W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH

Employment Research Newsletter

Volume 16 | Number 3 Article 4

7-1-2009

Improving Performance Measures for the Nation's Workforce Development System

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Citation

Eberts, Randall W. 2009. "Improving Performance Measures for the Nation's Workforce Development System." Employment Research 16(3): 5. https://doi.org/10.17848/1075-8445.16(3)-4

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Improving Performance Measures for the Nation's Workforce Development System

The current recession has reached such depth and length that millions of people have been thrown out of work. Since the recession officially began in December 2007, some 7 million jobs have been lost. The large numbers of people looking for work have placed a tremendous burden on the nation's workforce development system. To help people find jobs, the American Recovery and Reinvestment Act of 2009 has more than doubled the appropriations for programs to assist dislocated workers, disadvantaged adults, and youth from the amount appropriated in the 2009 budget. These services are critical to the economy's recovery: they help workers get back to work by assisting them in the job-search process and in retooling their skills. For the recovery effort to work, all entities that have a responsibility for these programs—federal, state, and local—must implement them quickly and effectively. Yet it is not enough simply to spend money and enroll participants. Rather, the services need to be effective at getting people into decent-paying jobs.

How do we know whether this goal is being accomplished and the money is being spent effectively? For years, the U.S. Department of Labor has recognized the importance of accountability and transparency by establishing performance measures as an integral part of the federal workforce system. Under the Workforce Investment Act (WIA), which governs the current federal workforce training system, the Employment and Training Administration (ETA)—the entity within the U.S. Department of Labor responsible for WIA—established three performance measures: 1) entered employment, 2) job retention, and 3) earnings levels. Each state negotiates with the U.S. Department of Labor to set standards, and, in turn, each local Workforce Investment Board (WIB) negotiates with the state to determine its performance targets.

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As this practice of setting standards evolved, states and WIBs increasingly found that negotiations were not taking into account factors that affected their performance but were beyond their control and unrelated to the services they provided. These factors include the conditions of the local labor market and the personal characteristics and work history of participants in their programs. Without accounting for differences in these factors across states and across WIBs, those entities with more favorable labor market conditions or more capable participants are likely to have higher outcomes, and those for which these factors are unfavorable can expect lower outcomes. As a result, differences in these outcomes will not reflect the true "value-added" of service providers in improving outcomes for their customers, but instead will reflect the mix of customers and labor market conditions facing those customers.

Therefore, a concern that quickly surfaced in implementing the Recovery Act funding was whether or not the targets, if set unrealistically high, would discourage states and WIBs from enrolling those individuals who needed the services the most. Recently the ETA has responded to this concern by adjusting the targets at the national level to take into account the effect of higher unemployment rates on the performance measures. Since WIA was implemented in 1998, targets have been set higher for each successive program year, raising the bar for performance without adjusting the targets for changes in the business cycle.

However, the depth of this recession has prompted the ETA to establish a target-setting procedure that is objective, transparent, and reflective of current conditions. It does this by estimating the effect of changes in unemployment rates on the three performance measures and then using that estimate to adjust performance standards according to the assumptions for next year's unemployment rates as presented in the President's 2010 Budget Request to Congress. These adjusted performance targets in turn affect the targets at the state and local levels, but still do so through negotiations.

The next step is to extend this objective procedure of setting national targets to setting targets for states and WIBs. This will require adding the effect of differences in personal characteristics to the effect of differences in unemployment rates in order to calculate the adjustments. A procedure similar to the one proposed here was used under the Job Training Partnership Act, the immediate predecessor to WIA. Implementing such a target-setting procedure will move the performance measures closer to reflecting the value-added of the services provided by workforce development programs rather than simply recording the effects of all factors (many of which are extraneous to the services) on a worker's employment outcomes. Such a performance system will help to lessen adverse incentives to "cream-skim" the enrollment of customers, a practice that works against providing services to those who need them most in these difficult economic times.

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