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**MULTILEVEL GOVERNANCE IN U.S.  
WORKFORCE DEVELOPMENT:  
THE CASE OF THE  
WORKFORCE INVESTMENT ACT**  
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Robert Bosch Foundation Research Scholars Program  
in Comparative Public Policy and Institutions  
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- #18. “Multilevel Governance in U.S. Workforce Development: The Case of the Workforce Investment Act,” Ines Hartwig (European Institute of Public Administration, Maastricht, The Netherlands).

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# MULTILEVEL GOVERNANCE IN U.S. WORKFORCE DEVELOPMENT: THE CASE OF THE WORKFORCE INVESTMENT ACT

## I. INTRODUCTION

Unemployment has long since been a more urgent problem in the European Union (EU), where it soared as high as 10.8 percent in 1996, than in the United States. Although the European Commission noted some success in combating unemployment (7.6 percent in 2000), it still considers this problem as one of the more urgent ones the EU is currently facing (European Commission July 2001-a). In the U.S., unemployment has decreased since the early 1990s and reached 4 percent in 2000, which is the lowest rate in thirty years. However, with the accelerating economic slowdown and certainly with the events of September 11, 2001, the United States is also facing sharply rising unemployment rates.<sup>1</sup> In April 2002, the unemployment rate reached 6 percent. If one looked at the employment rate, which, as many economists argue, is a more accurate tool to evaluate the employment situation in a certain country or region,<sup>2</sup> the levels are similar: 67 percent in the United States compared to 63.3 percent in the EU (average).

Even though these figures hint at great disparities in the employment situation, the EU as well as the United States are nevertheless faced with the same problem: increasing unemployment rates in the midst of an economic downswing. In spite of this similar challenge, the policy mix chosen by the EU and its member states to tackle this problem as compared to the United States is different. This is due to the fact that the policy mix preferred by the political elite depends on a number of different variables such as the structure of the economy, the legal basis of the polity, the country's position in the world economy, etc.<sup>3</sup> Moreover dealing with unemployment in particular touches upon dominant beliefs, values, ideologies, customs, and traditions of society regarding how to deal with poverty and welfare (Gil 1981, p. 32, Jann 2000, Schmid 2002, p. 73). Since the beginning of the European integration process, the European Community struggled with the different concepts of social policy in general and employment policy in particular in its member states without being prepared to replace their national policy with an EU labor policy (Geyer 2000, p. 258, Gold 1993, p. 18). In fact, it is only since the Luxembourg summit in 1997 and the Amsterdam treaty of 1999 that the EU established a joint responsibility for dealing with unemployment. In general it appears that these provisions are the reaction to a common understanding among member states that it is important "to invent structures and arrangements that marry established systems of national governance with overarching (but not monolithic) EU regulatory

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<sup>1</sup> Only between September 11, and end October, 400,000 people have lost their jobs. The unemployment rate jumped up by 0.5 percent. While early 2001 mostly white collar workers like dot-com programmers, stockbrokers etc. were hit by the shrinking job market, the developments after the attack hit low-pay jobs the hardest. New York Times 6 November 2001.

<sup>2</sup> In a study comparing the Portuguese and US labor market, Blanchard and Portugal show that although both countries had similarly low unemployment rates over the past 15 years, their labor market situation is completely different. Blanchard & Portugal 2001, p. 205.

<sup>3</sup> For instance Peterson has identified seven determinants of state choices regarding developmental and redistributive policy. These were taxable resources, poverty rates, the percentage of population living in central cities, minority percentage, population density, partisanship, and the professionalization of state politics. Although these variables provide useful guidance they are however, considered as too narrow since they mostly refer to economic categories and ignore other, more political aspects such as political system, traditional values etc. Peterson (1995) p. 89ff

frameworks” (Teague 2001, p. 21). Nevertheless the EU is still far away from having a full-fledged European employment policy<sup>4</sup> (Keller 1999). Instead, European social policy seeks to advance the European social dimension without further legislation, but on the basis of a European Employment Strategy (EES) and the Open Method of Coordination (OMC), it allows member states to formulate and implement their own policy concepts (Adnett 2001, p. 359, Hartwig 2002). Although the United States is much more advanced in terms of forming a political and economic union than the EU,<sup>5</sup> welfare policy, which includes workforce development policy, has been the subject of reforms in the last decades. In particular the former President Bill Clinton aimed at a fundamental reform of “welfare as we know it”.<sup>6</sup>

This study will look at one particular labor market instrument adopted by the U.S. Congress in 1998 aimed to combat unemployment: the Workforce Investment Act (WIA). This instrument is geared towards addressing an issue that politicians on both sides of the Atlantic have placed at the top of their priority list, namely to increase the competitiveness of their economy by improving the knowledge base of their working population. In the EU, the Structural Funds (more specifically the European Social Fund (ESF) and the European Regional Development Fund (ERDF) <sup>7</sup> are the major financial instrument that provide funding for such a policy objective. In formal terms both instruments show a great deal of similarities with respect to their fundamental principles, procedures and institutions. It is, however, a commonplace that institutions are embedded.<sup>8</sup> Therefore the way they work is part of the policy, cultural, economic etc. environment in which they are placed. Since the EU context differs considerably from the United States, it is safe to assume that their practical application differs considerably.

The aim of this study is not to draw lessons of the nature: “It is recommended to transfer this and that institution or procedure.” I will argue, instead, that although a simple transfer is not advisable there are still useful lessons to learn. It may focus our awareness for problems and we may be able to suggest modified solutions. By focusing on the implementation of the Workforce Investment Act, I aim to draw lessons for the implementation of Structural Funds in the EU.

As alluded to already in the paragraphs above, in order to fully evaluate the way the WIA is functioning it is necessary to outline the political environment in which the WIA is embedded. Therefore, the second chapter of this study will sketch the development of the U.S. welfare system, its underlying concepts and values and in particular the governance structure established through successive reforms. It will conclude with an analysis of the debate both in media and in Congress leading to the adoption of the WIA. The aim of this chapter is to establish the historical context in which the implementation of the WIA is embedded.<sup>9</sup> The third chapter will analyze the key features, principles, and procedures of the WIA. Again, this analysis will take an

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<sup>4</sup> Tidow (1999) labeled EU employment policy as a policy in abeyance (*Schwebezustand*).

<sup>5</sup> With view to their governance structure of the EU, Simon Hix (1998, p. 43) compares it with the U.S. in the 1930s.

<sup>6</sup> For an analysis of Clinton’s welfare reform package, see Caraley 2001-02.

<sup>7</sup> The (still relatively weak) role of the ERDF in combating unemployment has most recently been discussed in a special report of the European Court of Auditors (2001).

<sup>8</sup> This has been described by many authors and will not be pursued here in any detail. But see Peters (1999) for a rich account of the different approaches to institutional theory.

<sup>9</sup> For a study putting the historical concept of current policy developments at the center see Chambers (2000).

institutionalist angle by focusing on the governance structure established by the WIA. Chapter IV will look at the experiences in implementing the WIA. Although it will look at the experiences in all states, it will include two case studies: California and West Virginia. Since the WIA has only been fully operational since July 2000, these results can only be inferred at this stage. The final chapter will present some lessons the EU may draw from the U.S. approach to workforce development. Drawing lessons necessitates pointing out the methodological difficulties facing any research on U.S. employment policy in a comparative perspective. As outlined above, the problems result from the fact that the EU and the U.S. belong to different “worlds of welfare capitalism” (Esping-Andersen 1990). However, as Rose outlines, lesson drawing is not about a simple transfer of systems, but combines “technical appraisals of the feasibility of transfer and normative evaluations of political desirability” (Rose 1992, p. 26).

The fundamental research puzzle motivating this study is, how the institutional and procedural structure established with the WIA has been implemented and what the main problems and challenges for the formerly existing governance structure are. Taking a neo-institutionalist perspective this study is motivated by the assumption that effective implementation of the program depends upon a sound governance structure that includes policymakers and bureaucracies alike. Lawrence Mead, in his study of the welfare reform in Wisconsin, shows that the outstanding achievement of the state in transforming its welfare structure is largely based on “institutional excellence” (Mead 2001, p. 549).<sup>10</sup>

The above research outline demands the following analytical framework in terms of research variables: Primary and secondary legislation form the *independent variable*. The *dependent variables* in this research project are the institutional structure and procedural provisions of the WIA as implemented by the different levels of governance.<sup>11</sup> *Intervening variables* are characteristic features of the respective administrative culture, the collective memory and norms influencing actors and institutions involved in the governance system (Fisch 2000). Administrative systems are to be considered as sub-systems of the political system and multiple centers of thought and action, which have links outside the country. It is particularly relevant as a filter through which numerous outside influences must pass (Gow & del Carmen Pardo, p. 528). These variables will be determined by setting out the historical context in which the WIA has been placed.

