

Analysis on the Formation Mechanism of Cream-skimming in Public Employment Training Service in China

Xiaoning zhu^{1, a}, Linjun Xie^{2, b, *}

¹School of Public Affairs and Administration, University of Electronic Science and Technology of China, Chengdu, Sichuan, China

²School of Public Affairs and Administration, University of Electronic Science and Technology of China, Chengdu, Sichuan, China

^azhuxn1956@163.com, ^bxrwging@163.com

*Corresponding author

Keywords: Public Employment Training Service, Cream-skimming, the Formation Mechanism.

Abstract. In China, the public employment training service is a public welfare activity carried out by the government to help employment-stricken people achieve employment and improve their vocational skills to meet market demand. However, in practice, there has been a cream-skimming phenomenon that undermines the fairness of service. It is difficult for employment vulnerable groups who need training resources to enter public employment training service projects. This study proposes to analyze the cream-skimming behavior of public service providers, and on the basis, dissects the formation mechanism of cream-skimming phenomenon in public employment training service.

1. Introduction

With the transformation and upgrading of China's social and economic structure, many people are unable to adapt to the changes in market development, and they are unable to meet the skills requirements of workers and their employment is hindered. To solve this problem, the Chinese government has organized a series of employment training service to help people with employment difficulties improve their skills to quickly adapt to market demand. However, there is a phenomenon that the vulnerable groups who need the public training service most are difficult to obtain training opportunities and are excluded from the public employment training programs (i.e., the cream-skimming phenomenon). While undermining the public value of public service, it also aggravates the relative deprivation of vulnerable groups to a certain extent, which is not conducive to social stability and development. With regard to the cream-skimming problem in public employment training programs, foreign scholars have already had rich research results, but domestic scholars have gradually begun to pay attention in recent years. In order to further understand the nature of the problem of cream-skimming in public employment training service in China, and to analyze the causes behind it, this study will analyze the formation mechanism of this phenomenon from the perspective of public employment service providers (government) cream skimming.

2. Literature review

Due to the lack of literature on direct research on the cream-skimming problem in the field of public employment training service, this study reviews the research on cream-skimming problem from three perspectives.

2.1 The initial research on the cream-skimming problem: the cream-skimming behavior of enterprises in the market

The original meaning of cream-skimming means that milk producers extract the highest amount of fat (cream) from the unprocessed milk. Initially, cream-skimming as an economic term attracted the attention and research of scholars. It mainly refers to a marketing strategy that enterprises sell

products at the highest price to the customers with the strongest economic purchasing power rather than the target customers with low profits, so as to quickly capture lucrative profits in the early stages of sales [1]. However, the cream-skimming phenomenon in market economy activities has intensified. Some enterprises have brought rich profits to themselves through certain cream-skimming methods, but also produce far-reaching negative externalities. Jean-Jacques Laffont and Jean Tirole (1990) shows that in the process of competing for the most valuable "grease", some enterprises take measures to skim off the high-profit business, which makes other enterprises unable to compete fairly with them, while the high-cost and low-profit business is rarely supplied [2]. David A. Cather (2018) also shows that there are innovative insurance companies in the insurance market that use additional data to identify potential low-risk customers who pay excessive premiums to serve, thereby taking market share from over-charged insurers. At this time, traditional insurance companies with information disadvantage can only serve a growing number of high-risk customers [3]. We can see that the cream-skimming phenomenon in the market has the following characteristics. Its behavioral entity is the market economy organization (i.e., the enterprise). Its purpose is to win competition in the market and maximize the economic benefits. Its consequences often show that there is little supply of high-cost or high-risk products in the market, and it is difficult for some companies to take profits after other companies seize market share by adopting cream-skimming behavior.

