a concentration of employment in small scale firms.

The structure of the preferred recruitment channels differs by occupation and region. The most common recruitment method employed by firms is by advertisement of some sort. In 50 percent of all vacancies, firms placed an advertisement in newspapers. Next in line is the public employment service as a search instrument. For 46 percent of all job openings, the recruitment channel of the public employment service was used (up from 44 percent a year before). In 5 percent of all vacancies, personnel consultants were commissioned in the search process. In 23 percent of all cases, recruitment within the firm (internal labour market) was resorted to, and in 22 percent of all cases, informal contacts were used as a means of recruitment. These figures show that often, more than one channel are used to find suitable personnel to fill job openings.

There are pronounced differences in preferred recruitment channels by occupation. For unskilled labourers, skilled workers with apprenticeship training and apprentices, firms have a strong preference for recruiting via the LMS.

[11] Since a symmetry of information about registered unemployed and job openings is the objective, only active search activity is taken into account; no distinction is made between part-time and full-time, the time horizon of employment (temporary vs. long-term, fixed-term jobs, contract work, seasonal work, in particular the recall of seasonally laid-off workers, etc.), external recruitment vs. internal recruitment or via temporary work agencies and the like.

[12] But even a vacancy rate of 3.6 percent in August 1996 remained substantially below the unemployment rate of the wage and salary earners at the same point in time (5.7 percent).

Table 5: Recruitment channels by region

Enterprise survey, August

	Active job search of firms				
	Total	East		South	West
	Persons	Total	Vienna		
	Percentage shares				
1995					
Labour Market Service	39,739	37.2	22.5	26.4	36.4
Advertisements	48,932	44.6	33.0	18.3	37.1
Personnel consultants	5,129	57.0	43.0	14.0	28.9
Applications of individuals	25,100	39.1	28.5	33.4	27.5
Internal recruitment	19,365	35.9	23.5	31.1	33.0
Informal contacts	20,648	36.3	21.8	30.4	33.4
Total	91,293	44.4	29.1	20.0	35.6
1996					
Labour Market Service	37,535	31.9	16.0	37.4	31.2
Advertisements	40,498	40.4	29.1	24.7	35.2
Personnel consultants	4,167	55.9	36.5	17.3	27.0
Applications of individuals	24,027	33.7	23.0	41.1	25.6
Internal recruitment	19,092	31.9	24.5	31.6	37.0
Informal contacts	17,682	45.5	28.5	29.8	25.4
Total	81,746	37.0	24.5	32.0	31.0

Source: Labour Market Service.

Table 6: Recruitment channels by occupational groups

Enterprise survey, August

	Labour Market Servie	Advertise-ments	Personnel consultants	Applica-tions of individuals	Internal recruitment	Informal contacts
	Percentage shares					
1995						
Managers	7.9	37.9	62.1	22.9	24.6	30.0
Highly skilled personnel	9.5	41.9	43.6	43.8	21.5	24.6
Technical, medical personnel	19.2	49.0	12.8	41.9	19.7	33.5
Skilled services, sales	24.1	50.2	11.9	33.5	23.9	28.6
Administrative, clerical services	35.7	51.1	7.6	38.3	20.8	15.2
Semi-skilled services, sales	34.3	62.0	2.6	31.5	21.9	21.1
Agriculture, forestry	45.9	90.3	0.0	50.8	13.0	13.0
Skilled workers (apprenticeship)	47.4	52.8	2.0	18.9	18.7	21.2
Operators	61.9	50.4	1.4	33.9	31.9	31.8
Unskilled workers	64.9	51.2	1.4	21.4	20.3	21.1
Total	43.5	53.6	5.6	27.5	21.2	22.6
1996						
Managers	12.1	39.4	39.4	18.9	24.2	21.2
Highly skilled personnel	14.3	51.0	34.8	35.2	14.8	32.4
Technical, medical personnel	17.6	47.0	18.4	38.1	21.4	29.2
Skilled services, sales	21.8	64.7	20.7	34.8	27.0	37.1
Administrative, clerical services	29.2	51.3	6.1	33.4	20.9	23.4
Semi-skilled services, sales	40.8	57.8	5.7	21.1	31.2	16.3
Agriculture, forestry	0.0	0.0	0.0	0.0	0.0	0.0
Skilled workers (apprenticeship)	52.5	56.8	1.1	28.8	31.5	24.9
Operators	47.7	43.6	1.0	17.3	12.6	18.0
Unskilled workers	60.8	34.4	1.0	36.9	13.6	14.6
Apprentices	49.5	22.0	2.8	22.9	18.3	27.5
Total	45.9	49.8	5.1	29.4	23.4	21.6

Source: Labour Market Service. Multiple response possible.

