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A well-designed performance standard system for welfare-to-work programs has the potential to significantly increase the employment of a portion of the welfare caseload. Performance standards will not "end welfare as we know it," eliminate teenage motherhood, or bring all welfare recipients out of poverty. But performance standards could help restore public confidence in the goals and effectiveness of our welfare system.

What Are Performance Standards?

In welfare programs, a performance standard system provides rewards and penalties for different agencies and employees in the welfare system depending on how well they achieve defined goals. Usually these goals are greater employment and earnings for welfare recipients. The primary purpose of establishing these goals, rewards, and penalties is to motivate agencies and welfare system employees to more vigorously and efficiently pursue the goals of increased earnings and employment of welfare recipients.

Performance standard systems can be distinguished by which part of the welfare system's performance is being measured and by whom. Performance standards can be used by federal officials to measure state performance, by state officials to monitor local welfare offices' performance, by local offices to monitor contractors, and by local offices or contractors to monitor individual staff.

Two of the most successful welfare-to-work programs, ET (Employment and Training) Choices in Massachusetts during the 1980s and GAIN in Riverside County, California during the 1980s and 1990s, both aggressively used performance standards. ET Choices motivated local welfare offices in Massachusetts by setting monthly job placement goals and by firing or demoting local office directors for poor performance (Behn 1991). In Riverside County, case managers, supervisory units, and district offices all have job placement goals. Meeting the goals is an important part of the job performance evaluation of individual staff (Riccio, Friedlander and Freedman 1994).

Riverside County's orientation toward employment is still unusual for the welfare system. Local welfare offices have been slow to move away from their traditional focus on reducing errors in making welfare payments and toward a focus on linking recipients with jobs. The slowness of change is partly due to the lack of federal performance standards for employment outcomes in the JOBS program—the welfare-to-work program created by the Family Support Act of 1988.

The reluctance of the federal government to adopt employment-oriented performance standards reflects a concern that such standards could distort the welfare system?s operations. One concern is that standards for employment and earnings outcomes could lead to "creaming," in which welfare-to-work programs only help recipients who are most likely to succeed without help. A second concern is that performance measures might be so poorly correlated with the true "value added" of a particular welfare office or employee that the performance standards would be perceived as unfair, and would therefore lower employee morale. These concerns must be addressed if any performance standards system is to do more good than harm.

Guidelines for Performance Standards

Previous experience with performance standards in welfare-to-work programs and other social programs suggests the following guidelines for an effective standard system (Bartik, 1995):

1. Performance standards should focus on only a few key performance standards. This helps give firmer direction to the welfare system, avoiding conflicting goals.

2. To ensure that standards are perceived as fair, they should be adjusted for local economic conditions and the local client mix, and in particular for the prior earnings and welfare history of clients. Previous research suggests that with a few adjustments to the performance standards, there is likely to be a significant positive correlation between the performance measure and the true "value added" of the welfare-to-work program.

3. Performance measures should be based on the success of some objectively identifiable group of disadvantaged individuals. Welfare agencies and employees should not be able to select "who counts" in meeting the standards. The entire welfare caseload, or some objectively identifiable portion of the caseload, could be used in defining performance standards if there are safeguards to ensure that welfare eligibility criteria cannot be manipulated to increase the performance measure. For example, performance measures should be adjusted so that welfare agencies are unable to increase their performance by throwing individuals who are not working off the welfare rolls.

4. Whether some agency or staff member meets the performance standards should have some real but modest consequences. The consequences should be modest to avoid overstressing standards that inevitably will be imperfect.

5. Wherever possible, data needed for calculating the performance measures should be obtained from administrative sources such as welfare department records or unemployment insurance earnings files. Use of administrative data will hold down data collection costs and increase data accuracy.

6. In medium size or larger cities, local welfare offices can monitor the performance of welfare-to-work contractors by randomly assigning welfare recipients among contractors. The relative performance of the contractors may be used to decide the amount of payment to contractors and how many future welfare recipients will be assigned to a contractor. In Kalamazoo, a county of less than a quarter million people, the Upjohn Institute is currently using random assignment among three different providers for the initial job search and job development phase of Michigan's Work First program for welfare recipients.

A well-designed performance standard system is no substitute for experimental studies, using random assignment, of what programs will best contribute to the long- term success of welfare recipients. Although many welfare-to-work programs have shown short-run success in getting welfare recipients back to work quicker, few programs have shown long-term success (Friedlander and Burtless, 1994).

Federal Welfare Reform

What role can performance standards play in the current stalemate over welfare reform? In January of 1996, President Clinton vetoed the congressional Republicans' welfare reform bill, which would have eliminated the individual entitlement to welfare assistance and turned welfare over to the states as a block grant. The outlook for welfare reform during 1996 and 1997 is uncertain. Three scenarios seem possible: (1) no welfare reform bill is enacted; (2) a "block grant" welfare reform bill is enacted that allows for a considerable federal role in setting performance standards; (3) a "block grant" welfare reform bill is enacted, but without allowing much federal oversight.

If no welfare reform bill is enacted, a window of opportunity is opened up again to "improve welfare as we know it" rather than end it. The federal government could set employment- and earnings-oriented performance standards for states, and encourage states to do the same for local welfare offices. Some versions of a welfare reform block grant also allow for a federal role in setting performance standards.

On the other hand, if a block grant welfare reform eliminates federal oversight of state welfare programs, then states must take the lead in setting performance standards for local welfare offices, contractors, and employees. The concern is whether most states, absent federal oversight, will focus resources on the difficult task of increasing the employment and earnings of welfare recipients. Under a block grant, the marginal dollar of welfare expenditure is totally paid for by the state, with no federal match. In addition, states will have more freedom to reduce their own welfare spending and divert funds to other purposes. State welfare spending is politically unpopular, serves a narrow segment of the population, and does not advance a state?s economic development. States will be tempted to reduce their commitment to welfare programs, and use those resources for activities with a greater payoff for more state residents: education, general tax relief, and economic development programs. The easiest and cheapest way to reduce state welfare spending is not to improve welfare-to-work efforts, but to reduce benefit levels and restrict welfare eligibility.

Therefore, if we want better performance of the welfare system in increasing the employment and earnings of welfare recipients, it is essential to maintain a strong federal role in the welfare system. A well-designed performance standards system, focused on earnings and employment of welfare recipients, could allow both a strong federal role and great state and local flexibility. State and local governments would have the flexibility to choose the best methods, given local circumstances, to increase the earnings and employment of welfare recipients. The federal government would set performance standards, monitor performance, administer rewards or sanctions, and fund evaluations of innovative approaches to welfare reform. This continued strong federal role is consistent with the traditional wisdom in public finance that income redistribution should be the responsibility of the federal government, as the mobility of businesses and upper-income households makes this task too difficult for state and local governments.

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Suggested Readings

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