2.2 The derivative research on the cream-skimming problem: the cream-skimming behavior of enterprises in public service

With the reform of the marketization of public service, private enterprises have also entered the field of public service. At the same time, the competition mechanism in the market has also been introduced, and people begin to worry that the enterprise's cream-skimming behavior will continue in the process of the supply of public service. Many scholars have also found evidence of the cream-skimming behavior by enterprises in public service. Pierre Koning et al. (2013) found the existence of supplier cream-skimming behavior by using the registered data of workers' groups from the Dutch social benefit administration. The specific manifestation was that suppliers try to reduce costs by less serving those with the worst expected results, while concentrating resources on customers with better capabilities and better employment prospects [4]. Yaqin Zhang and Qian Gao (2018) show that there is the "cream-skimming" phenomenon in which private enterprises in the process of undertaking public service avoid less profitable public service, ignore the service of remote areas and vulnerable groups, increase service prices or reduce service costs to maximize their own interests, which has harmed the publicity of public service to some extent [5]. From the above, the cream-skimming behavior of enterprises undertaking public service has the following characteristics. Its main body of the behavior is still a market economic organization (i.e., enterprise), but the occurrence occasion of the behavior is different, the former is in the competition with other enterprises, the latter is in the performance of service contract activities with the government. The purpose of its behavior is still to seek the greatest economic benefits for itself, but the choice of methods is more inclined to reduce the cost of production. Its behavior has obvious illegitimacy and its consequences have strong social harmfulness.

2.3 The evolution research on the cream-skimming problem: the cream-skimming behavior of public service providers

Although many scholars often study the issue of cream-skimming in the field of public service, they often take into account the perspective of public service producers (i.e., enterprise). However, many scholars have paid attention to the important relationship between the occurrence of cream-skimming and the choice behavior of public service providers (government). Such research is widely used in public employment training service. For example, Heckman et al. (1997) constructed a normative government target behavior model, and used the US Public Employment Training Program as an example to analyze the influence of performance incentive on government behavior and the cream-skimming phenomenon caused by it [6]. Xixiao Jing (2019) mentioned that in the public employment training service, there are cream-skimming behaviors in which the government seeks private profits by manipulating the bidding process, artificially setting obstacles, leaking internal

information, and collecting bribe rebates. This kind of behavior disregards the overall needs of society, not only undermines the publicity and balance of public service, but also will intensify the problem of structural employment and cause social dissatisfaction [7].

It can be seen that the biggest difference from the previous two kinds of research on cream-skimming problem lies in the change of the behavioral responsibility subjects selected in the analysis of the problem. The similarity is that the motive of behavior is to pursue the maximization of the subject's own interests and the result of behavior is that the object which is not conducive to the subject's profit is excluded or has a lower quality of service. This study starts from the perspective of public employment training service providers cream-skimming, which is different from the analysis of skimming behavior of enterprises. The purpose and mode of subject behavior have changed a lot, and the particularity of government departments should be taken into account in the analysis of its formation mechanism.

3. The formation mechanism of cream-skimming in public employment training service

The cream-skimming phenomenon of public employment training service is mainly reflected in the fact that groups who are most likely to meet bureaucratic goals are more likely to be selected into public employment training programs, while those who are disadvantaged and most in need of training service are easily evaded. This study is from the perspective of government cream-skimming, based on Niskanen's bureaucratic economic theory, which defines the factors affecting the supply of bureaucratic service (from the relationship with the environment, the maximization of bureaucratic goals, the characteristics of bureaucracy) [8], and combined with the reality in China to explore the formation mechanism of the cream-skimming phenomenon in the supply of public employment training service.

3.1 The environmental conditions for the formation of cream-skimming

At present, there are three main participants in the public employment training service activities in China: service providers (government), service producers (training institutions), and service targets (public). And the three are connected and interact with each other. It is on this basis that the government's choice behavior can directly or indirectly contribute to the cream-skimming phenomenon.

3.1.1 The heterogeneity of public employment training service objects

The essence of cream-skimming behavior is the choice behavior, and the necessary premise of selection is that there are different categories of behavior objects. In recent years, the scope of employment training service in China has been expanding, covering children from poor families, rural migrant workers, urban and rural graduates who have not continued their studies, graduates of colleges and universities, laid-off workers and other groups at risk of employment. There is a large heterogeneity among these service targets, and the level of participation and training is different. However, there is no clear division of training levels in the existing policies. At the same time, the local government has assumed the responsibility of determining the employment training plan and training catalogue in the jurisdiction, and has greater autonomy in the distribution of training service resources among the groups, which creates conditions for selecting training objects.