Compared to 1995, this tendency has strengthened in 1996. This confirms the general presumption that job openings for standardised skills and work processes tend to be registered with the LMS. In the case of specialised skills, especially professional and managerial staff, personnel consultants are employed. However, a large proportion of professionals (often with tertiary education) is either recruited through advertising by the firm or through personal applications and/or informal contacts.

Unfortunately, the 1995-96 survey does not include a question about the number of successful job placements by recruitment channel. Thus no information on the market share of the LMS in filling the job openings of firms is available from that data base. However, every Federal state has embarked on a survey of those firms, which register their job openings with the PES (at the latest since 1996), aimed at enquiring about the number of successful placements conducted with the help of the LMS and the satisfaction with the services provided. This information allows the calculation of a placement rate of job openings registered with the PES – it was in the range of 40 to 50 percent in 1996 for all Federal states.

In order to gain insight into the market share of the LMS in successful job placement, the LMS commissioned Synthesis[13] to calculate the participation rate of the LMS in job search and its market share in successful job placement on a nation-wide basis by industry and region. The calculation is based on "matching" data sets of vacancies and unemployed with social security employment data. Outflows from the LMS registry and inflows into employment are analysed. The participation rate is calculated as outflows of vacancies from LMS registry as a result of successful placement (A, B, E, and R bookings), in percent of total employment inflows[14] (excluding casual jobs) in the course of the year. The market share is calculated as outflows from vacancy registration, which were the result of successful placement by the LMS (E and B bookings), as a percentage of inflows into employment. According to this data, the participation rate of the LMS in job matching was 22 percent in 1998 (230,900 vacancies and 1,048,300 inflows into regular social security jobs). The participation rate ranges widely by industry: it is particularly high in seasonal jobs, e.g., agriculture and forestry (72 percent) and tourist services (43 percent), and lowest in public sector administration (7 percent), banking and insurance (8 percent) and utilities (10 percent).

It may come as a surprise that the LMS is so little used as a search channel for job placement in public administration

[13] The first year analysed was 1996, the last one 1998 (see *Frühstück et al.*, 1999).

[14] The yearly inflows into employment are reduced by the number of re-employment cases with the same employer as well as internal labour market recruitment.

Table 7: Market share of the LMS in job matching by industry 1998

	Inflows into Employment[1]	Outflows from LMS vacancies[2]	Participation rate of LMS in percent	Outflows due to LMS matching	Market share of LMS in percent
Agriculture, forestry	20,110	14,390	71.56	1,702	8.46
Mining	3,037	346	11.39	188	6.19
Food, beverages	35,051	8,314	23.72	3,996	11.40
Paper, pulp, metal industry	18,744	3,441	18.36	1,773	9.46
Textiles, clothing	10,285	2,672	25.98	1,471	14.30
Other goods production	53,913	13,158	24.41	6,025	11.18
Technology	44,816	8,753	19.53	4,254	9.49
Utilities	4,068	398	9.78	90	2.21
Construction	108,360	23,377	21.57	10,896	10.06
Trade, storage, repairs	187,728	36,332	19.35	15,860	8.45
Tourism	139,417	60,311	43.26	18,327	13.15
Transport	69,619	8,395	12.06	3,510	5.04
Banking, insurance	23,224	1,845	7.94	614	2.64
Business services	128,484	24,904	19.38	8,860	6.90
Public administration	62,832	4,612	7.34	1,796	2.86
Education, research	19,645	2,698	13.73	1,487	7.57
Health, social affairs	38,229	6,450	16.87	3,466	9.07
Other services	62,584	10,326	16.50	4,516	7.22
No identification	18,181	180	0.99	97	0.53
Total	1,048,327	230,902	22.03	88,928	8.48

Source: Labour Market Service. – [1] Regular social security employment. – [2] Due to successful placement.

and services (transport and communication 12 percent) and in business services (banking and insurance). But this must be seen in the context of the types of skills demanded, by the existence of large internal labour markets and "firm specific" training of employees in these areas, as well as other factors like the outreach of internal labour markets into the community, i.e., personal contacts and initiatives. The latter are especially important in finding a job in Austria[15].

