The Use of Market Mechanisms in U.S. Workforce Programs:
Lessons for WIA Reauthorization and the European Social Fund

by

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What the European Social Fund Can Learn from the WIA Experience Conference

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This paper is based in part on a larger study of the implementation of the Workforce Investment Act (WIA) of 1998 conducted with colleagues in eight states and 16 localities from 2003-2005. After presenting background on WIA and the study, we present key results concerning one of the more important and controversial aspects of WIA: increased emphasis on market and market-like mechanisms in the delivery of workforce services in the United States. We then discuss these findings and wrap up with a series of conclusions and recommendations, both for informing the WIA reauthorization process, which is now underway, and for providing guidance to the European Social Fund.

Background

WIA has been described as a “major overhaul” of the nation’s approach to employment and training, as a “fundamental departure” from previous programs, and as “the first significant attempt to retool” these programs in two decades (Barnow and King, 2003). The Act institutionalized changes in workforce policies and practices that began to surface as a handful of early-implementing states (e.g., Florida, Indiana, Kentucky, Louisiana, Pennsylvania, Texas, Utah, Vermont, and Wisconsin) operationalized the Act’s provisions beginning in July 1999. These and other states had developed and implemented One-Stop Career Centers prior to the 1998 enactment of WIA legislation, some of them, such as Wisconsin and Pennsylvania, as early as the mid-1980s. Major changes authorized under Title I of WIA included:

- Fostering more coordinated, longer-term planning for workforce development programs.
- Institutionalizing One-Stop Career Centers as the cornerstones of the local workforce delivery system.
- Sequencing job seekers’ services from core to intensive to training services.
- Implementing universal eligibility for core services via One-Stop Career Centers.
- Increasing reliance on market mechanisms.

The last set of changes, market mechanisms, is the main focus of this paper.

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1 Barnow and King (2005) authored the final project report. All reports from the project, including a series of eight state case studies, can be found both on the Rockefeller Institute and USDOL/ETA websites: See http://www.doleta.gov/reports/searcheta/occ/ or http://www.rockinst.org/quick_tour/federalism/wia.html.
The WIA Study

The WIA study was conducted using the field network methodology developed over several decades for use in understanding program implementation. In each of the participating study states, a spectrum of workforce system actors was interviewed. Using a structured interview guide, elected officials (e.g., legislators), policymakers, agency officials, program directors, community and technical college administrators, business and chamber of commerce leaders, state and local workforce investment board (WIB) directors and staff, One-Stop Career Center directors and staff, advocates, and workers in community-based organizations were interviewed. In addition, leaders and staff of workforce development, education, and related programs were engaged in discussions to obtain a broad perspective of workforce development activities.

A number of researchers have examined WIA, most focusing on early WIA implementation experiences across a broad range of issues. USDOL ETA staff began conducting internal implementation studies of WIA in 1998 and 1999. ETA also funded a 2-track national WIA implementation study by Social Policy Research (SPR) Associates that featured visits to sixteen states and numerous localities and One-Stop Career Centers between 1999 and 2001 (D’Amico et al. 2001), as well as assisting USDOL ETA with consolidating WIA implementation data for all fifty-four states and territories. Buck (2002) of Public/Private Ventures (P/PV) also studied early WIA implementation in five cities, focusing largely on how new market mechanisms (e.g., ITAs, performance measures) and One-Stop Career Center requirements affected workforce programs and participants. Frank et al. (2003) of the Center for Law and Social Policy (CLASP) analyzed national data for the 2000-2001 period, comparing early participation, demographics, and services under WIA with similar data for the final year of JTPA.

USDOL ETA also funded Administrative Data Research and Evaluation (ADARE) Project researchers from several universities and private, nonprofit research institutions who examined early participation and service patterns, and WIA performance measures (Stevens, 2003, and Mueser et al. 2003) and estimated quasi-experimental net impacts from WIA participation on employment and earnings (Hollenbeck et al., 2005).

Finally, O’Shea and King (2001) explored early experiences with WIA and related programs in three states (i.e., Tennessee, Texas, and Washington) and at least two local workforce investment areas in each as a pilot for the eight-state WIA study. They focused on problems and opportunities experienced by these states while implementing new WIA features (e.g., Eligible Training Provider lists, service sequencing) and also explored ways in which states and local areas addressed expanded authority under WIA in their own particular context.

These studies, together with policy interest from the ongoing WIA reauthorization debate and USDOL ETA discussions, helped shape the focus of the 8-state WIA study, which addressed the following topics, among others:

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• Leadership and governance, including issues regarding the decentralization of authority and responsibility;
• One-Stop Career Center organization and operations;
• Services and participation;
• Market mechanisms, their use and effects, including labor market information, performance standards, and training provider certification; and
• The use of information technologies.

The study examined the experiences of eight states, sixteen local workforce investment areas, and more than thirty One-Stop Centers with the administration and delivery of employment and training services under WIA and closely related programs. The box on the following page lists the study states and areas, and the field researchers. Study sites were selected using a purposive selection strategy focusing on region, urban/rural populations, the organizational approach of One-Stop Career Center systems, and WIA early implementation status.

As part of the selection process, field researchers considered organizational structure, practices, implementation obstacles, population statistics, urban/rural mix, number of One-Stop Career Centers, and size. Field researchers also obtained recommendations and supporting information from state officials, regional USDOL ETA staff, and the National Governors Association. The sample—which included small and large states, and urban and rural areas with a range of organizational structures and service delivery practices—was weighted to “leading-edge” workforce development states (e.g., Florida, Michigan, Texas, Utah). As a group, these states had less difficulty with some of WIA’s new features, since they had either already begun to implement them on their own or, given their long-standing experience with workforce reform, would be expected to have an easier time doing so. The study’s findings were based both on WIA policies and service delivery experiences observed during the summer and fall of 2002 when field researchers conducted site visits and interviewed state and local actors, as well as on changes that occurred since that time.