There are obviously many other issues that can be addressed in a study on the WIA. Therefore let me also outline what this study will not do. It will not look at issues that are often at the head of economic analyses such as adequacy, equity, or efficiency of the policy instrument in question. It will not ask the question whether the WIA really contributes to its stated objective, namely to prepare the workforce for the challenges of the next century. Ignoring these questions does not mean that I consider them less relevant. The success of a certain policy instrument, however, does not only depend on a sound economic rationale but also on its institutional design. Policy makers seem to mostly consider the former and neglect the latter. This study aims to provide some

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<sup>10</sup> In several studies of the development of U.S. social policy, Theda Skocpol et al. has also underlined the importance of institutions for effective policy implementation (Finegold & Skocpol 1995, Skocpol & Campbell 1995)

<sup>11</sup> It goes without saying that policy processes can also be viewed as independent variables. In that case however, the focus is on analyzing their effects on e.g. economic development of states. Dye 1990, p. 201 ff.

insight in the way institutions are working and what EU policymakers can learn from the U.S. case.

## II. PRINCIPLES OF SOCIAL POLICY IN THE UNITED STATES

In Europe since the English Elizabethan Poor Law of 1601, welfare provision has been part of the state's responsibilities. In continental Europe, welfare policy<sup>12</sup> is based on public law (Bordas 2001, p. 225). It is, however, obvious that the way and by what means public administration delivers welfare services is an issue to be determined by political processes and politics rather than through legal proceedings. Nevertheless the welfare situation of individuals in general and their employment situation in particular is not considered to belong to the private sphere but bears a public dimension. Welfare policy is based on public interest. Although there are consequently great differences between the countries of continental Europe, they all, nevertheless, share this perception of welfare policy as a public task,<sup>13</sup> which the national government has to handle<sup>14</sup> (Benz et al. 2000, p. 77, Heidenheimer et al. 1990, p. 354).

Although the U.S. has always looked to Europe for models both for specific programs and general approaches to social policy,<sup>15</sup> the U.S. system developed fundamentally distinctively from those in continental Europe (Bendick 1985, p. 6, Knoke et al. 1996, p. 28ff). Policymaking in the United States is, rather, guided by the individualist tradition that stresses equal opportunities rather than public tasks. Unlike continental European thinking of sovereignty, U.S. citizens do not designate sovereignty to centralized administrative institutions, but attribute it to law and the constitution<sup>16</sup> (Bull 1997, p. 347, Karger & Stoesz 1998, p. 10, Skocpol 1995-b, p. 101, Zürn 1999). The federal government, despite the clause in the preamble of the U.S. constitution obliging it to "promote the general welfare" is traditionally not viewed as the appropriate level of government that should be involved directly in social assistance programs or active labor market policy (Ginsberg 1999, p. 25). Responsibility for relief of poverty rested with the municipalities, local authorities, and last but not least with private charity (Lomax Cook & Barrett 1992, p. 9; Morris & Hansan 1997, p. 9). Until the mid 1930s, there were no old-age pensions, maternity benefits, child allowances, or

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<sup>12</sup> The terms welfare policy, social policy and employment policy will be used interchangeably in the first two chapters. They comprise poverty relief, public health care, unemployment benefits, and social security.

<sup>13</sup> Budäus (1998) points out that as a consequence of modernizing public administration in the EU member states the classical dichotomy between public and private sector is somewhat softened. Thus tasks and competencies which have traditionally been attributed to public administrations can now also, at least partly, be performed by the private sector.

<sup>14</sup> In particular, Margaret Thatcher's push for Euroliberalism questioned a consensus upon which the European integration process had been built. The challenge for the EU/EC at that time was to find a response that combined the advantages of the neo-liberal approach with policies to combat disadvantages. In the post-Thatcher phase, this response was often labeled as Third Way of the EU. (Blair 1998: 19, Kenner 1999: 39-40)

<sup>15</sup> However, with regard to regulating the labor market, the EU member states, however, looked more often at the United States than vice versa. Kasten & Soskice (2000).

<sup>16</sup> This perception is, among others, reflected in a comparatively low share of state expenditure in the U.S. gross domestic product: 35 percent in the United States, e.g. Sweden has a share of 60 percent. (Albrow 2001, p. 159) For a congressional debate about the role of the federal level in workforce development, which reveals very clearly the mistrust in a stronger federal government's role in this policy field (see U.S. Congress 1995-e).

health insurance schemes. The state governments organized employment services but they varied greatly in efficiency and there was no inter-state service (Birch 1955, p. 27). Responsibilities of the federal government usually included international relations, operating the money system, and resolving disputes between the states. Before the Great Depression in the 1930s, which led to the New Deal legislation package, the federal level provided only very little money for social programs.<sup>17</sup> Due to this reluctance of a public role in welfare and in contrast to European countries, which aim to operate under a comprehensive and integrated social policy plan, the American system is a patchwork of programs and policies.

This limited role of the central government is reflected in what is referred to as welfare policy in the U.S. context. The U.S. type of welfare is clearly divided between pure redistribution of welfare proper (e.g. assistance to needy families) and social insurance based on the equivalence between contribution and expected payoffs (e.g. unemployment benefits).<sup>18</sup> In this sense, the WIA belongs to the welfare-proper part of U.S. welfare policy because being eligible to services under the WIA is not dependent on previous contributions. However, recently laid off workers who receive unemployment benefit out of their unemployment insurance are also eligible for WIA-services, the WIA also provides services into the insurance part of welfare policy. This distinction between the two parts of welfare policy is, however, not always a guide in policymaking. In the words of former President Bill Clinton and Vice President Al Gore, welfare policy is about “putting people back to work” (Clinton & Gore 1992, p. 164). Consequently, Democrats and Republicans alike did not link employment policy to issues such as underemployment, low wages, or the organization of work, but regarded employment policy as a means to “enhance job readiness” (Weir 1992, p. 173).

Many explanations for the different development of continental European and U.S. welfare systems have been developed.<sup>19</sup> The most widely discussed include the genuine distrust in centralized government in the United States. Amenta and Skocpol argue that the racial, ethnic, and religious diversity of the United States has prevented the emergence of a comprehensive welfare state (Amenta & Skocpol 1989, p. 292ff). Another explanation is that the country’s high degree of political decentralization impedes the emergence of strong central political institutions. Combined with a high degree of diversity, the tradition of decentralization creates cleavages in American society that effectively prevent the emergence of a strong, centralized, and comprehensive welfare state (Karger & Stoesz 1998, p. 439). In addition to the separation of powers, another barrier to governmental initiatives in welfare policy was seen in the perception of the cause of poverty. “Most people holding positions of power maintained that poverty was a self-inflicted condition that could only be overcome through self-dedication and hard work. Government involvement not only would be of

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<sup>17</sup> Before the Great Depression the federal government essentially only conducted social programs geared to a very limited and clearly specified target group, i.e. war veterans, native Americans, immigrants upon their arrival to the nation, and former slaves. Ginsberg (1999), p. 27. Theda Skocpol (1992) in a very comprehensive study on the origins of U.S. social policy added the category of mothers (of soldiers) to the list of those benefiting from social assistance programs prior to the Great Depression.

<sup>18</sup> This distinction does not exist in continental Europe where welfare comprises assistance as well as insurance. Schelkle (2000) p. 14

<sup>19</sup> For a rich study presenting a wide variety of explanations for the differences between the European and American type of welfare state, see Orloff 1988. For a comparison of different theories explaining the American and European-type welfare system, see: Fox Piven & Cloward (1993), in particular pp. 407 ff.

no use, but also would symbolize the government's sanctioning of laziness and sloth" (Lomax Cook & Barrett 1992, p. 8).

## 1. From the 'New Deal' to the Bush Era

The Great Depression, along with massive impoverishment of large parts of both rural and urban society, could no longer be tackled by relying on the traditional division of tasks between federal, state, local governments and private organizations. Shortly after his first election in November 1932, President Franklin Delano Roosevelt presented a large package of legislative measures that essentially laid down the basic structure of the American welfare state. He called this legislative program the New Deal. Its immediate objective was to provide and protect opportunities for work for limited emergency periods. The measures could be understood as an employer of last resort augmented by a worker/employer-financed social insurance system (Morris & Hansan, 1997). The strategy behind the New Deal was as follows: (1) the government agreed to share responsibility for the relief of poverty, (2) a number of Acts were passed which were designed to increase employment and help industry and agriculture to recover (Birch 1995, p. 30ff). The adoption of these measures was also possible because society showed a growing confidence in the efficiency and effectiveness of federal level policy making (Watson & Gold 1996; Soe 1997, p. 107).