The market share of the LMS in successful job placement was only 8 percent in 1998 (88,900 placements). This means that out of a total of 230,900 successful job placements of vacancies registered with the LMS, 39 percent were the result of LMS matching activities. The market shares were highest in textiles, clothing (14 percent) and tourism (13 percent) and lowest in banking and insurance (3 percent). This picture fits well into the one obtained from establishment surveys. The LMS has traditionally had the function of matching labour supply and demand in manufacturing industries and services, in which the apprenticeship training, and thus the involvement of labour market institutions like the social partners, was prominent. With the onset of new and more flexible work practices and organisation of work, the LMS is struggling to remain a major player in matching labour supply and demand.

DID PES DEREGULATION INCREASE FLEXIBILITY OF THE LABOUR MARKET?

Until 1992[16] the Ministry of Labour and Social Affairs had the exclusive right of job placement (with the exception of artists) – at least in terms of the letter of the law. In actual fact, private career counselling and personnel recruitment firms were engaged in active job placement since the 1950s. Furthermore, exceptions to the rule of PES placement could be granted to private non-profit institutions as well as legal representatives of interest groups and professional organisations, which had the right to participate in the institutionalised collective bargaining process[17]. Apart from that, a large proportion of job placements was the result of personal connections and job advertisements in the print media. There was no legal obligation on firms to inform the PES about all job openings.

The amendment to the Labour Market Promotion Act in 1992 provided partial liberalisation of placement services by granting private firms the right to place highly skilled white-collar workers on a remunerated basis (Führungskräfte und leitende Angestellte)[18]. The logic of the amendment was that managers are not functionally "dependently" employed (according to art. 36, par. 2(3) of the labour law; BGBl. 22/1974), but have a supervisory power over employees of a firm, they are responsible for the survival of the firm and, therefore, share the basic characteristics of the self-employed. The salary to be paid for these management positions (which were allowed to be filled by private placement agencies) must be at least level with the maximum social security contribution, which has to be paid (art. 45 of the Law on Social Security). The regional LMS has to grant permission for managers to be placed. By 1994, 15 private firms had taken up this new business opportunity.

The second step towards liberalisation of placement services was taken at the time of deregulation of the Public

[15] According to surveys in Carinthia the most important channels for finding a suitable job/a suitable employee are informal connections (close to 35 percent of all placements in 1995) and active job search of individuals directly with firms (30 percent of successful placement in 1995; for details see *Stromberger*, 1996). Similar results were obtained from a survey in Styria 1997, in which informal connections were even more important than in Carinthia (see *Mahringer*, 2000).

[16] In 1992 the Labour Market Promotion Act was amended (AMFG, BGBl. 31/1969, art. 17, par. a to d, e ff), marking the end to the state monopoly of placement services.

[17] The Ministry of Labour and Social Affairs could also grant the right to place artists on a remunerated basis to specific persons after consulting with the Council of Labour Market Policy.

[18] The Economic Chamber defines the requirements for performing this job (gebundenes Gewerbe) and private consultants have to register with the Economic Chamber (Unternehmensberater sowie Unternehmensorganisator zur Vermittlung von Führungskräften).

Employment Service in July 1994[19]. Private placement was allowed for all types of occupation and worker status, but certain conditions are imposed on them – private placement establishments are required to be registered with the Ministry of Labour after having received a licence as a placement agency from the Economic Chamber[20]; they must notify their activities to the Federal Office of Social Affairs and the Disabled (Bundesamt für Soziales und Behindertenwesen), a department in the Ministry of Labour (created in 1995); and they have to prove capacity to perform placements. On the basis of a certificate guaranteeing the capacity to perform the job[21] the Office may grant them the right to perform the service (Nicht-Untersagungsbescheid). A number of rules have to be adhered to, e.g., only employing firms are required to pay for placement activities, not the person looking for a job; the public employment service (regional labour market service) may access all information pertaining to placement activities (information on client firms as well as persons looking for a job) etc.; and the private placement establishment may not act as a temporary work agency.