Use of Market Mechanisms: Key Findings

WIA continued the trend of moving toward a market-based system that is results-driven and determined more by customer choice. Four key market-based mechanisms are discussed: labor market information (LMI), provider certification, ITAs, and performance management systems.³

³ More detail on this and other topics is available in the individual state reports published by the USDOL and the Rockefeller Institute (Rockefeller Institute of Government, 2004a and 2004b).
States and Local Workforce Areas Studied

**Florida**  
First Coast (Region 8), Citrus, Levy, and Marion Counties (Region 10)  
*Researchers*: Burt Barnow, Amy Buck

**Indiana**  
Ft. Wayne (Northeast), Indianapolis/Marion County  
*Researchers*: Patricia Billen, Richard Nathan

**Maryland**  
Baltimore City, Frederick County  
*Researchers*: Burt Barnow, Amy Buck

**Michigan**  
Lansing (Capital Area), Traverse City (Northwest)  
*Researchers*: Christopher King, Daniel O’Shea

**Missouri**  
Kansas City and Vicinity, Central Region  
*Researchers*: Peter Mueser, Deanna Sharpe

**Oregon**  
Marion, Polk, and Yamhill Counties (Region 3)  
The Oregon Consortium/Oregon Workforce Alliance (TOC/OWA)  
*Researchers*: Laura Leete, Neil Bania

**Texas**  
Austin (Capital Area), Houston (Gulf Coast)  
*Researchers*: Christopher King, Daniel O’Shea

**Utah**  
Salt Lake City (Central), Moab/Price (Southeast)  
*Researchers*: Christopher King, Daniel O’Shea

Note: Utah is organized as a single, statewide workforce investment area. This is unusual but not unique. Other states with single workforce areas include South Dakota, Vermont, and Wyoming. Under prior workforce training programs (e.g., Comprehensive Employment and Training Act), states such as South Carolina also were organized as single-program states.

**Labor market information.** While not a market mechanism *per se*, LMI provides customers with information about the labor market and promotes and facilitates the workings of the labor market. All states have LMI units that provide information for the state as a whole and for individual labor markets. In addition to producing information about the current status of the labor market, states also produce labor market projections that include 10-year occupational employment projections. A unit in the state Employment Service usually operates LMI programs. LMI funding comes from several sources, including the Bureau of Labor Statistics (BLS) in USDOL, which is responsible for producing and coordinating employment statistics at the national level. Both state and national labor market information is available at One-Stop Career Centers via the Internet.

Generally, states have made strides toward improving the quality and presentation of their labor market information in recent years. In several study states, some of the WIBs expressed dissatisfaction with aspects of the state’s LMI program and purchased supplementary information from private vendors. These complaints often reflect a desire for more detailed vacancy data that the state cannot produce because of budgetary
constraints. This study did not cover the states’ labor market information systems in sufficient depth to judge their scope and quality. However, it appears that state labor market information programs are aware of the concerns from local workforce investment areas and are trying to meet their needs. The transition to the Standard Occupational Code (SOC) system for all federal programs producing information on occupations and the emergence of USDOL ETA’s O*NET, the Occupational Information Network, also should enhance the value of labor market information. O*NET provides occupational skills and aptitude requirement information and identifies occupations requiring similar skills.

Provider certification. Under the Job Training Partnership Act (JTPA), the federal employment and training program that preceded WIA (1982-1998), vendors did not have to meet performance criteria to be eligible to provide training to participants. To improve accountability and enable customers to make more informed choices, WIA established the Eligible Training Provider (ETP) list, giving the responsibility to states for establishing the ETP application procedures. Providers on the list, whose eligibility is reviewed every 12-18 months, are required to furnish performance information to the state’s workforce agencies for WIA customers and for all enrollees (whether a WIA customer or not) for each occupational training program on the list.

Experience to date raises questions about whether, under its current structure, the ETP provides sufficient valid information to justify its costs and inconvenience. The experiences of the study states varied, and while a few states found the ETP to be useful and a minimal burden, in most states the providers, the state, or both complained that gathering the data was expensive and not worth the effort. Because results must be provided for each individual occupational training program rather than for the provider as a whole, the reports frequently covered such a small number of participants, particularly the results for only WIA participants, that there were too few enrollees to provide statistically meaningful results. Combining data for various occupations would resolve the small sample problem in some instances, but by combining data across offerings, prospective students would not be able to assess the provider’s performance for specific offerings.

Among the states covered in this project, Florida experienced the fewest problems with the ETP requirements. Florida had already established the Florida Education and Training Placement Information Program (FETPIP) prior to WIA to track education and training vendor performance. Administered by the Florida Department of Education, FETPIP collects, maintains, and disseminates placement and follow-up information on Florida education and training program participants by relying on linkages to UI wage and other employment and earnings records.

Utah also did not experience major difficulties with these requirements. The state has modified its program since it was initially established in early 1999. However, obtaining providers for its list caused some problems because the state then lacked a fully developed system of community and technical colleges.
Texas experienced some problems with its ETP process. The initial 1999 system was paper based and viewed as cumbersome, though improvements to the system have eased the problems. Difficulty accessing outcome data remains a challenge for institutions and the state. Some state officials speculated that a number of providers had let their listing lapse so they could re-enter the system using the more lenient standards for new listings.