The New Deal was, however, not aimed at redistributing wealth; it operated consistently within the constraints of a capitalist system. Its primary aim was to restore the U.S. economy and prevent future depressions by improving the economic conditions of the nation via (among others) employment-based policies (Ginsberg 1999, p. 29; Morris & Hansan 1997, p. 6; Venn 1998, p. 102). Thus, although the New Deal considerably extended federal funded social policy programs and established the federal government's role in social policy, it still preserved a characteristic fundamentally distinctive from European social policy concepts, which is worth noting. This is the omission of any programs based on a concept of shared social citizenship and a clear distinction between targeted and universal programs. Moreover, it did not challenge the decentralized orientation of social policy (Pierson 1995, p. 301).

In spite of the very broad support in Congress that President Roosevelt enjoyed in 1933/34, the New Deal generated very heated debates in Congress. The opposition could be found both with the Conservatives and the Democrats (Patterson 1967, p. 31). In the words of Virginia Senator Carter Glass, the New Deal was "an utterly dangerous effort of the federal government to transplant Hitlerism to every corner of the nation" (Patterson 1967, p. 13). However, by 1937 support for more sweeping social policy legislation had faded and Congress was much less eager to embrace the president's plans for more emergency measures<sup>20</sup> (Rauch 1944, p. 265ff). Overall, as Finegold and Skocpol conclude

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<sup>20</sup> Patterson identified two main reasons for this shrinking support: (1) The measures of 1933-35 were targeted both at rural and urban poverty. When (liberal) urban states demanded more support for their poor, Congressmen from (conservative) rural states declined their support. (2) The economic situation of 1933-34 differed considerably from that in 1937. In 1937 many believed that the emergency was over and that the New Deal should adhere to normal life. The economic recession of 1937, though fundamentally different from the depression of 1933, proved to impatient Congressmen the inability of the New Deal to

... instead of a politically managed, centralized capitalist system, the New Deal established a Broker State, a government intervening in an ad hoc and piecemeal fashion, on behalf of favored groups and sectors. Incapable of national planning in any meaningful sense, the post-New Deal state has been an enlarged and more socially intrusive hodgepodge of separated nexuses of power, a collection of sub-systems linking partially autonomous bureaucratic agencies, special support in Congress, and organizations representing well-bounded socioeconomic interests (Finegold & Skocpol 1995, p. 20).

With regard to labor market measures, the New Deal brought about the National Labor Board created with the National Industrial Recovery Act of 1933, the National Labor Relations (or Wagner) Act of 1935, the Works Progress Administration (WPA) – a social welfare program that dealt directly with the individual citizen – which was created by executive order in 1935 and continued until 1943. It eventually provided jobs for eight million people by creating work in many fields, such as construction. These acts and programs mark the formal beginning of the federal government’s activity in job training and employment. They laid the groundwork for programs such as the Manpower Development and Training Act of 1961, the Comprehensive Employment and Training Act (CETA) of 1973 and the Job Training Partnership Act (JTPA) of 1982 (Ginsberg 1999, p. 29; Finegold & Skocpol 1995, p. 9).

With respect to the governance structure and the role of the federal government in social policy, the New Deal had an immense long-term effect. Although the states and local governments retained an extensive role,<sup>21</sup> it altered the role of federal government permanently in that it established a role in labor market policy (Lieberman & Lapinski 2001, p. 304; Skocpol 1995-d, p. 13, Venn 1998, p. 102ff; Weir 1995, p. 329). Since then the decentralized system of social policy has gradually received more nationalized features including more uniform benefit packages and eligibility rules. Local administrative discretion was reduced. Pierson (1995, p. 302) identified three developments that contributed to this nationalization process: (1) Washington’s gradual assumption of authority over previously shared programs; (2) the creation of new national programs; and (3) the more rapid growth of national programs as opposed to shared programs.<sup>22</sup> Opposition to more nationalized income transfer came mainly from the following groups: business, representatives of the Republican Party, and southern Democrats. At first sight it is surprising that southern Democrats were opposed to a national system of welfare that would have generated considerable net transfers to their region’s benefit. However, as Pierson’s analysis shows, it would have also endangered the South’s major competitive advantage within the American economy: the availability of a cheap, non-unionized workforce. The league, which, in general, favored nationalization included northern Democrats, strapped state governments, and organized

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avoid recessions. To them it appeared that an administration could not solve the economic problem. James T. Patterson 1967, p. 332ff. See also: Skocpol 1995-a, p. 70ff.

<sup>21</sup> In fact, only one program introduced was fully national. All other income transfers were either left to states and localities or treated as joint responsibilities of the state and national tiers of government. Pierson 1995, p. 302

<sup>22</sup> As Steven Gold noted during a hearing before the Committee on the Budget of the House, states do usually not increase their aid programs during recession. This over time also contributed to significantly higher rates of expenditure in national programs than in shared ones. U.S. Congress, House Committee on the Budget, Hearing on Federalism, 104<sup>th</sup> Congress, 2<sup>nd</sup> session, Serial No 104-19, March 5, 1996, p. 39.

labor. Both opposition against, and support for nationalization have been “a matter of economic interest rather than institutional competition” (Pierson 1995, p. 325). As a consequence of this predominantly economic view on nationalization of social policy, state-level support often depended on the promise of fiscal relief.

The most notable and active era of social policy development, after the New Deal, was in the 1960s under President John F. Kennedy and his successor, President Lyndon Johnson. President Kennedy called his program the New Frontier, and President Johnson called his the Great Society. Mostly driven by the civil rights and the antipoverty movements, these two programs led to the reform of social policy legislation and to an increase in federal social spending. Since the Great Society project, welfare policy has become an explicit area of the federal U.S. political arena (Daynes & Sussman 2001, p. 15; Ginsberg 1999, p 36ff, Skocpol 1995-c, p. 499). This very active period was followed by a relatively constant era that lasted until early 1980.

When Ronald Reagan was elected President one of his main policy priorities was to return competencies from the federal level back to states and local governments. “My Administration is committed heart and soul to returning authority, responsibility and flexibility to state and local governments” (Reagan 1981, p. I). That his determination to empower the sub-federal level did not only refer to political responsibility, but also included funding of programs that had already become clear in his speech accepting the Presidential nomination as Republican candidate: “...everything that can be run more effectively by state and local government we shall turn over to state and local government, along with the funding source to pay for it” (Reagan 1981, p. 1). This devolution also included channeling tax-income back to the states.

With regards to federal aid programs, including employment and training programs, Reagan favored the transformation of categorical programs into block grants. Categorical grants or programs are aid programs in which Congress designates specific purposes for which funds are to be used. Block-grants are thought to have more diffuse objectives and allow local officials a good deal of discretion over the ways funds can be used<sup>23</sup> (Walker. D. 1995, p. 236; Peterson et al. 1986, p. 21). He proposed to consolidate thirty-four programs into four mega-block grants over a period of five years (U.S. Congress 1993).

Further objectives of Reagan’s concept of federalism included the following:<sup>24</sup>

- “Utilize planning, audit and review functions at the state and local level, wherever possible.
- Where appropriate, move federal regulatory authority from the federal level to state and local levels of government.

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<sup>23</sup> By placing decision-making in the hands of the mayors and governors, Congress can pursue national goals, but at the same time increase program responsiveness to local needs. Opponents of block grants argue that both national purposes and program accountability are weakened. Federal level control, whether the funds really went to the very needy people or rather to just below the eligibility criteria. Ch. Walker (1994), p. 2ff. Lieberman and Lapinski argue that leaving control of welfare programs to local politicians has largely established a racial and regional divided institutional pattern. Lieberman & Lapinski (2001), p. 327ff. However, it was not Ronald Reagan who invented the idea of block grants but President Richard Nixon was the first who succeeded in convincing Congress to adopt a block grant. (Chubb 1992, p. 270)

<sup>24</sup> For a comprehensive analysis of Reagan’s vision of federalism applied to the concept of block grants see Barfield (1981).

- Remove federally imposed spending mandates on state and local government when they accept federal grants.
- Replace federal funding with a transfer of revenue sources from the federal Government to state and local governments.
- Substitute, where appropriate, state governments for the federal government in dealings with local government” (Reagan 1981, p. 2).