These requirements show that private placement services are not only controlled by the PES (according to art. 17 AMFG) but also by the Economic Chamber (Gewerbeberechtigung für das gebundene Gewerbe der Arbeitsvermittler, art. 124 Z1) and the Ministry of Labour.

PRIVATE PLACEMENT AGENCIES STILL AT THE MARGIN OF THE MARKET FOR JOB PLACEMENT

So far, the number of private placement agencies registered with the Federal Office of Social Affairs and the Disabled has remained insignificant (42 agencies by the end of 1998). Many registered firms never took up business (by the end of 1998: 13). The reported number of placements remains small (over the course of 1998 1,600). The lack of activity of private placement firms is surprising and calls for explanation in view of the boom in private placement abroad. Interviews of personnel managers have helped clarify the situation[22].

The major impediment for private placement in Austria is, according to interviews, not so much the bureaucracy built around setting up a placement service – even though the requirements are beyond the usual rules in the majority of EU countries. A major deterrent for private placement is that the services provided are not confidential. All transactions linked to placements have to be visible publicly (Einblicksrecht of the LMS) – based on the idea that job matching is a public good[23]. Another deterrent for private placement is that private firms may not deny placement services to any particular person. Yet another aspect which is forcefully argued by private placement agencies as a deterrent, namely the right of the person registering with the private placement agency to take action against the placement firm, in cases where the job offered by the placement firm does not conform to the perceived promises made. The private placement agencies also argue that they are not allowed to apply any pressure on the unemployed to take up a job in a particular firm – unlike the LMS, which has the right to discontinue benefit payments in case of refusal to accept the job offered. They are only accountable to the firm which is paying a fee for eventual placement and not to the person placed.

Factors like the above led to the withdrawal from placement of some of the largest personnel consulting firms in Austria, many of whom have affiliates all over Europe. They continue their business as personnel consultants, while some continue to register as private placement agencies without doing any transactions in this capacity[24]. As consulting firms, they provide a service to the firm – part of which constitutes job placement along the lines of the revised ILO Fee-Charging Employment Agencies Convention No. 96 (*ILO*, 1997).

[19] In July 1994 the LMS became an independent public agency, focusing on core duties and including the social partners in a decision making and executive capacity (formerly they were only consultants). The regional structure of the LMS remained more or less unchanged, decision making power on labour market policy mix moved, however, to the regions. In matters concerning the sovereignty of the state the Minister of Labour continues to be the prime official, with the right to draw up political strategies and to supervise and evaluate LMS performance (art. 58 AMSG).

[20] Obligatory membership of firms to the Economic Chamber is paralleled by obligatory membership to the Chamber of Labour by all employees. Voluntary membership is only given in the case of unions on the supply side and industrialists on the demand side (Industriellenvereinigung).

[21] This includes apart from the physical endowment, e.g., office space, etc., the right to perform the job as a profession (Gewerbeberechtigung), i.e., the licence from the employers' institution, the certificate proving the obligatory training (written and oral exam or university degree). The exams are on topics along the lines of training of LMS employees. The exams are taken before a (tripartite) commission set up in the Ministry of Labour.

[22] The major part of the interviews were carried out by Monika Pelz, in the case of temporary work agencies also by Georg Schmidt.

[23] Another explanatory factor for this legislation may be the fact that the civil servants themselves are accountable to the public institution (the Ministry of Labour) and not to the client, be it a firm or a person. Their own legislative order is only extended to the private sector without considering the difference in the functional mechanisms of public and private sector business.

[24] On questioning the rationale for staying on the register the firms argue that they are still hoping for a change in legislation. Since the institutional process for obtaining the licence is rather tedious they do not withdraw from registration in order to be able to go into business as soon as adaptations to the law have been carried out.

EU INITIATIVE TO INCREASE GEOGRAPHICAL MOBILITY WITHIN THE EU

Private placement is not confined to Austrian territory but may take place across borders (art. 128,1 AMSG). While no comprehensive data exists on job placement across the borders, cursory information suggests that it is insignificant. This relates also to cross border placement by the European Employment Service (EURES). The EURES network was founded by the EU in 1993, in order to facilitate geographic mobility within the EU. The rationale is that both, the introduction of Economic and Monetary Union and the development of a co-ordinated European employment strategy, increase the importance of reducing obstacles to the free movement of workers. However, to optimise its potential, EURES needs to become more strongly rooted within the different national PESs.

