



Does privatisation of vocational rehabilitation improve labour market opportunities? Evidence from a field experiment in Sweden



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ABSTRACT

This paper analyses if privatisation of vocational rehabilitation can improve labour market opportunities for individuals on long-term sickness absence. We use a field experiment performed by the Public Employment Service and the Social Insurance Agency in Sweden during 2008–2010, in which over 4000 participants were randomly offered private and public rehabilitation. We find no differences in employment rates following rehabilitation between individuals who received rehabilitation by private and public providers. Also the average cost of rehabilitation was essentially equal for the two types of providers. This suggests that there are no large efficiency gains from privatising vocational rehabilitation.

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1. Introduction

How to design work promoting disability policies is an important challenge for policy makers. In many countries, disability or sickness benefits have become the last resort for people unable to return to work. Public spending on disability benefits totals 2 per cent of GDP on average across the OECD. There is, however, a significant lack of evidence of what measures that help people with disabilities to return to work (OECD, 2010a; Autor and Duggan, 2006).

There has been an increased interest to contract out public services targeted at individuals with disadvantages on the labour market to the private sector (OECD, 2010a). The question whether the private sector can provide public services more efficiently is a central issue in economics. A main motivation for privatisation is that the residual control rights over assets of private entrepreneurs give stronger incentives for innovation and cost reduction (Grossman and Hart, 1986; Hart and Moore, 1990; Hart et al., 1997). As pointed out by Hart et al. (1997), however, when quality is imperfectly observable incentives to engage in pure cost

reduction may be too strong, which could deter the quality of the services.

The merit of outsourcing public services is ultimately an empirical question but credible evidence is too scarce for drawing any general conclusions of whether privatisation improves efficiency. Previous studies have focused on areas such as garbage collection, prisons, residential youth care and medical care.¹ When it comes to experimental evidence, there is only a small literature on the effects of privatisation of job placement services on employment outcomes. Bennmarker et al. (2013) find no general differences in the relative performance of private and public job placement agencies in Sweden, whereas Behaghel et al. (2014) find that the public provider acquired employment to a substantially larger extent in France. To our knowledge, there are no previous studies of privatisation of vocational rehabilitation.

In this paper, we use a field experiment to study if privately provided vocational rehabilitation can improve labour market opportunities for individuals with disabilities, compared to rehabilitation provided by the public. Privatisation may be a good idea in this area for two reasons. First, since vocational rehabilitation is a complex service and little is known about the relative efficiency

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¹ See, e.g., Dewenter and Malatesta (2001), Duggan (2004) and Aizer et al. (2007) for contributions on privatisation.

of different types of rehabilitation measures the potential for innovation might be large. Second, the aim of rehabilitation is to provide employment to the participants. Employment status is a measurable outcome, which reduces the opportunity for quality-deteriorating cost reductions.

The field experiment was conducted during 2008–2010 in four Swedish regions and included over 4000 participants with disabilities who were randomly assigned to private and public vocational rehabilitation. The experiment included several components that enhanced the incentives for efficient service provision for the private compared to the public actors, such as private ownership, competition for contracts, consumer choice and performance-based compensation. Privatisation indeed led to differences in service provision between private and public actors. The private providers were more involved in the rehabilitation process and better at motivating the participants to take part in active rehabilitation measures. They spent more time on work preparatory measures and focused to a larger extent on the individual. The public provider, on the other hand, used group rehabilitation to a larger extent and focused on getting the participants into work training.

Our main finding is that there was no difference in the success of acquiring employment following rehabilitation between private and public rehabilitation providers up to two years after randomisation. There was a substantial transition to employment following rehabilitation for both types of providers but the transition rates were the same across the two groups. The development over time by month since randomisation was also remarkably similar, suggesting that the zero effects are precisely estimated. Rough calculations indicate that also the public cost of private and public rehabilitation was the same. This suggests that there are no large efficiency gains from privatising vocational rehabilitation.