In terms of funding level this approach had a considerable impact. At the end of the Republican era with three consecutive Republican presidents, many of the previously nationalized social policy programs faced considerable reduction in funding, which in some cases led to their complete abolishment.<sup>25</sup> Consequently, the number of categorical grant programs declined by 25 percent in Reagan’s first term and even further in his second term (Peterson et al. 1986, p. 418). Caraley estimated that grants for cities were cut by about 46 percent between 1980 and 1990 (Caraley 1992, p. 8). Former President Bush’s agenda did not add new elements to this approach, but is “best described as a collection of fine tunings in the general support of already established ideas” (Light 1999, p. 291).

However, with regard to the governance structure the changes were somewhat less dramatic, as Reagan’s concept of federalism did not fundamentally change the federal-state-local relationship in welfare policy. Although there was a very strong rhetoric in favor of the further dismantling of the welfare state and the returning of responsibilities to state and local levels as well as to the private sphere,<sup>26</sup> only limited adjustments took place and the system remained largely intact. In fact Kincaid, Bowman and Pagano argue that the federal government exercised more authority unilaterally over more facets of state and local government than ever (Bowman & Pagano 1994, p. 2). A comprehensive decentralization was also scuttled by the fact that the idea and rhetoric of devolution were never translated into coherent workable policy proposals in the New Federalism<sup>27</sup> (Karger & Stoesz 1998, p. 18ff; Peterson et al. 1986, p. 418 ff).

Furthermore, to Weir, American social policy and politics at the end of the Republican era were characterized by “defensive localism, in which the aim (was) to reduce domestic spending by the federal government, push responsibilities down to lower levels of government, and contain the social problems associated with poverty – and their costs – within defined spatial and political boundaries“ (Weir 1995, p. 352). The Republican argument was that because of the New Deal, public administration began shouldering more tasks than it could effectively manage, thus interfering with economic development. In this view the principle of free choice was violated, because welfare services are provided by the state and not by the marketplace (Bordas 2001). Thus, although the structural changes in welfare policy were less dramatic than Reagan had aimed for, the Republican campaign managed to revitalize the criticism of the federal role in areas such as employment policy and revive and strengthen public

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<sup>25</sup> Bartle (2001, p. 26) concludes that this focus to cut down spending in the (non-defense) public sector, essentially linked with President Reagan, constituted a major shift from earlier Republican messages which were essentially geared to achieve a balanced budget

<sup>26</sup> More recent examples of vivid opposition against a U.S. welfare state can be found in the following readings: Richard M. Ebeling et al. (1995); Charles Murray (1993).

<sup>27</sup> Richard S. Williamson, Assistant to the President for Intergovernmental Affairs, called President Reagan’s New Federalism Initiative not a “detailed plan but rather a conceptual framework.” (Williamson 1983, p. 13-15)

hesitancy vis-à-vis federal involvement in welfare policy (Karger & Stoesz 1998, p. 33; Lomax Cook & Barrett 1992, p. 236 ff; Morris & Hansan 1997, p. 182). The longer term impact of the Republican period was a considerably strengthened public hostility towards welfare and national activities in labor policy. Consequently, public trust in the central government's capacity to solve the problem of unemployment and social unrest hit a very low point.

## **2. Clinton and Gore's New Approach or the "End of Welfare As We Know It"**

In contrast to former President Bush, who barely had any domestic agenda, Clinton had a strong interest in domestic policy (Light 1999, p. 277 ff). Due to the overall public mistrust vis-à-vis federal welfare initiatives,<sup>28</sup> however, and unlike during the New Deal or the Great Society, Clinton's administration was not given a mandate to shoulder more social policy tasks on central administration (Murswieck 1996, p. 20). No liberal government that had to act in the patchwork-like federal system of the United States could afford to ignore this.<sup>29</sup> Also due to this pre-condition, Clinton's approach to welfare policy did not break from the policies of the Reagan and Bush Administrations (Gillon 2000, p. 83ff).

In their book, "Putting People First," Clinton and Gore capture their approach to welfare programs very clearly:

We must take away power from the entrenched bureaucracies and special interests that dominate Washington. We can no longer afford to pay more for – and get less from – our government. The answer for every problem cannot always be another program or more money. It is time to radically change the way that governments operate – to shift from top-down bureaucracy to entrepreneurial government that empowers citizens and communities to change our country from the bottom up (Clinton & Gore 1992, p. 23ff).

As regards welfare policy, a bipartisan understanding had developed, which resulted in the understanding that there are different groups of people who are poor for very different reasons. There was no question about helping the "deserving poor," the crucial point was to get rid of those beneficiaries who did not deserve welfare support, mostly the unemployed, mothers, etc. (Kincaid 2001, p. 17). Whether a potential beneficiary fell into this category had to be determined on a case-by-case basis (Gillon 2000, p. 83). Bill Clinton presented himself as a spokesman of this bipartisan understanding.<sup>30</sup> In particular after the 1994 elections, which resulted in a Republican majority in both houses, he streamlined his positions and moved further to the political center.

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<sup>28</sup> As Lomax, Cook and Barrett (1992, p. 24 ff) noted, that this mistrust and a lack of legitimacy for welfare programs was perceived both in Congress as well as in public opinion.

<sup>29</sup> A survey conducted by the Advisory Committee on Intergovernmental Relations (ACIR) found that nearly half of all Americans felt that they got the least for their money from the federal government, 16 percent felt that way about state government, and 18 percent believed that about local governments. Thus the overall trust in federal government was significantly lower than for state and local governments Galston & Tibbetts (1994), p. 47.

<sup>30</sup> In his announcement speech, he claimed that the reform concept was neither "liberal or conservative. It is both, and it's different." Clinton & Gore (1992), p. 191.

Consequently, welfare policy since 1994, and, in particular, since Clinton's second term was heavily influenced by a Republican agenda. Republicans, led by Newt Gingrich and his caucus initiated a Contract for America.<sup>31</sup> The resulting welfare reform bill of 1996 radically overhauled the sixty-one-year-old New Deal welfare system (Tang & Smith-Brandon 2001, p. 243). The adoption of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) ended the federal entitlement to welfare.<sup>32</sup> It eliminated the federal guarantee to welfare and replaced it with block grants, which not only gave states more power to determine the criteria for eligibility, but it also stipulated a limit of five years to lifetime welfare benefit.<sup>33</sup> The PRWORA also led to a major change in policy with regard to employment and training. For example, it established the work first strategy that gives job placement priority over formal training. This change in training policy prepared the ground for a similar provision in the WIA.

With respect to managerial responsibility for welfare, the Clinton & Gore type of federalism, followed a different rationale than Reagan and Bush's approach. It focused on devolution rather than on retrenchment from welfare and labor policy. Financial responsibility for taking care of the poor should not be returned to the private sphere and private charity. Clinton considered welfare a public responsibility. The following structural principles underpinned their approach to reorganize the welfare system (Galston & Tibbetts 1994, p. 24; Peters 2001-a, p. 176):

1. The federal government should lead by establishing national goals, allowing states and local governments maximum flexibility in choosing the means to achieve these goals.
2. Increasing flexibility for states should include maximum use of waiver authority, which, on the side of the federal government, should be complemented by stricter enforcement of performance standards.<sup>34</sup>

In spite of giving states more flexibility, Clinton nevertheless aimed at streamlining the system by improving coordination among the different programs, which could also include merging a number of smaller programs into bigger ones.<sup>35</sup> His main objective was to make such a fragmented system more coherent; not necessarily to relieve the federal budget of welfare obligation. Achieving this was thought to contribute to the most discernible feature of Clinton-style federalism: making intergovernmental service delivery more efficient and effective for government's customer (i.e. citizens).

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<sup>31</sup> See Susan Webb Hammond (1998) for a rich historical account of the caucus system and how Newt Gingrich in particular helped the caucus system to forward his policy concepts.

<sup>32</sup> Clinton had already vetoed two previous acts adopted with Republican majority, i.e. the welfare reform proposal introduced as part of the 1996 Budget Reconciliation Act and the Welfare Overhaul Bill declaring that it did "too little to move people from welfare to work." Caraley (2001-02), p. 528

<sup>33</sup> As Lieberman and Lapinski show by looking at the case of Afro-American citizens, decentralization has often led to a decrease in welfare benefits. Lieberman & Lapinski (2001), p. 307 + 327.

<sup>34</sup> Although not explicitly spelled out, performance standards as used in this debate mostly seemed to relate to a better input/output/effect relationship. Other levels of performance such as better processes, better structures and cultures did seem to be of lesser importance. See for a theoretical concept of performance Bouckaert 2001.