PERSONNEL CONSULTING AND RECRUITMENT FOR UP-MARKET JOB MATCHING

Personnel consulting firms have been playing an important role in the matching of labour supply and demand for a long time, the largest of them for more than 20 years. They have been engaged primarily in the recruitment of highly skilled personnel such as managers and professionals. They are not required to obtain a licence from the Economic Chamber (Gewerbeberechtigung), nor do their employees undertake the aptitude tests required for employees of private placement agencies. The services provided to firms are, apart from management consulting, the development of personnel plans (in line with the strategic position of the firm), the drawing up of recruitment channels for the different positions (most effective search channels – including executive search, personal contacts, advertisements, contacts to universities), selection of personnel (performing tests, interviews, assessment groups). Placement includes all types of contracts (short-term, fixed-term, part-time and full-time, etc.). The final recruitment choice is up to the firm[25]. The fees to be paid for recruitment services are so high that for jobs earning less than ATS 40,000 per month, it is not economically viable to employ personnel consultants. This is the reason why firms are the relevant clients and not the individuals looking for a job. Personnel counselling firms may also provide outplacement services. In this capacity, they offer a direct service to persons in need of a new job, but the firms pay for the service rendered.

Consulting firms are often established in different Austrian regions as well as in other countries with headquarters rarely in Austria. The two largest such enterprises, Neumann and Catro, each employ about 60 persons on a regular basis in Austria. According to the information from personal interviews, the yearly placement figures for every one of these two companies are 3 to 4 times as high as the total of all private placement firms registered with the Federal Office. As these consulting firms do not register with the Federal Office – because job placement is an integral part of a larger more inclusive personnel and recruitment activity – figures on a time series basis are not available.

The LMS has used consulting firms in Vienna in the period 1991 to 1994 to find jobs for highly skilled unemployed. The consulting firms in question organised job-finding courses. However, since 1994, the LMS has organised such courses itself[26].

A new work area developed by counselling firms is the evaluation of job applications for jobs in the public sector as a result of a recent requirement that applications for public sector job openings (which have to be made public by law) have to be judged by independent institutions as to whether the professional requirements are met.

Some personnel consultants have a temporary work agency as one of their affiliates – even though temporary work agencies may by law not act as a placement agent, i.e., allow their clients to join the firm, in which they were working as temporary workers, as permanent, regular employees. This happens rather frequently but no prosecutions are carried out.

DIFFERENT TREATMENT OF PRIVATE AND PUBLIC TEMPORARY WORK AGENCIES

An important element of deregulation of the PES is the right to establish temporary work agencies. Since 1989 private temporary work agencies were allowed to be set up if they fulfilled the requirements for a licence issued by the Ministry of Labour (since 1995 the Federal Office of Social Affairs and the Disabled). They are not allowed to act as a placement agent, but only as a personnel leasing firm. Temporary work agencies are required to prove their credentials (Befähigungsnachweis) just as any other occupational group. Instead of having market control mechanisms and consumer protection legislation, which would be typical for anglo-saxon countries, Austria tends to focus on control mechanisms at market entry, in particular

[25] In theory the consulting firm does not know about the final recruitment decision of the firm.

[26] The consulting and training firm interviewed has organised all in all 460 such courses. The fee per person amounted to ATS 9,200 (paid by the LMS); the fee for outplacement per person amounts to ATS 70,000 to 250,000 paid by the firms. The latter job is more demanding but at the same time more lucrative.

on the terms of certified skills agreed upon by the social partners[27].

Data on temporary work is only available from private sector firms, not from non-profit temporary work agencies which are increasingly being set up by regional LMSs (since 1994) in order to facilitate reintegration of registered unemployed into work. The number of temporary workers in non-profit institutions, e.g., social partners and local communes, regional LMSs etc., is not known since these institutions are not required to inform the Ministry of Labour about their business (according to art. 1 AÜG); neither do they face the stringent control measures of private temporary work agencies.