Maryland staff at the state and local level indicated that the ETP created significant problems. Local officials in the two Maryland areas reported that the process of getting a provider on the list was time consuming and confusing. Providers were hesitant about putting programs on the list, and many programs had too few participants to yield reliable performance data. A state official noted, however, that the ETP process helped the state weed out education and training institutions that were operating illegally.

Michigan did not report major problems with the ETP system, but state officials noted that instituting ETP appeared to have reduced WIA participation of community colleges and technical schools in the state. Community colleges in the state now apply for certification only for those programs for which they expect to get substantial numbers of training referrals.

Missouri had to modify its data collection system to accommodate the ETP requirements. The Department of Elementary and Secondary Education maintained a list of providers prior to WIA, and has established a system to remove most of the burden of data collection from vendors. At the time of the study, state officials recognized that data matching requirements would increase as the WIA program matured, but the state and local areas reported only minimal problems with the ETP.

ETP requirements presented some challenges in Oregon, but state officials worked hard to assure that WIA did not discourage the use of community colleges as training providers. The state adopted policies to assure that non-degree sequences would count as a “program” for WIA ETP purposes and assumed all responsibility for reporting training provider results. The state expedites the ETP approval process when a participant wishes to enroll in an unlisted program, and the process can be completed in one week.

Indiana officials characterized the ETP approval process as an administrative burden, but not prohibitively so. State officials indicated that training providers are reluctant to collect the required performance information because of the small number of expected WIA enrollees.

The best strategy at this time may be to relax the ETP requirements to allow states and local areas time to develop more economical tracking systems and strategies to address programs with few WIA enrollees. Performance-based contracting offers one approach to holding providers accountable for placing participants, but its track record is
mixed. Other possibilities include combining data for several years for judging outcomes and waiving ETP requirements for small programs.

**Individual Training Accounts (ITAs).** In addition to mandating the use of One-Stop Career Centers, another significant change instituted under WIA was the establishment of Individual Training Accounts (ITAs). In an effort to provide more customer choice, WIA mandated that under most circumstances adults and dislocated workers who were to receive training services must be provided with ITAs that let them select their own training provider and occupational program (subject to local workforce investment agency restrictions). Exceptions to the ITA rule were made for customized and on-the-job training (OJT), where participant provider selection would make little sense, and when there was a training program of demonstrated effectiveness offered by a community-based or other organization in the area to serve special participant populations facing multiple employment barriers.

ITAs are essentially vouchers, though not in their purest form (see Barnow and King, 1996). Prior to WIA there had been only limited experience with the use of vouchers in workforce development programs (see Barnow, 2000, 2009, and Trutko and Barnow, 1999). Vouchers give WIA participants the freedom to select the program they believe would best meet their needs, but the evidence on the effectiveness of vouchers for disadvantaged populations has been mixed, with some studies showing that this group frequently overreached in selecting programs.

There were other potential problems with ITAs. Local WIBs might have argued that it made little sense to hold vendors and programs accountable for participants’ performance if participants were making the selection. This potential pitfall was avoided by permitting local programs to exercise latitude in limiting ITA use to programs in which participants were qualified and for in-demand occupations. In addition, the ETP is intended to screen out programs that are ineffectual in placing participants in suitable jobs. The remaining concern is that the use of ITAs would provide uncertainty to providers on how many participants they might serve in a given year, making it difficult for them to plan and staff their offerings.

Overall, ITAs appear to be a somewhat successful feature of WIA. They are popular with participants and accepted by the local WIBs as a useful program feature. An important aspect of this success is that local boards have the flexibility to set limits on the programs’ time and costs, and to have a “guided choice” approach to ITA use. Under the guided-choice approach, local WIA programs provide strong guidance or restrict ITA use to programs they believe correspond to the participant’s aptitudes and abilities. USDOL ETA conducted an experiment operated by Mathematica Policy Research to determine the advantages and disadvantages of three levels of consumer choice for ITAs. This

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4 Spaulding (2001) found that performance-based contracting was associated with better participant placement and wage outcomes in 1998 when JTPA was in effect, but the USDOL ETA identified a number of abuses of performance-based contracting in the 1980s and discouraged its use.

5 See McConnell et al. (2006) and D’Amico et al. (2002).
experiment concluded that the three approaches to balancing consumer and WIB choice did not yield strong findings favoring any one of the approaches over the alternatives.⁶

The site visits did not provide much information on the three exceptions to the use of ITAs, but other evidence suggests that customized training and OJT are among the most effective training strategies.⁷ The exception for special populations permits local boards to make use of particular exemplary programs when warranted. This exception was not observed in the field visits, and no other evidence on this provision was identified, so it would be useful for USDOL ETA to conduct research on the use of this provision. The ability of local WIBs to set time and dollar limits on the ITAs is useful because it permits local boards to determine the balance between the number of participants served and the cost per participant. Some local boards require that participants use the lowest-cost provider when there are alternatives, but others do not. A case could be made for requiring the lowest cost provider for a particular program, but it can also be argued that local boards are in a better position to determine if the programs offered are truly equivalent.

States in the study sample often left decisions on implementing ITAs to the local boards, which usually used a guided choice approach for customer choice. The local boards commonly established time and cost limits, but there were many variations. Study results indicated that choice was limited either because many providers did not list their programs on the ETP or there were a limited number of providers in the state.

In Maryland, customer choice was limited by the reluctance of providers to sign up for the ETP. Both local areas visited for the study used a guided choice approach. Local programs used alternatives to ITAs. Baltimore, for example, had several customized training programs and wanted to expand their use, as they commonly had high placement and wage rates.