3.1.2 The complexity of managing training institutions in public employment training service

According to the nature of the training institutions, China's public employment training service producers can be divided into two categories. The first category is public training institutions which are funded and managed by the government (such as employment training centers, technical schools, etc.). The other category is private training institutions that have not been established with national financial fund. The number of these training institutions is huge and the types of training undertaken are numerous. Now, there are 2,298 existing employment training centers in China. And 8.53 million people received employment skills training just last year. This has put tremendous pressure on the government departments to be responsible for managing public employment training. On the one hand, the government needs to encourage employment training institutions of different nature to join the public employment training program to form appropriate competition and improve training

efficiency and quality. On the other hand, the government also has to undertake pre- and post-supervision of different training programs carried out by training institutions. However, China's public employment training service system is not mature yet, and the government cannot fully realize the effective incentives and constraints for complex training institutions. This indirectly creates conditions for some training institutions to adopt cream-skimming behavior for private profits.

3.2 The fundamental motivation for the formation of cream-skimming

In the market field, the emergence of the cream-skimming phenomenon is mainly due to the screening of the service objects by the enterprise to maximize the economic benefits. In the public employment training service, the supplier (government) directly or indirectly chooses the client, not to maximize the economic benefits, but to achieve more complex effectiveness of the bureaucracy (e.g., government performance, discretionary budget, and government reputation). In the supply of public employment training service, the government mainly undertakes three functions: the economic function (providing public employment training service), the cultural function (meeting the employment skills and cultural knowledge needs of trainers), the social functions (promoting fairness and equity in training service and narrowing the gap between groups). The effective exercise of the three functions of the government is a powerful guarantee for the realization of public interests. However, in the process of public employment training service, the government may abandon some social responsibilities that are difficult to achieve in order to obtain greater self-interests, leading to the occurrence of cream-skimming phenomenon.

3.3 The organizational conditions for the formation of cream-skimming

The target of public employment training service is generally the relatively disadvantaged groups in society. If the employment training service is completely supplied by the market, the employment training service that these people prefer is likely to be offered by few private institutions because of its high cost or low income. Only when the government with specialized public service functions undertakes the supply of public employment training service, can the demand of these people be met. At present, the government agencies responsible for the management of public employment training in China mainly include five levels of central-provincial-municipal-district-street (township) from the vertical point of view. Horizontally speaking, they also involve human resources and social security, education, finance, agriculture and other departments. These different levels and different types of government departments have different tasks, objectives, means and relationships, which also contributes to the multi-dimensional nature of government agencies in public employment training service. Once the governments at all levels have ambiguous goals, overlap with each other, or lack of communication and coordination among relevant departments, it will create conditions for the government to choose the cream-skimming behavior to maximize its bureaucratic utility in the supply of public employment training service, resulting in excessive or inadequate supply of training resources to certain service groups.

In summary, we can find that the unique environment of public employment training service offers government the possibility of cream skimming. The maximization of bureaucratic goals become the behavior motivation of government's cream-skimming. Finally, the government's own organizational structure has created feasibility for cream skimming. The combination of the three factors ultimately led to the formation of the cream-skimming phenomenon in public employment training service.

References

- [1] Jiao Chen. A new and upgraded edition of kotler book [M]. Beijing: the Chinese overseas publishing house. 2014: 275.
- [2] Jean-Jacques Laffont, Jean Tirole. Optimal bypass and Cream Skimming [J]. *The American Economic Review*. 1990, Vol.80 (No.5): 1042-1061.
- [3] David A. Cather. Cream Skimming: Innovations in Insurance Risk Classification and Adverse Selection [J]. *Risk Management and Insurance Review*. 2018, Vol.21(No.2): 335-366.

- [4] Pierre Koning, Carolyn J. Heinrich. Cream-Skimming, Parking and Other Intended and Unintended Effects of High-Powered, Performance-Based Contracts [J]. *Journal of Policy Analysis and Management*. 2013, Vol.32 (No.3): 461-483.
- [5] Yaqin Zhang, Qian Gao. Research on "Cream-skimming" Behavior and Its Governance of Private Enterprises Undertaking Public Service [J]. *Theory and Reform*, 2018(01): 142-151.
- [6] James Heckman, Carolyn Heinrich, Jeffrey Smith, Assessing the Performance of Performance Standards in Public Bureaucracies [J]. *The American Economic Review*. 1997, Vol. 87(No.2): 389-395.
- [7] Xixiao Jing. Dilemma and Correction: Construction of Governance Mechanism of Public-private Cooperation Model for Public Employment Training [J]. *Vocational and Technical Education*, 2019 (04): 57-61.
- [8] Niskanen, William A. *Bureaucracy and Public Economics* [M]. Edward Elgar Publishing, Incorporated. 1994.