Our randomised experiment with more than 4000 individuals and no attrition implies a high degree of internal validity. We argue that also the external validity of the study is high. The private providers were given a comprehensive incentives package consisting of several typical elements of privatisation. The private providers were experienced within the area of vocational rehabilitation and job placement services, and represented the types of firms that would act on the market for vocational rehabilitation if privatised on a regular basis. The regions were chosen to be representative of the Swedish labour market, and all individuals who qualified for vocational rehabilitation in the regions during the experimental period were included in the experiment, which makes them representative of the target population. Finally, the one-sided non-compliance and a compliance rate of 81 per cent imply that we can estimate an average treatment effect on the treated that is informative for a large fraction of participants. Overall, the experiment represented a typical implementation of privatisation.

The result from this Swedish experiment is also interesting from a broad international perspective. The use of rehabilitation services has recently expanded within the OECD countries and private providers are becoming increasingly involved in employment services for disadvantaged workers (OECD, 2010a). In many countries private providers are still operating on a non-profit basis but in several countries, such as Australia, Netherlands, United Kingdom and the U.S., for-profit private companies have entered the market. The Swedish experiment resembles the privatisation process in these countries to a large extent since the rehabilitation services were outsourced to the private sector through a competitive tender process, the providers were compensated based on their performance and the consumers could choose among providers. Our study is the first to provide credible evidence of the merits of a privatisation process of vocational rehabilitation services targeted at disabled,

a policy which has received increased attention within the OECD countries.

The remainder of the paper is organised as follows. Section 2 describes the institutional framework of vocational rehabilitation and the experiment. Section 3 describes the data and the empirical strategy. Section 4 presents the results of private compared to public rehabilitation and Section 5 concludes the paper.

2. Institutional setting

The purpose of vocational rehabilitation is to enable individuals with functional or psychological impairments to return to employment. In Sweden, the Social Insurance Agency and the Public Employment Service in cooperation provide vocational rehabilitation for individuals on sickness or disability benefits who are unemployed or unable to return to their previous workplace because of the health impairment. Whereas the Social Insurance Agency assesses the need for vocational rehabilitation and provides administrative and financial support, the Public Employment Service provides the rehabilitation activities, which can last for up to one year. Typical activities are counselling, job training and job search assistance.

2.1. The experiment with private provision of vocational rehabilitation

In 2008, the Swedish government assigned the Social Insurance Agency and the Public Employment Service to perform an experiment with private provision of vocational rehabilitation as an alternative to the rehabilitation activities provided by the Public Employment Service. The purpose was to promote innovation and individualisation of vocational rehabilitation services. The government initiative was not motivated by inefficiencies in the public vocational rehabilitation program, but was part of a larger ambition to involve private actors in public service provision (The Swedish Government, 2007). It also coincides with an international political discussion about the difficulties to help people with disabilities to return to work and an increased interest in outsourcing public services (OECD, 2010a, 2010b).

The experiment was performed during 2008–2010 in four Swedish regions: Stockholm, Gothenburg, Dalarna and Västerbotten. The regions were chosen in order to be representative of the Swedish labour market. Stockholm and Gothenburg are the two largest cities in Sweden, together accounting for almost 40 per cent of the Swedish population, and the labour market is characterised by relatively low unemployment levels. Västerbotten and Dalarna represent the countryside of Sweden with much higher unemployment levels. The target group for the experiment was individuals who had been collecting sickness benefits for more than two years or were collecting temporary disability benefits.² This was already a prioritised group by the Swedish government, since it was believed that many beneficiaries had been granted benefits without a thorough work capacity assessment in the past and therefore had residual work capacity (OECD, 2010b).

The Social Insurance Agency recruited a total of 4090 participants to the experiment from June 2008 to August 2009.³ All individuals in the four experiment regions who qualified

² Sickness benefits replace income due to a temporarily reduced working capacity whereas temporary disability benefits replace income due to a lasting, but not permanent, impairment of working capacity.

³ Most of them, 88 per cent, were recruited through the “ordinary pathway” in which caseworkers continuously identified potential participants from the case files at the Social Insurance Agency. The remaining 12 per cent were recruited through the “information pathway” in which letters were sent out to all individuals in the

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