<sup>35</sup> The National Performance Review noted that e.g. there were more than 140 federal programs assisting children and their families, while funding is administered by ten federal departments and two independent agencies. National Performance Review (1993) p. 50.

### III. THE WORKFORCE INVESTMENT ACT

At the dawn of a new century, which – in the words of former Secretary of Labor Alexis Herman – is expected to be “filled with endless possibilities for growth and opportunity”<sup>36</sup> and at a time when the unemployment rate is at an all time low and wages on the rise, the United States set out to overhaul its workforce development system (O’Shea & King 2001, p. 20). It was the first major reform of the U.S. job training system in over fifteen years. Although not revolutionary in that it did not completely break with tradition, it is, nevertheless, widely assessed as a landmark piece of legislation which required a “complete re-engineering of the entire workforce development apparatus” (Sickle 2001, cf. Nilson 2001, Shreve 1998). As noted by some scholars, the WIA - if implemented successfully - requires the reestablishment of fundamentally changed governance and administrative structures (Teegarden & Baran 2000, p. 19, D’Amico et al. 2001, p. ES-2). Thus, the WIA can be considered as a new and, in managerial terms, very demanding tool to combat unemployment.

It may come as a little surprise that at a time of huge economic upswing this major reform package was adopted. The reason could be seen in the fact that with the booming economy the demand for new highly skilled and trained employees was rising. The U.S. labor market was not able to fill this demand; in fact, it faced a severe shortage.<sup>37</sup> On the one hand, employers could not attract qualified workers. On the other hand workers with few or no skills felt trapped in jobs leading nowhere. Thus the incentive for developing a new workforce development system did not result from high unemployment or economic downswing but, rather, the opposite.

The new system was not aimed at redistributing wealth, as this would be fundamentally contrary to market mechanisms (Bordas 2001, p. 231), instead, it was aimed at “creating a system of connecting employment, education, and training services to better match workers to labor market needs” (U.S. General Accounting Office 2001, p. 1). Thus in spite of its new elements, the fundamentals of U.S. employment policy, i.e. to serve business interests remained unquestioned. It did not universally establish public responsibility for groups of society disadvantaged on the labor market

The Workforce Investment Act (WIA) was signed into law on August 7, 1998 (P.L. 105-220). It became fully operational in all states on July 1, 2000. This Act brought together several existing workforce development programs under one act and changed the way they are to be implemented at the state and local level.

#### 1. The Previous Workforce Training System and the Reasons for its Reform

Education and training policy was absent from the federal agenda before World War I. Only after World War I was the Smith Hughes Vocational Education Act adopted, an act that was geared towards the reintegration of returning soldiers into the workforce. Training and education did not form part of the New Deal legislation either. It was not until the early 1960s that the federal government initiated a nationwide and comprehensive job-training program. However, in contrast to the German concept of job-training programs that focuses on highly skilled jobs, the U.S. programs have

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<sup>36</sup> Alexis Herman, *Message from the Secretary of Labor*, 12 November 1998.

<sup>37</sup> A workforce study conducted by the West Virginia Roundtable showed that 78 percent of employers have shortages of skilled employees in areas like manufacturing, engineering, health care, and sales. *The Charleston Gazette* 06/27/99.

continuously concentrated on “remedial education and job orientation skills for disadvantaged workers in unskilled jobs” (Janoski 1990, p. 109). Another significant difference to German job training is the funding level. While Germany spent 0.212 percent of its GNP on Job Training in 1985, the United States only spent 0.092 percent for this purpose (Janoski 1990, p. 107).

The first far-reaching job-training program was created in 1962: the Manpower Development and Training Act (MDTA), strengthened by the Economic Opportunity Act of 1964. These two acts were geared towards addressing the problem of displaced workers and structural unemployment caused by massive automation in industry (Shreve 1998). They were established as a top-down federal approach. Federal employees determined training needs and initiated grants to the states with provisions targeting the trainees, service providers and training to be conducted. By 1973, the federal programs created to prevent and cushion the economic effects of the disadvantaged, to provide better access to existing jobs and to create jobs through public service employment (PSE) had become so numerous that a law was passed to consolidate them under the umbrella of the Comprehensive Employment and Training Act (ETA). Local governments had become the principle administrative agents for the programs, although these programs required compliance of local practices with federal planning and evaluation provisions. Overall, however, local adaptation was geared more towards satisfying federal guidelines than providing an opportunity to introduce purposive changes in local service delivery (Peterson et al. 1986, p. 101).

During the Republican era, the new approach to federalism, as outlined above, was reflected in the Job Training Partnership Act (JTPA) adopted in 1982, which remained the largest training program. It outlawed PSEs, required funds to pass to localities through the state government, emphasized training, required a state advisory council, and required the creation of local administrative units called private industry councils, which would have at least 51 percent business membership. Although the JTPA sought to put the administrative responsibility to the local governments, in fact only very few states did actually push the responsibility down to the local level (Adkisson & Peach 2000, p 162ff; Kelly & Ransom 2000, p. 64; Watson & Gold 1996, p. 8).

The training and employment system, however, remained scattered over a number of different programs, administered by different agencies each providing for separate funding streams and authorizing legislation. This system bore not only the risk of ineffective use of funds but also of competitive relations between the different agencies involved<sup>38</sup> (National Commission for Employment Policy 1991; U.S. GAO 1994). Reviews conclude that the impact of JTPA and training programs in general was mixed (Cockx & Bart 2000: 472 ff, OECD 1999, p. 144 ff, Tronti 1999, p. 14ff). Classroom training did not appear to help any target group. In contrast, programs in the area of intensive long-term classroom training seemed to significantly improve clients’ skills, employment and earnings, and were considered to be cost-effective despite their high price tag. On-the-job training appeared to be relatively effective but it assisted only relatively few individuals. Job search assistance appeared to be very effective in

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<sup>38</sup> In 1991, the U.S. GAO identified 125 separate federal programs of funding streams that provide employment training assistance to adults and out-of-school youth. In 1993, this number had increased to at least 154; and in 1995 this number increased further to 163, administered by fifteen different federal agencies. These programs channeled about \$20 billion. Most of the programs were administered by the Departments of Education and Labor, i.e. sixty-one and thirty-seven programs respectively. Testimony of Clarence C. Crawford, U.S. General Accounting Office, U.S. Congress 1995-d.

speeding reemployment. Overall, the OECD study argued that evaluation efforts had to be stepped up in order to ensure that resources are directed to the most effective measures for those most in need of assistance. Also coordination between the different training activities needed to be stepped up. JTPA did provide only few incentives or sanctions for failure to coordinate (Shreve 1998). In fact, the legal provisions governing the different programs provided obstacles to coordinate the various programs because they applied different definitions of target groups. For instance the programs targeting youth varied in eligibility requirements because of different age limits. The lower age limits ranged from eleven to sixteen years of age, while the upper age limits ranged from nineteen to twenty-seven (U.S. GAO 1994, Appendix IX).

Policy priorities were outlined in plans separately adopted within the context of each program. The responsibility to administer the programs was divided between federal and state level with the federal level having the overall oversight and policy defining role including the role of reviewing the plan and approving it, allocating performance awards and sanctions, and managing national activities. One of the results of this fragmented training system was that only very limited data was available on the impact that training had on a job seeker's ability to obtain and maintain employment (U.S. GAO 2001, p. 6ff)<sup>39</sup>. Another result of this lack of coordination was that states or local communities did not develop a targeted and coherent employment strategy. These shortcomings and weaknesses were subject to heavy criticism, as they were considered to lead to inefficient use of funds and a lack of accountability (Murswieck 1996, p. 18; Shreve 1998; U.S. Department of Labor 1998, p. 3ff).

Under the Democratic administration, reforms of the training and employment system essentially started in 1994. They had the following objectives (U.S. Department of Labor 1998, p 3ff; Shreve 1998; U.S. GAO 1994, 2000, and 2001, Barnow and King 1999, p. 7ff):

- streamlining services;
- leaving more flexibility to states and local communities with a view to aligning labor market areas<sup>40</sup>;
- redefining the sub-state system of service delivery to include workforce investment boards which include wider parts of society;
- developing an accountability system based on program performance and state standards;
- ensuring quality in training and offering clients a better choice of different training providers.

## **2. Key Features of the Workforce Investment Act**

With the WIA, Congress sought to replace the existing fragmented training and employment system and to coordinate and integrate the separate federal programs under

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<sup>39</sup> Overall however, as Jodi Nudelman (1999) shows in her study based on a sub-sample of the National JTPA study data the impact of JTPA services was generally positive, although not all effects were statistically significant.