Michigan had already implemented a consumer-oriented voucher system for work-related education and training programs prior to WIA, so adaptation to the WIA requirements was not difficult for the state’s WIBs. Michigan’s ITA cap was determined locally, and generally ranged between $1,000 and $3,000 for individuals whose income was less than seventy percent of the Lower Living Standard Income Level and who met certain other requirements. Staff reported that some training providers had established fees for their programs at the ITA cap for their local board. This phenomenon, where the ceiling becomes the floor, is a potential abuse in areas where there is insufficient competition among providers.

Missouri’s local boards generally limited the reimbursement available through their ITAs, although the state specified that training allocations had to be made on a case-by-case basis. In interviews, Missouri staff stressed the importance of matching

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⁶ Barnow (2009) interprets the evidence on vouchers from a number of studies a bit differently, concluding that vouchers with more agency control may produce greater impacts for customers.
participants with programs where they were likely to experience labor market success. Staff of the local boards used aptitudes and interests to guide participants into appropriate choices.

In Florida, local boards had the option of setting dollar and time limits for ITAs. Local boards almost always used a guided choice approach to the ITAs. Local officials in Florida expressed concern that when they permitted participants to enroll in long-term training programs, some of their training funds were committed but not spent. Thus, it sometimes appeared that they were under-spending even though the funds were fully allocated. These officials wanted the system modified so that they could fund programs expected to last more than one year by placing funds for the out years in an escrow account to assure continuous funding for participants.

Texas started slowly in its use of ITAs, in part because the state initially interpreted WIA more as a work-first program. When the state shifted to a business-oriented, demand-driven system, interest in training and ITAs increased. Local workforce investment areas could establish their own ITA caps, which varied substantially, ranging from $3,500 in one local workforce investment area to $10,000 in another. As in Michigan, some Texas officials reported that vendors sometimes priced their programs at the local ITA cap.

Utah used a guided choice approach for its ITAs. State officials reported that their major challenge in the use of ITAs was a lack of sufficient numbers of training providers.

Performance standards and incentives. Performance management has been an important aspect of workforce development programs for many years. The Comprehensive Employment and Training Act (CETA) program (1973-1982) included a limited performance management system in its later years (1980-1982), and the JTPA program featured a comprehensive performance management system by the mid-1980s. WIA modified JTPA’s performance management system in several important ways. Under JTPA, only local areas were subject to performance standards, but under WIA the states have standards as well. Under JTPA, local standards were adjusted by a statistically based regression equation to hold local areas harmless for local economic conditions and the characteristics of participants served, but under WIA state standards are determined through negotiations, and adjustments are only possible if an appeal is filed and approved. Finally, under JTPA, performance was initially measured at the time of termination and later thirteen weeks after termination, but under WIA performance is measured, based on UI wage records, twenty-six weeks after termination from the program.

There were a total of seventeen core performance measures for WIA in the early-to-mid-2000s. For adults, dislocated workers, and youth ages nineteen through twenty-

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8 This experience is borne out by unpublished figures from the Texas Workforce Commission and independent analysis conducted by Hollenbeck et al. (2003) for the ADARE Project.
9 States determine how local standards are set. Most states follow the federal approach and set local standards through negotiations.
one, the core measures were: the entered employment rate; employment retention six months after entry into employment; earnings change from the six months prior to entry to the six months after exit; and the obtained credential rate for participants who enter unsubsidized employment or, in the case of older youth, enter postsecondary education, advanced training, or unsubsidized employment. For youth between the ages of fourteen and eighteen, the core performance measures were: attainment of basic skills and, as appropriate, work readiness or occupational skills; attainment of a high school diploma or its equivalent; and placement and retention in postsecondary education and training, employment, or military service. There were also customer satisfaction measures for both participants and employers.

All states and local areas in the study sample expressed concerns about the performance management system under WIA. Most officials interviewed indicated that the WIA system was a step backwards from the approach used under JTPA, as follows:

- They decried the absence of a procedure to adjust for characteristics of participants served and local economic conditions; state and local officials stated that failing to adjust for differences in these factors means that states and local areas are not placed on a level playing field.\(^{10}\)

- State officials expressed concern that the USDOL ETA regional office officials did not enter into real negotiations with state officials; they all indicated that the federal officials did not negotiate on what the state standards should be, citing pressure from the federal government to meet its standards.

- Officials also said they were dissatisfied with the definitions of who was considered a covered system participant and when participants were terminated, which they considered vague. This vagueness made it possible for the local workforce investment areas to engage in strategic decision-making about whom they enrolled and when they considered someone an exiter in order to enhance their measured performance.

- Officials also expressed concern that WIA had too many performance measures, with seventeen for adult, dislocated workers, and youth. Interestingly, more than half the states in the study sample—Florida, Indiana, Oregon, Texas, and Utah—actually added more performance measures to the mandated federal ones, which made the assertion that there were too many performance measures somewhat questionable. Often, however, these added measures were to provide state and local staff with either more systematic measurement of workforce performance or more immediate information for managers regarding how participants were faring with program participation (see O’Shea et al., 2003a, 2003b).

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\(^{10}\)Lack of adjustment for participant characteristics may increase incentives for workforce investment areas serving difficult populations to engage in “creaming,” where they serve eligible individuals more likely to do well on the performance measures instead of those with greater labor market barriers.
WIA reauthorization could provide an opportunity to improve the performance management system for the program. Lessons can be learned from the states’ criticisms of the current system as well as the actions they have taken to enhance the WIA performance management system. In the interest of fairness and to avoid incentives for creaming, where they serve eligible individuals more likely to do well on the performance measures instead of those with greater labor market barriers, an adjustment mechanism should be added to the system. The regression-based adjustment approach used under JTPA is one possibility, but even the subjectively established adjustment procedure that ETA subsequently implemented in 2006 was an improvement. Moreover, the concept of using negotiations to set standards should not be precluded when an adjustment model is used. The adjustment model could be used to develop a starting point, and negotiations to determine the final standard. For the negotiations to be meaningful, however, a more systematic approach should be used so that both sides believe the system is fair.