The number of private temporary work agencies increased from 367 in 1989, the first year this type of business could be set up in Austria, to 848 in 1999. The number of firms employing temporary workers from private agencies rose from some 2,300 to 7,500 in the same time span. A similarly dynamic development can be observed in the case of the number of temporary workers. In 1989, some 7,900 persons were working on the day of the survey (July 31); by July 1999, the number rose to 24,300, equal to 0.8 percent of all dependently employed. The option of temporary workers has increased the flexibility of firms in recruitment significantly; however, stock data, in particular if it is collected once a year only, does not reflect the importance of this instrument adequately. It is through flow data that one may judge the role of temporary work in labour turnover. Upper Austria, Vienna and Styria are the Federal states with the greatest recourse to temporary work – 67 percent of all temporary work agencies, 74 percent of all firms working with temporary workers and 75 percent of all temporary workers, while accounting for 55 percent of total employment. Upper Austria is the state with the highest share of temporary workers. This is also the first state in which temporary work was considered a viable integration instrument for the unemployed (the case of city of Steyr) by the LMS. All other regions except Vorarlberg and Burgenland, i.e., the easternmost and westernmost provinces, have experienced a significant increase in the number of temporary workers since 1989.

The regional spread of private temporary work agencies provides an indication of the degree to which privatisation is allowed to enter the institutional structure of the organisation of the labour market by region. Mainly male workers find employment through temporary work agencies. Temporary work is apparently the socially accepted means by which labour flexibility can be introduced for men, even for the traditionally manufacturing-oriented jobs. Women tend to have other options – in the main, part-time employment in the "regular" labour market. Temporary work is becoming more and more an option for skilled older workers to re-enter the labour market.

CONCLUSIONS

The reform of the PES bears the mark of Austria's entry into the EU. The Netherlands (*Federal Ministry of Labour, Health and Social Affairs,* 1992) was chosen as the role model for the reform process, even though the actual reform carried out has a typical Austrian flavour. One type of regulation was replaced by another, thus not actually allowing an overall reduction of bureaucracy, which is generally an objective of deregulation. In all fairness, however, it has to be said that regional labour market services were burdened with additional administrative work if they were to participate in EU programmes like the European Social Fund (ESF) and other regional community initiatives[28]. EU membership increases the potential resources for labour market policies; but in order to be able to access these funds, the planning, co-ordination, execution and evaluation measures needed to be carried out in accordance with EU regulations, involved additional administrative work.

The reform of the Public Employment Service in 1994 has introduced more customer orientation into normal business and staff training has taken on a more performance oriented dimension. The principal dilemma of the LMS remains, however, in that it has two often conflicting objectives: on the one hand, it is required to work more efficiently in terms of the rules of the market, and on the other, it has a social obligation, in particular the reintegration of the hard-to-place unemployed. Their quest for greater prestige with firms has entailed that they should no longer be seen as the prime "lobby for the unemployed", as was the case in the 1980s. Thus, the major reorientation of the LMS in the reform of 1994 was the focus on firms and their needs. The introduction of a closer analysis of the needs of firms has, among other things, involved a differentiated search for the required skills amongst the registered unemployed in order to increase the placement rate of LMS registered vacancies and unemployed.

Although the LMS is a major player in labour market matching, it has a market share of only 8 percent in job matching. Private personnel consultants and private place-

[27] This basic regulatory philosophy tends to favour "insiders" with well established skills versus "outsiders", who would like to try something new.

[28] Just to cite the example of Burgenland, the only objective-1 region: its labour market budget has doubled as a result of EU membership and the subsidies linked to that from ATS 120 to 220 million, without any rise in the number of persons working in the regional LMS.

ment and temporary work agencies also play a marginal role in the matching of personnel – they have an even smaller market share than the LMS. The major recruitment channels are informal contacts (families, friends), followed by individual search activities either by workers or firms with the help of advertisements or other initiatives. The LMS plays an important role in matching low to medium skills. In respect of non-standardised skills, however, print media, and in the highest skills, personnel consultants, are more important recruitment and placement channels.