<sup>40</sup> A service delivery area under JTPA needed to have at least 200,000 population.. There were more than 650 local Job Training Partnership Act Service Delivery Areas (Watson & Gold 1996, p. 8).

one single system. In particular it addressed the JTPA of 1982 and the Wagner-Peyser Act of 1933.

The WIA consists of five titles. Title I establishes the purpose, goals and operational framework, including procedural and institutional aspects of the Workforce Investment System. Title II establishes the modified guidelines for adult education and literacy training. Title III contains amendments to other workforce investment-related activities (e.g. Wagner-Peyser Act). Title IV contains amendments to the Rehabilitation Act of 1998, and Title V lists general provisions.

The key principles of the new system are the following (U.S. Department of Labor 1998, p. 3; U.S. General Accounting Office 2001, p. 2; O'Shea & King 2001, p. 9ff).

### 2.1. Streamlined Services

WIA aims at streamlining services through a better integration of the different programs at local level. WIA requires that at least seventeen programs administered by four federal agencies, representing a range of service delivery methods consisting of block grants as well as mandatory grants are channeled through the one-stop service centers to be established in every local workforce investment area.<sup>41</sup> Although the Department of Labor (DOL) supported the establishment of one-stop systems already before the adoption of WIA,<sup>42</sup> WIA extended its scope in that not only are programs supported by the DOL, but also by other government departments, i.e. the Department of Education, the Department of Health and Human Services and the Department of Housing and Urban Development, should be channeled through the one-stop centers. As the following table shows, however, the programs of the DOL take by far the largest part of all programs integrated into the WIA.

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<sup>41</sup> In addition, three other categories of programs of limited scope are required to provide services through the one-stop centers. (U.S. General Accounting Office 2000, p. 4)

<sup>42</sup> In 1994 the Department of Labor began awarding one-stop implementation grants to help states integrate employment and training services for Labor-funded programs. When the WIA was adopted in 1998 all fifty states had received at least some funding under this scheme. (U.S. General Accounting Office 2000, p. 3)

The following table lists the mandatory partners and related government departments coordinated by the WIA:

<b>Federal agency</b>	<b>2001 appropriation (Mio. USD)</b>	<b>Mandatory program</b>
Department of Labor	950	WIA Adult
	1.590	WIA Dislocated Worker
	1.103	WIA Youth
	1.016	Employment Service (Wagner-Peyser)
	407	Trade adjustment assistance programs
	159	Veterans' employment and training programs
	2.349	Unemployment insurance
	1.400	Job Corps
	1.500	Welfare-to-Work grant-funded programs
	440	Senior Community Service Employment Program
	77	Employment and training for migrant and seasonal farm workers
55	Employment and training for Native Americans	
Department of Education	2.376	Vocational Rehabilitation Program
	540	Adult Education and Literacy
	1.100	Vocational Education (Perkins Act)
Department of Health and Human Services	600	Community Services Block Grant
Department of Housing and Urban Development (HUD) <sup>43</sup>		HUD-administered employment and training

Source: U.S. General Accounting Office 2001, p. 4

Optional programs to be included in the services offered at the one-stop centers include the Transitional Assistance to Needy Families (TANF) work programs and the school-to-work programs. While the WIA made the creation of one-stop centers mandatory, it did not prescribe their structure or specific operations. However, in June 2000, DOL published some guidance models. In general they encourage a work-first approach,

<sup>43</sup> According to HUD, none of its many workforce development initiatives has employment and training as a primary purpose nor are they required to use their funding for employment training purposes, although they may do so.

allowing federally funded training beyond core services only if eligible individuals cannot be placed in employment on the basis of their existing skills, regardless of the wage level.<sup>44</sup> The core services of the one-stop center are not only geared to the service seeker (e.g. determination of eligibility and initial assessment of service seeker, job search and placement assistance, career counseling), but also by collecting and providing information on effectiveness of the WIA funded measures, such as the collection and provision of performance and cost information on training providers, on local area results on WIA performance measures, etc.

## 2.2. The Planning Principle

Planning and drafting multi-annual plans for the different programs as such is nothing new. The planning principle, as included in the WIA, however, requires the states and local communities to draw up a five-year strategy for the statewide workforce investment system.<sup>45</sup> This plan should not be limited to one of the mandatory programs, but should outline the state's workforce development strategy. Consequently, the DOL encourages the submission of unified state plans that cover the mandatory programs of the WIA. The plans shall include the following:

- a description of the state board including a description of how the board developed the state plan;
- a description of the state-wide workforce investment system;
- a description of the state performance accountability system developed for the workforce investment activities;
- a designation of local workforce investment areas<sup>46</sup>;
- criteria to be used by local elected officials (LEO) for the appointment of members of local boards;
- a description of procedures to assure coordination of the different workforce investment programs and how to fulfill data collection and reporting requirements;
- a description of methods and factors the state will use in distributing the funds to local areas;
- a description of the needs of the state regarding current and projected employment opportunities; the job skills necessary to obtain such employment; the skills and economic development needs of the state; the type and availability of workforce investment activities in the state; and a description of the activities that will be carried out with the funds.

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<sup>44</sup> This approach has been criticized because it may merely transfer the welfare poor to the ranks of the working poor. (Mangum 1999, p. 328) It has also been noted that this contrasts work first approach sharply contrasts with the human capital approach more characteristic of JTPA service delivery. (O'Shea & King 2001, p. 10)

<sup>45</sup> The House bill and Senate amendment initially required the states to submit a three-year plan only. Only in conference the time period was extended to five years.

<sup>46</sup> The governor must designate these areas in which workforce activities are to be coordinated and administered locally. The minimum criterion for a local workforce area is a population of 500,000 or more. In addition, the governor should take into account consistency with labor market areas, the distance that individuals will need to travel to receive services, and geographic areas served by educational institutions.

The appropriate Secretary (i.e. the Secretary of Labor, the Secretary of Education, the Secretary of Health and Human Services and the Secretary of Housing and Urban Development) has ninety days<sup>47</sup> to make a written determination. In a guidance letter (TEGL 15-99) the DOL rejected the plan based on the following considerations: (1) the plan is inconsistent with the provision of WIA Title I; or (2) the plan does not satisfy the criteria for approval provided in section 8(d) of the Wagner-Peyser Act.<sup>48</sup> If the Secretary does not react within the given period of time, the plan is considered accepted. The WIA leaves quite some flexibility to the state and local authorities as to the procedure to follow in drafting the plan. It only clearly stipulates that it has to be approved by the state legislature. In addition to the state plan, each local board must develop a local five-year plan and submit it to the governor for approval.

The Act gives states the authority to modify WIA Plans based on unanticipated circumstances. Accordingly, states should submit a modification if there are substantial changes in state law, the statewide vision or strategy on workforce development, policies, performance indicators or goals, under either Title I or the Wagner-Peyser Act. For example, changes in the methodology used to determine sub-state allocations, and reorganizations that change the working relationships with system employees or result in reassigned responsibilities will require a modification. States are also required to submit a plan modification to adjust their mix of services if performance goals are not met after the first year. States can use their annual report to review their state plan and modify it if needed. Modifications to the state plan are, however, subject to the same public review and comment requirements that apply to the development of the original state plan.

Every two years, the DOL is required to publish a plan that describes the national priorities for the next five years. This provision aims to ensure that national activities such as Pilot programs, national emergency grants etc. are planned in a strategic manner.

### 2.3. The Partnership Principle

The DOL views partnership at all levels – local, state and federal – and across the system as the “hallmark” of the new workforce investment system (U.S. Department of Labor 1998, p. 12). In spite of the explicit aim to increase flexibility for the different actors involved, the act requires all levels to cooperate and coordinate with agencies and entities that previously have not been a part of the workforce development system.

At the state and local levels, partnership is institutionalized in the requirement to establish workforce investment boards to oversee WIA implementation. The duties of the state board include assisting the governor in setting up a workforce development system, which includes the development of a five-year strategic plan, developing allocation formulas, developing state performance measures, designating local workforce investment areas, preparing the annual report, and applying incentive grants. The local boards’ tasks include the development and submission of five-year local

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<sup>47</sup> The Senate amendment provided for a time period of 60 days. Only in conference, Senate retreated on this provision.

<sup>48</sup> A policy decision has been made that no separate approval for Title I of WIA or Wagner-Peyser will be granted, since the plan incorporates an integrated approach for Title I and Wagner-Peyser. DOL/Employment and Training Administration, Training and Employment Guidance Letter (TEGL) 15-99. Since this policy only commits DOL, it is still conceivable that the other three departments involved do not approve those parts of the plans for which they are responsible.

plans, the selection of local one-stop operators, oversight of implementation of the WIA on the local level. The local elected official (LEO) is also liable for the use of the funds.