The definitions of WIA entry and exit as well as the boundaries of the different service categories are currently too vague to form the basis of a nationally uniform performance management system. Several states in the research sample have begun developing “system measures,” which capture performance for entire labor market areas rather than for a specific program such as WIA. State efforts to develop measures that reflect, “return on investment” (ROI) should also be encouraged. Texas, through its state workforce board association, has estimated ROI for a broad array of workforce funding streams at the state and local level from participant, taxpayer and societal perspectives (see King et al. 2008). Although incorporating costs into performance management is important, work should proceed with caution because limits on follow-up data and imperfect information can cause such measures to provide misleading signals.

The appropriate follow-up period for performance measures should also receive renewed attention. The twenty-six week follow-up period in WIA permits the performance management system to do a better job of capturing longer-term program effects, but this is at the expense of information timeliness. Reliance on UI wage record data results in information delays of up to nine months. Thought should be given to ways to accelerate data collection and/or using shorter-term measures in addition to or instead of the longer-term measures so that more timely feedback can be provided.

Evidence of strategic behavior or “gaming” to improve measured performance was found in a majority of the states in the study sample. This does not mean that these

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11 Refinement of performance measures will need to take account of the common measures developed by the Office of Management and Budget for job training and employment programs.
12 More recent USDOL ETA Training and Employment Guidance Letters (TEGLs) on this topic are discussed in King (2006).
13 John Baj at Northern Illinois University’s Center for Governmental Studies devised a simpler alternative to regression-adjustment models based on comparisons to similar states to assist states and localities in conducting negotiations as part of the ongoing ADARE Project. For more information, see: www.fred-info.org.
14 ADARE project reports by Mueser and Sharpe (2006) and Stevens and Stack (2006) discuss this issue and provide insights into its motivating factors and effects.
states were doing anything contrary to the WIA law or regulations, only that they were modifying their behavior to improve measured performance. Some local areas indicated that in response to the performance management system they took steps to improve their measured performance. Local areas employ creaming and strategic behavior when recording individuals’ enrollment in and/or program termination.

Maryland’s state board was concerned that the current system of measuring performance for individual programs did not permit the state to gauge performance for the state as a whole. To deal with this issue, the state developed a “system report card” with nine measures that applied to an entire labor market area rather than a specific program: the credential rate, the high school dropout rate, the college readiness rate, investment per participant, the self-sufficiency rate, the One-Stop Career Center usage rate, customer satisfaction, job openings by occupation, and board effectiveness.

Florida has long been a leader in exceeding performance requirements of federal programs. Legislation enacted in 1996 required the state to develop a three-tier performance management system for its programs. Tier three focuses on federally mandated measures; Tier two measures are grouped by program and target group and provide measures appropriate for specific population subgroups. Tier one measures are broad economic measures applicable to almost all workforce development programs. The state also developed a “Red and Green Report” that compared regions on a number of short-term performance indicators based on administrative data; regions in the top quarter on a measure are shown in green, and regions in the bottom quarter are marked in red.15

Texas is another state with a strong history of performance management. When the 8-state study was completed the state had instituted thirty-five performance measures for its workforce development programs. Texas measures performance on a monthly basis, and the Texas Workforce Commission has a committee that meets on a monthly basis to address performance problems. As the 8-state WIA report was prepared, Texas was considering implementation of a tiered performance management system.

Oregon was in the process of implementing a set of uniform, system-wide performance measures for its workforce development system. These thirteen measures will apply to all state agencies that are partners in the system. Oregon officials view the state system-wide measures as important for building an integrated system. As the study was being conducted, the state was requesting a waiver from the USDOL to use the state measures for reporting under WIA.

Indiana uses three system-wide measures to award WIA incentive funds: customer satisfaction, earnings gains, and credentials acquired. Similar to Oregon, Indiana submitted a waiver request to the USDOL to use its system-wide measures in place of the WIA performance measures; the request was denied.

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15 Florida no longer uses the color-coded reports, but the state still produces tables comparing performance across local areas.
Since fieldwork was completed for the 8-state WIA study, most study states continued work on WIA’s market mechanisms and related features. Four study states—Florida, Michigan, Oregon, and Texas—participated in the Integrated Performance Improvement (IPI) Project led by Washington State and convened by the National Governors Association (see Saunders and Wilson, 2003 and Wilson, 2005). This project, which sought to develop systems-level performance measures for state workforce development systems, produced a draft “blueprint” of measures that was rolled out in a series of meetings for states. IPI’s “blueprint” has served as an alternative to the OMB Common Measures. Florida’s efforts are showcased in the blueprint. Additional state updates include the following:

- **Indiana** continued an incentive award system for local WIBs that began in October 2002. Each WIB was awarded $1,000 for each of the seventeen WIA performance measures that it met each year. Incentive awards were also being used in vocational and technical education areas.

- **Maryland** put previous system standards on hold in 2005, as officials believed they might not be adequate measures of system performance. The administration formed a new unit to focus on performance.

- **Michigan** continued to be actively involved in developing regression models for adjusting performance levels for its local WIBs, relying on consultants from the W. E. Upjohn Institute for Employment Research in Kalamazoo and the Corporation for a Skilled Workforce in Ann Arbor. They developed the Value-Added Performance-Adjustment System model (see Bartik et al. 2009).