The limited liberalisation of private placement may be seen as a result of the reorientation of the LMS towards servicing firms. Private placement agencies are often regarded as competitors rather than potential partners. There is, however, considerable disagreement among those in the Federal LMS headquarters on the role to be given to private placement. While some argue that the LMS should try to cater for the upper skills of firms in view of the recent rise in registered unemployment in this area (and also in order to boost prestige), others argue that the placement of these skills should be left to the private sector because job matching of high level skills is particularly complex and expensive. Moreover, the object of the LMS is to increase its market share in job placement by raising the confidence of firms in its placement capacities. It should, therefore, follow the strategy of increasing its market share not only in its traditional area of job matching, namely, the industrial sector including construction and certain services (in particular tourism) for unskilled and semi-skilled workers as well as tradesmen, but also of the higher professional skills. The basic argument in favour of striving for increasing market shares is the "slip stream" theory, according to which the improved prestige of the LMS as well as the free services provided to firms, will in the end act as facilitators for the placement of marginalised workers with the same client firms. In doing so, it is hoped to achieve the objective of equal opportunity. Against this strategy, the private firms maintain that, since the LMS offers services to firms free of charge while they have to rely on fees for their services, they are in the circumstances subject to unfair competition. The smaller private consulting firms in particular, are put under pressure by LMS enterprise counselling and many of the newly created business outlets facilitated by deregulation.

The abandonment of the placement monopoly was thus half-hearted – it did not embrace the potential of collaboration with private placement agencies in order to decrease public sector costs involved in improving job matching. Behavioural rules and control mechanisms imposed upon private placement agencies are more stringent than for the quasi-public labour market service, thus limiting activities of private placement and keeping it hidden either in private consulting firms or temporary work agencies. The small numbers of workers who are recorded as privately placed or who are working in temporary work agencies, do not convey a fair picture of the role private firms play in the matching of labour supply and demand. If one takes into account the fact that consulting firms do not have to inform the Federal Office of Social Affairs and the Disabled about their number of placements, the picture is somewhat different.

It follows from the above that official data do not provide an accurate picture of the extent of flexible work arrangements in Austria. Their incidence is further understated for a number of reasons. Only private sector temporary work agencies are required to provide information on the number of firms serviced and the number of persons placed in temporary employment. All non-profit organisations and temporary work agencies of the public and semi-public sector, e.g., those operating in the wake of regional LMS activities, do not register the number of firms and temporary workers with whom they are carrying out their regular business. Thus, it is rather difficult to judge the extent to which flexibility has been introduced into labour adjustment processes and by what means. If stock is taken of the different institutions run by the LMS or facilitated by the LMS, one notes the development of institutions and firms which are tailored to facilitating change. These provide a bridge, both for firms and persons, to move from one position to another in their working lives, to provide temporary work or further training or counselling, and, in these ways, to secure stability to the individual and ensure a competitive environment for firms. However, the size of this "transition market" is hard to establish, given the incomplete and patchy data set.

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Deregulation of Placement Services
The Case of Austria – Summary

The late 1980s saw the beginning of a reform process of the Public Employment Service (PES) in Austria. It gained momentum during the 1990s and culminated in the creation of the Labour Market Service (LMS) as an independent public agency in 1994. The objective to modernise the PES was in line with attempts by the European Commission to increase the efficiency of the PESs of all member states as part of the EU employment strategy. The National Action Plan for Employment assigns to the LMS a key role in the implementation of the employment guidelines. Job matching is the core business of the LMS, followed by the implementation of labour market policies to reduce the mismatch between labour supply and demand.

The analysis of labour supply and demand developments in Austria illustrates the need for a reform of labour market institutions. Since the 1980s labour turnover increased due to a rise in frictional unemployment. Unemployment rose, however, above all as a result of a longer duration of unemployment. The gap between unemployment and job vacancy levels widened, especially during the 1990s, as did the skill and occupational structure of unemployed and vacancies registered with the LMS. This development suggests an increasing mismatch between the clients of the LMS on the side of both labour demand and supply.

The transition from an industrial society, which was characterised by mass production of industrial goods (the 1960s and 1970s) to a post-industrial society marked by the industrialisation of services (since the 1980s), gave rise to the need for more specialised matching procedures and institutions. Although deregulation of the PES introduced more customer orientation into job matching, it was half-hearted and did not embrace the potential for collaboration with private placement services in order to decrease public sector costs while at the same time improving job matching.