As regards the structure and membership in these boards, the WIA includes types of members who should participate in the boards. It does not, however, prescribe a minimum or maximum number of members. In addition to representatives from these groups, the WIA allows the Governors to select representatives from various segments of the workforce investment community to be represented on the state board.

### **Membership requirement for State and Local Boards**

<b>Membership requirement</b>	<b>Level of board applicable to</b>	
	<b>State</b>	<b>Local</b>
Governor	x	
2 members of each chamber of the state legislature	x	
Representative of business	x	x
Chief elected officials representing cities and counties	x	
Representatives of labor organizations	x	x
Representatives of entities with experience in youth activities	x	
Representatives of entities with experience in delivery of workforce investment activities (including executive officers of community colleges and community-based organizations)	x	
Lead state agency officials with responsibilities for programs carried out by one-stop partners	x	
Other representatives designated by the Governor or local elected official (e.g. juvenile justice and economic development officials)	x	x
Representatives of local educational entities (including school boards, adult education and literacy entities, and postsecondary educational institutions)		x
Representatives of community-based organizations (including organizations representing veterans and individuals with disabilities)		x
Representatives of economic development agencies		x
Representatives of each of the one-stop partners		x

Source: U.S. General Accounting Office 2001, p. 12.

The membership of representatives from the business community was considered to be crucial for the effectiveness of the WIA measures. Consequently the private sector plays an important role in the board's work. Private sector representatives will not only be the chairs of the boards, but they should also make up the majority of board

members.<sup>49</sup> However, as Teegarden and Baran (2000, p. 11) underline, effective private sector involvement is not a given fact, but is dependent on the boards having the power to make decisions relevant to the local labor market. The WIA, however, leaves it to the state level to determine the tasks and competencies of the local boards. As regards the membership of representatives of other groups of civil society, the WIA is less specific than for private sector representatives. It leaves the decision to include them to the Governor, when it concerns the state board, and to LEOs when it concerns local boards. The WIA has also vested the governor with the power to establish rules on regional planning and coordination among local boards. The partnership principle also requires building partnerships with different departments. Agencies that used to work independently from each other in different programs are now required to cooperate and work together in the one-stop centers.

With more competencies given to the local and state levels, the role of the federal level is also changing. In the new system, the federal level will focus on ensuring overall accountability for results rather than adherence to administrative processes. The DOL outlined the federal role in the following way (U.S. Department of Labor 1998, p. 13-14):

- strategic planning and policy formulation which defines and focuses the direction of the public system;
- performance accountability to ensure that states and localities meet program performance requirements;
- knowledge development which provides important research evaluation findings to the workforce investment system;
- technical assistance;
- administration and oversight to ensure financial accountability;
- prototype information systems.

Although partnership is a key principle of the new workforce development system, it is institutionalized only in a horizontal way. The act itself does not include any provisions to institutionalize a vertical approach to partnership by linking the local, state, and federal levels.

#### 2.4. Monitoring, Effectiveness, and Accountability

In the tradition of the Government Performance and Results Act,<sup>50</sup> and in light of the criticism that resulted, and the fact that the impact of the JTPA was very difficult to assess due to the lack of data, the WIA considerably extended data collection and reporting requirements. The WIA includes a list of core performance indicators such as entry into unsubsidized employment, retention of employment six months after placement, earnings six months after placement, and attainment of recognized credentials, and customer satisfaction of employers and participants.<sup>51</sup> Very strong

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<sup>49</sup> It is even further specified that business representatives have to be owners, CEOs or COOs, or other executives with policy and hiring authority. They do not have to come from a collective business representation. Duran 1999, p.1

<sup>50</sup> For a critical appraisal of performance budgeting see McGill 2001.

<sup>51</sup> For measures for youth of age 14-18 the following special indicators apply: attainment of basic skills, attainment of secondary school diploma, placement and retention in postsecondary school, military, employment, or apprenticeships (U.S. Department of Labor 1998). Performance indicators are however

emphasis - most pronounced in the dislocated workers tier of WIA - is put on salary indicators. Benefiting from training should lead to a considerable increase in the respective person's salary. Paying so much attention to the level of salary instead of to degrees is motivated by the U.S. education system. Only very few professions (e.g. nurses) receive a certified nationwide professional degree, a diploma or degree would not be a sufficient and reliable indicator as to whether this person can support him/herself.

Performance targets are negotiated for each state as a whole with the Secretary of Labor. The state conducts similar negotiations at the local level. A sophisticated and elaborated reporting system linking local, state and federal levels, which includes quarterly performance and annual state reports to the DOL and Congress, aims to ensure effectiveness and accountability.

In light of the criticism raised against the JTPA, the WIA includes sanctions when a state or local community fails to achieve performance targets. After the first year of failing to meet the targets, a state can ask the DOL for technical assistance. When a state fails to meet the targets for a second consecutive year, it will face a reduction in funding to up to 5 percent. The WIA does not only include sanctions, but also includes incentives to exceed the agreed targets. When a state or the local area exceeds its targets it will receive additional funding.

Greater effectiveness of activities conducted under the WIA is also thought to be achieved by improving the service delivery.<sup>52</sup> For example, qualified job seekers receive a voucher to participate in training activities. With this voucher they can follow the training offered by the (authorized) training provider who suits their needs best. This system has replaced the previous approach of contracting one service provider to conduct the training. The new approach is supposed to increase competition among the different training providers, which will then lead to better quality of service.

### **3. The Reform Debate in Parliament and Media**

When former President Bill Clinton signed the WIA into law on August 7, 1998, he called the legislation "the crowning jewel of a lifetime learning agenda" (*Washington Post*, August 12, 1998). The act is the result of a four-year-long bipartisan initiative that began in March 1994 with a hearing on steps towards a comprehensive employment and training system. Between March 1994 and August 1998, Congress has held twenty-two directly related hearings, listened to more than 100 witnesses, prepared seven reports, and has considered the issue in plenary about twelve times.

Between 1994 and 1997 Congress discussed a number of different versions of the WIA. The draft version of the WIA, which was finally adopted, was officially introduced to the House on April 17, 1997. The sponsor of the bill was Representative

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not new. While the JTPA already included performance measures, the WIA not only includes a larger number (seventeen instead of six under JTPA) but also requires a longer-term measurement system.

<sup>52</sup> In the 1990s in particular OECD member countries have embarked upon initiatives improving public service. See for a comparison of different countries Clark & Corbett (1999). For an analysis of the respective initiatives in the U.S. see Peters (2001a + b). For theory guided overview of the different studies on reform of public administration in the U.S. see Bogason (2001). The Urban Institute, supported by several grants conducted a comprehensive survey of state initiatives regarding performance management practices. This survey resulted in several publications available on the Institute's web-site (<http://www.urban.org>).

Howard P. Mc Keon (R-California). It had six co-sponsors: two Democrats (MI, PA) and four Republicans (2 x PA, NE, CA). On May 16, 1997 the House of Representatives passed the bill by a bipartisan vote of 343 to sixty. Almost one year later, on May 5, 1998, the Senate passed a comparable act, by a similar strong bipartisan vote of ninety-one to seven. House and Senate Conferees began work to develop a conference agreement immediately upon Senate passage of the legislation. The final agreement was passed by both the Senate on July 30, 1998, and by the House on July 31, 1998. The Conference Agreement was signed into law on August 7, 1998.

Although Clinton claimed that the act resulted directly from his 1992 campaign strategy "Putting People First," the votes clearly show that this initiative cannot be traced back to only one of the political parties or to Congress members representing a particular region in the U.S. The political controversy that surrounded Clinton's earlier initiatives for a GI Bill for American workers of 1994 and 1996 was taken out in the case of the WIA. In fact, the WIA was initially a Republican initiative that received the support of the Democrats. Not only did the act result from a bipartisan compromise it was also the result of a very broad political debate involving a large number of civil society groups as well as federal, state, and local representatives.

The main aim of this broad debate preceding the reform is captured in the words of the Chairman of the House Employment, Housing, and Aviation Subcommittee, Collin C. Peterson, "Do we know what works? What payoff are we getting from the billions we pour into the scores of programs in hundred of communities?...We must have more than scattered anecdotal data if we plan to replicate such programs on a wide basis" (U.S. Congress 1994-a). Thus when starting the process of fundamentally reforming the training system it was not clear which format this reform would take. A number of generic objectives to which all actors involved could agree to were, however, formulated very early in the reform process. Already during one of the first hearings, then Secretary of Labor Robert B. Reich identified in his testimony the need for "consolidating, streamlining, and making (the system) more effective and accessible" (U.S. Congress 1994-b).