- **Missouri’s** Division of Workforce Development (DWD) evaluates clients using a Self-Sufficiency Standard that’s updated annually and designed to indicate the level of income necessary to meet basic living expenses. It serves as an important tool in evaluating program success. In addition, DWD also began using the Performance ScoreCard, a comprehensive system of measures for evaluating Missouri’s workforce development system. The Performance ScoreCard comprises ten measures, including market share, client satisfaction, employment and earnings.

- **Texas** in 2002 suspended the initial regression models used for WIA performance modeling due to perceived data anomalies. The model had relied on JTPA data for the state, but was producing counterintuitive results as WIA data were utilized. Additionally, as part of the effort to move from program-driven services to employer-driven services, TWC instituted a series of employer-based measures for local boards. Texas also was one of the first states to implement the OMB “common measures” for its workforce programs.
Conclusions

Market mechanisms now play a far more important role in U.S. workforce development programs than ever before. While they are likely here to stay and have been largely accepted by policymakers and program officials at all levels, issues regarding their appropriateness as well as their effectiveness should be acknowledged.

Economists generally agree that more and better information on both opportunities and outcomes for customers and providers improves the functioning of markets. However, it remains to be seen whether what WIA mandates and states and local WIBS have implemented is the best way to accomplish this given the context within which the programs operate, i.e., federalism. Increased LMI, the ETP certification lists and performance standards are designed to help consumers make good choices in terms of selecting the right employment and training strategy to meet their needs. ITAs are the preferred mechanism for consumers to exercise their choice for occupational skills training. But, there are conceptual and practical problems to consider.

First, information is typically incomplete and may not be sufficiently accurate. LMI’s shortcomings are well known. It is based largely on past trends that often do not support reliable projections of labor market opportunities ten or even a few years into the future. In addition, there is a growing body of research that demonstrates that near-term outcomes from employment and training programs tend to be poor proxies for longer-term impacts. Numerous researchers have documented problems with WIA data collection and reporting systems for participation and performance in addition to the authors. It isn’t clear that providing more information to consumers actually assists them with making good choices unless the quality and timeliness of that information can be greatly improved. After a big push to enhance LMI and its accessibility in the 1990s, with dwindling budgets, far fewer resources have been invested in recent years. At the same time, emerging evidence suggests that finding the right job with the right employer in the right industry sector makes a real difference in workers’ employment and earnings success (see Andersson et al. 2005 and Brown et al. 2006). Being able to access and use good LMI is clearly necessary.

Second, as in many markets, information for job training programs tends to be highly imbalanced or asymmetric, such that training providers are far better informed than prospective participants. When “sellers” are much better informed than “buyers,” unless added steps are taken to protect them, economic theory suggests that inferior goods may crowd out superior ones over time (the so-called “lemons” problem). This too is cause for concern.

Third, as Barnow (2000, 2009) and Barnow and King (1996) have pointed out in other work, economically disadvantaged participants with low literacy skills and more limited knowledge of labor market opportunities may be ill-suited to taking full advantage of ITAs even with the provision of more information.
It is worth noting that the combined effect of several factors led to minimal usage of ITAs under WIA. First, stronger emphasis on “work-first” or labor force attachment strategies under WIA served to deemphasize training as an option for participants. Second, the cumbersome and costly nature, real or perceived, of the ETP requirements initially created reluctance on the part of community colleges to offer training via ITAs for the WIA system. Third, substantial WIA budget reductions in recent years have cut the amount of funding available for training.

Conclusions from the WIA study relevant to the use of market mechanisms include the following:

States and localities in the study sample have embraced newly devolved authority and responsibility for workforce investment under WIA, giving rise to an increasingly varied workforce development system across the country. As with welfare, health, education, and other policy areas, states and local areas—led by governors, mayors and county executives, as well as legislators and state and local workforce administrators—have served as “laboratories of democracy,” experimenting with new ways of doing business in workforce investment. As number of the study states had been in the vanguard of workforce policy reform, some of them pioneering market-oriented mechanisms and other changes well before WIA introduced and encouraged such changes nationally. Among the study states, efforts in Florida, Michigan, Texas, and Utah stand out.

The current approach to measuring and managing performance under WIA does not fit well with the intergovernmental approach to U.S. workforce policy that has evolved in recent decades. State and local officials and One-Stop Career Center staff were nearly unanimous in expressing displeasure with performance measurement and management under WIA, often harking back to what was done under earlier workforce programs like JTPA for more promising practices. The predominant view was that prior to WIA, program participation and outcome data were of higher quality, performance standards negotiations processes were more balanced between the federal and state governments and between the states and local WIBs, and there was more emphasis on managing programs for improved results as opposed to the achievement of what tended to be viewed as arbitrary numeric goals.

One concern stems from the absence of consistent approaches to deciding when a customer becomes a participant or a former participant (exiter). Another has to do with the absence of a performance adjustment process to hold states and areas harmless for serving harder-to-serve populations and operating in economically distressed areas; for example, the JTPA regression adjustment model that was used for much of the 1980s and 1990s was perceived by most state and local officials interviewed as a good strategy to discourage creaming and to level the playing field between areas with different economic conditions. Most state and local officials also complained that relying on UI wage record data to capture labor market outcomes leads to delays in measuring results and to having data that are not useful for day-to-day management. A number of states in the sample—including Florida, Oregon, Texas, and Utah—are recognized leaders in the design and
use of measures that gauge the performance of the workforce system as a whole, as well as more comprehensive performance management approaches. Three of these states—Florida, Oregon and Texas—were active participants in the IPI Initiative led by Washington State, working with the National Governors Association to develop workforce system measures.

Improvements to WIA’s data collection and reporting mechanisms and its approach to performance measurement and management are needed. Under the intergovernmental system that has evolved for workforce investment, tightening up the accountability system goes hand in hand with granting governors and WIBs discretion and flexibility to design their own programs. Policymakers can be “loose” in allowing states and localities to shape their service strategies to meet what they perceive as the needs of their particular labor markets and target populations, but they should be “tight” in terms of specifying the measures and assuring that the measures capture performance in an accurate and timely manner. This approach is in accord with best practice in both the public and the private sector, as characterized by Gaebler and Osborne (1992) and Peters and Waterman (1982).

A number of new market mechanisms introduced by WIA, including ITAs and, to a lesser extent, provider certification processes, appear to be working better than expected. Despite early difficulties with implementing the ITA and eligible provider certification processes, for the most part the states and local areas studied have now incorporated these features into their policy frameworks and day-to-day operations for adult and dislocated worker programs. In part, this may reflect low demands for training services since WIA was implemented, but it may also reflect the experience that some of the sample states had with similar approaches before WIA. Based on the field research, leaders of many local boards and One-Stop Career Centers appear to be pursuing a “guided choice” approach to ITAs. More variation was found among the states in how well the eligible provider list requirements functions. There is support for the concept, but the requirements for its operation were seen as overly rigid.

When the Workforce Investment Act of 1998 is ultimately reauthorized, this research suggests that the system needs to deal with a number of challenges related to the implementation and use of market mechanisms. Some of these are highlighted below.

Balancing accountability and flexibility under a broad-based federal grant-in-aid program such as WIA. In a system that is federally funded and state and locally administered, states and local areas are granted the flexibility to operate the programs as they see fit to meet their own goals and objectives. At the same time, the federal government retains the responsibility for making the lower levels of government accountable for their actions. The challenge is finding the right mix of flexibility and accountability so that an accountability system tailored to achieve federal goals does not thwart state and local governments from addressing what they see as their own needs.

16 See reports prepared for the National Governors Association and USDOL ETA by O’Shea et al. (2003a, 2003b).
Maintaining cooperative federal-state-local relationships on an ongoing basis for monitoring and overseeing local WIB and One-Stop Career Center activities. Under WIA, most of the funds flow from the federal government to the states to the local workforce investment areas to the One-Stop Career Centers and finally to the service providers. There are a number of advantages to giving the states and localities more authority over the funds, but the current system requires that each level of government have specific authority and oversight responsibilities. The challenge is to find the right balance among the federal, state, and local levels of government to assure that the federally financed system is appropriately overseen.

Assuring that reporting and performance requirements do not adversely affect customer selection, services provided, and outcomes. Performance management has helped align the interests of state and local programs with those of the federal government, which has funded the programs, and enabled identification and improvement of low performers. Unfortunately, research indicates that performance management systems sometimes inadvertently lead to creaming (denying services to hard-to-place groups), undue emphasis on short-term services, and strategic behavior by government agencies and other organizations. An ongoing challenge is to strike the right balance in the performance management system so that good behavior is identified and rewarded while inappropriate or ineffective behavior is discouraged. In addition, performance management requires that timely and accurate data be collected. A further challenge is to balance the burden of data collection, timeliness, and accuracy in measuring the outcomes.

Developing return-on-investment (ROI) measures as an important component of workforce evaluation systems. Since JTPA referred to workforce programs as investments, there have been efforts to treat them as an investment and measure the return on support for the programs. Although this is a straightforward concept, implementing ROI, even at the national level, is quite difficult for a number of reasons. ROI calculations require estimates of the impact of the program on outcomes of interest, particularly earnings. This, in turn, not only requires obtaining earnings information for five or more years after program participation, but also estimates of what earnings would have been in the absence of participation. It is well established that the best way to obtain such information is through a classical experiment where eligible individuals are randomly assigned to receive the service or denied access. Classical experiments have been used successfully for evaluations of the Job Corps and JTPA, but they are time consuming and expensive. Texas and other states (e.g., Washington State) have pursued ROI estimation using a quasi-experimental method for capturing the impacts on employment, earnings and other outcomes (see Hollenbeck and Huang, 2006, and King et al. 2008). ROI should be viewed as a longer-term evaluative measure of program performance rather than a near-term performance indicator.

Another complication is, ironically, that recent efforts to better coordinate and integrate programs have made it difficult to identify program costs associated with a participant. Some of the resources provided to customers at One-Stop Career Centers are
likely to have been paid for by other customers, and in some cases individuals are co-enrolled in other programs. Currently, WIA does not require states and local programs to track costs at the individual level, and doing so would be difficult or impossible without arbitrary assumptions. At the state and local level, the problems are magnified. It is not clear that states and localities can afford to undertake random assignment experiments locally or measure costs in the detail required for a cost-benefit analysis. Thus, proxy measures based on national estimates and procedures might have to be used.

Recommendations

In this section, we recommendations for WIA reauthorization as well as issues for the European Social Fund to consider as it develops and institutes more comprehensive performance measurement and management featuring greater use of market mechanisms.

WIA Reauthorization

The following recommendations related to the use of market mechanisms are offered for policymakers to consider in the WIA reauthorization process:

WIA should improve and substantially tighten data collection and reporting by states and local workforce boards systemwide. In the private sector that is often held up as the model for public programs to emulate, it is axiomatic that, if a result is important, it must be tightly measured. Despite the rhetoric in WIA (and related programs), this has not been the case. In addition to collecting more accurate data on participation and services, outcomes should be better measured. UI wage records, which serve as the primary data source for measuring employment and earnings outcomes, could be enhanced to include fields for starting date, hours worked and even occupation (the latter to facilitate gauging whether placements are training-related). The Wage Record Interchange System that supports WIA (and ES) performance measurement could also be improved and made available for research uses to support better understanding of the outcomes and impacts from workforce services. In addition, the currently dormant effort to develop a system-wide management information system that would collect data for customers across a wide range of programs would provide an opportunity to link outcomes to the entire investment made for an individual.

WIA should return to funding, developing and fostering the use of better LMI and LMI-related tools for use by local workforce boards, employers, and participants, as well as state planners. If WIA and related services are to be delivered in a market-oriented mode, the entire system requires much better information, improved access to and tools for using it. A number of states (e.g., Florida, Oregon, Texas, Utah) are well established leaders in the LMI arena and, through their national organizations, could assist in developing plans and tools for such an effort.

WIA should also do more to encourage and support the provision of skills training in growth sectors of the economy, whether through the use of ITAs or other means. OJT and customized training are proven strategies for training as has been noted.
ITAs may be a useful approach if implemented well (i.e., with a guided-choice model) in many workforce areas, but may not be appropriate in others, for example in more rural areas where few provider choices are available. Over-reliance on ITAs should be avoided until processes such as the ETP are better developed.

**Congress should broaden the ETP process for provider certification beyond WIA to ensure that it is more balanced and comprehensive, not just coming from WIA.** Some of the difficulties that surfaced with the ETP process, including resistance from community and technical colleges, may be avoided if the process encompasses workforce and education programs on a more system-wide basis. To make good choices, consumers—both workers and employers—need systematic knowledge about the performance of all such programs, not just those funded by WIA. In addition, flexibility should be added so that states can properly balance the paperwork required with the information that is provided.

**Congress should establish a mechanism in WIA and related workforce and education legislation for carefully reviewing the “Common Measures.”** To date, the OMB “Common Measures” have mainly been embraced by USDOL for its program offerings. Moreover, the IPI measures that were developed and vetted by a number of leading states and their local programs appear to offer somewhat better measures than the ones that were initially promulgated by OMB and USDOL in a mainly top-down process. If these measures are to truly be “common,” they require such a review and likely a better process. Moreover, the interest in developing common measures should not be pursued to the point that programs are forced to measure success only by how well they perform on the common measures. For some education programs, for example, learning may be as important an outcome as earning. Even in some labor programs, such as the Senior Community Service Employment Program, post-program employment and earnings may not be as important as in a more traditional training program.

**WIA should explicitly provide for and support the development and use of performance adjustment models or other less complex but effective approaches to ensure that services to harder-to-serve groups are encouraged rather than discouraged.** USDOL ETA has done much more in the last few years along these lines, but including such provisions within the Act would be an important statement of policy for the workforce system. As noted earlier, regression modeling is often useful for objectively taking account of differences in participant characteristics and economic conditions, but other approaches, including negotiation, can be used to take account of factors that cannot be incorporated well into regression models.\(^\text{17}\)

**WIA should also provide for more systematic capacity building across the system to foster best practices and professional development in performance management and related areas.** Market-based systems tend to function best when they are supported by knowledgeable professionals and have access to accurate information and related assistance. It has been more than a quarter century since the regional network of

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\(^{17}\) See Barnow and Heinrich (forthcoming) and King (2006) for a discussion of alternative approaches to adjusting performance standards.
institutional grantees—competitively procured university-based centers that provided professional talent development, research and evaluation, and technical assistance to the workforce system—were eliminated from the federal budget. Congress and ETA should restart this important effort.

**WIA should continue to support evaluations using random assignment to treatment status in conjunction with research on less expensive, less intrusive quasi-or nonexperimental impact estimation.** Classical experiments are generally perceived as expensive and time consuming, but they offer the most irrefutable evidence of program impacts. Nonexperimental evaluations can be performed more quickly and at lower cost (see Hollenbeck et al. 2005 and Smith et al. 2009), but they generally rely on very strong assumptions that cannot be tested, e.g., the absence of unobserved variables that affect the outcomes of interest. There is currently vigorous debate about when nonexperimental approaches are adequate, but the only way the debate can be resolved is to conduct studies that combine the approaches. Indeed, much of the most important recent work on nonexperimental estimation techniques was built on the experimental evaluations of JTPA and the National Supported Work Experiment.

**European Social Fund**

Making detailed recommendations on the use of market mechanisms for the European Social Fund is premature at this point. However, some issues that it should consider as it proceeds with its work along these lines include the following:

- **Context is all-important.** *One-size-fits-all solutions involving such market mechanisms are unlikely to work well.* Europe’s institutions and traditions—including especially relationships between employers, labor and government regarding workforce development programs—are dramatically different from those in the U.S. Tri-partite, collaborative relationships, a stronger role for government in many aspects of society and the economy, and mediation of market forces are an integral part of Europe’s fabric, even if recent trends suggest movement more towards market approaches. Instituting a stronger role for market mechanisms will likely take more time and thought as to how the European context can and should be addressed.

- **Over-reliance on market mechanisms should be avoided unless and until labor market information and outcomes data are far more robust and its major consumers—both jobseekers and employers—and governments have ready access and are able to make effective use of it.** LMI and reliable outcomes data are essential for the other market mechanisms to perform well. As indicated above, relying on market forces to guide market choices and outcomes in the absence of such information is likely to produce poor results and do so inefficiently. Consumers and governments also require tools to properly access and use such information.
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