How to achieve these goals was widely debated. Priorities and solutions varied greatly between the different group representatives in Congress, constituencies, and federal agencies. For instance the private sector was mostly concerned about the bureaucratic aspects of the old system (Skip Schlenk, National Association of Private Industry Councils, U.S. Congress 1994-c). Thus the main aim of reform should be to provide for enough flexibility to respond to the changing needs of the job market (Testimony of Roberts T. Jones, National Alliance of Business, U.S. Congress 1997-a). Flexibility was also called for by the local level, however emphasizing a different aspect. Local level representatives – including civil servants, elected representatives as well as the private sector - were mostly concerned about increasing their flexibility in implementing the program. They called for a bottom-up approach. Consolidation of programs and allocation of funds should be decided at the local level (Testimony of Patrick McManus, Mayor of Lynn, MA, U.S. Congress 1994-b, Testimony of Robert Volpe, Eastman Kodak Company, U.S. Congress 1994-c). Not surprisingly, state representatives called for sufficient flexibility to allow states (and not the local level) to design and administer their own programs (Testimonies of Governor Tommy Thompson, Wisconsin, and of Debra R. Bowland, Ohio Bureau of Employment, U.S. Congress 1995-a). One way to provide the sub-national level with greater flexibility was to frame the new program as a block grant and not as a categorical program. However,

that should not mean, as Senator Kennedy pointed out, “abandoning the federal commitment to job training. We must work with the states, not abdicate our responsibility” (U.S. Congress 1995-a). Overall it can be concluded that the decision to adopt WIA as a block grant was more about politics than about giving the sub-national level more flexibility.<sup>53</sup> Also, Congress was not clear about which level of governance – the local or the state level – should have most of the power in implementing the program. The WIA, as it was adopted, left this issue unresolved. As the case studies of West Virginia and California show, this resulted in great differences between the states. In some states, the local level is in the driving seat implementing the WIA, in others, it is the state level.

Another issue that was widely debated was how much integration is needed to establish a comprehensive workforce development system. Which programs and agencies should be drawn into the new system? Mostly, concerns were raised about whether integration could lead to some programs losing their specific profile and target group. Among the programs singled out as being threatened to lose sight of their target group in case of full integration was the vocational rehabilitation program. (U.S. Congress 1995-c, Testimony of Jay Johnson, Interstate Resource Center for Independent Living, U.S. Congress 1997-b). Consequently, Congress did not endorse the option to merge all mandatory programs into one single program administered by one agency. Full integration would not only have endangered specific target groups, but would also have changed the competencies of the different committees in Congress, which were involved in the different programs.<sup>54</sup>

In spite of the long and wide debate, there were also a number of concrete issues upon which Congress did not find it too difficult to agree. They included the introduction of individual training vouchers, a better provision of data, and provisions for strengthened accountability of training providers.

Considering this long debate in Congress and the fact that it resulted in a strong bipartisan vote, which aimed at a fundamental reform of the existing system could lead to the expectation that once WIA was adopted, the media would be very interested in covering this act. However, the media showed only very little interest in this new law. The Chicago Tribune ran seven paragraphs on the bill-signing procedure and the Washington Post only three, while the New York Times and Los Angeles Times ignored it completely. There are at least three reasons for this non-reporting. The first one is certainly the fact that U.S. politics focused on two major political events: the Monica Lewinsky affair on the one hand, and the bombing of two U.S. embassies in Africa the very same day Bill Clinton signed the bill into law. The second reason was that the economy was going well and that there was no public urgency attached to workforce development legislation. The third reason was probably that this bill was not surrounded by high-profile partisan tension, but quite the opposite.

Those newspapers that did cover the WIA (there were some more articles later on) positively evaluated the objectives of the bill. Particularly appreciated was the aim to

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<sup>53</sup> In fact, as Robert Greenstein, Center of Budget and Policy Priorities, pointed out during a hearing on training issues: “it is quite possible to expand state flexibility within an entitlement framework. Many of the rules currently governing these programs could be simplified or eliminated to give greater leeway to states. Ironically ... block grants might even have the perverse effect of constraining state flexibility because they are likely to leave states with insufficient resources...” (U.S. Congress 1995-b)

<sup>54</sup> It has been suggested that the decisive reason for not including TANF into the WIA structure is to be found in politics rather than in material considerations relating to the scope of the two programs.

reduce red-tape, duplication and bureaucracy. Also the combination of a number of federal programs, their transformation into three block grants, the decentralization and thus empowering states and local levels was largely considered as a positive development (The Washington Post August 12, 1998, Pittsburgh Post-Gazette August 1, 1998, The Virginian-Pilot, August 8, 1998).

#### IV. THE WORKFORCE INVESTMENT ACT IN PRACTICE

Although the WIA was adopted in 1998 and became fully operational only in 2000, already a number of studies provide a first assessment of the emerging new system of workforce development. These studies however, do not arrive at common conclusions about prospects to actually achieve fundamental reform of the governance structure and consequently, administrative culture of workforce training. In fact the results even paint a rather colorful picture.

Particularly cautious about the prospects are those reports published in the very early phase of WIA implementation. As one of the very first, the National People's Action (2000) expressed a rather pessimistic view about the (short term) chances for successful implementation of the WIA. It questions in particular whether the limited funding available will allow the states to offer all services stipulated by the Act (see also: Johnson & Savner 1999). Although in their report Suzanne Teegarden and Barbara Baran (2000) expressed a similar concern about the funding level, they, however, expected that if federal, state, and local leaders are strongly committed to undergo the reforms necessary to implement the WIA, they will be able to fully take advantage of the opportunities of the Act.

Reports that looked at the first year of implementation arrived at somewhat more positive conclusions about the achievements so far. But they still remain rather cautious as to the longer-term prospects for effective implementation. Daniel O'Shea and Christopher King (2001) found that the preparedness of states and local communities, as well as the pathways they are following when implementing the Act, varied considerably.<sup>55</sup> The authors identified a number of reasons for this different approach. Among the most prominent reasons is that those states that already previously had some form of decentralized structures in place seem to have less difficulties in implementing the WIA than states starting implementation with a rather centralized structure.

An evaluation prepared by Social Policy Research Associates (SPRA) and commissioned by Labor focused on the early states implementing the WIA.<sup>56</sup> Its empirical data is drawn from the Workforce System Information and Evaluation (WSIE) data collection. This data has been collected along a ninety-item data collection form covering key benchmarks such as forming a state board, adopting an integrated plan, establishing comprehensive one-stop centers, etc.<sup>57</sup> It was developed by a workgroup consisting of the DOL national and regional office staff with input from the

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<sup>55</sup> While some states (such as Texas) have gone very far in taking over the new system of the WIA, others such as Tennessee remained in the old system and still have a long way to go in transforming their system. (O'Shea & King 2001, pp. 11-14)

<sup>56</sup> DOL identified six states (i.e. Florida, Kentucky, Pennsylvania, Texas, Utah, and Vermont) to be early implementers under WIA which meant that they had their WIA plans approved, negotiated levels of performance for the WIA core indicators, and, in general, made the transition to WIA prior to the start of PY 2000. (SPRA 2001, p. ES-3)

<sup>57</sup> The WSIE data on California and West Virginia will feed into the chapters specifically dealing with these two states.

evaluation team. Between March and October 2000 it has been periodically updated.<sup>58</sup> According to SPRA WSIE “allows regional representatives of the DOL to record each state’s progress in achieving key benchmarks associated with WIA implementation” (SPRA 2001, p. ES-3). Thus, based on very rich empirical data it concludes that “as of March 2, 2000 few states had readiness scores near zero, and an appreciable number had scores of 50 percent or less ... by the end of October 2000, forty-five states and territories had a composite index of 75 percent or higher and only a handful have a composed index of less than 60 percent” (SPRA 2001, p ES-5). Overall the report draws a rather positive picture about WIA implementation with two notes of caution. First, it notes that full implementation will take time. Second, with view to the newly evolving governance structure, the report emphasizes the need to “develop new patterns for providing federal and state guidance to lower levels, while supporting local flexibility, discretion, and continuous improvement efforts” (SPRA 2001, p. VIII-9).

Two very detailed studies have been conducted by the U.S. General Accounting Office (U.S. GAO 2000 + 2001). These reports provide an up-to date account of the different stages of WIA implementation in different states. The report points to a number of unresolved issues in the implementation. It appears that the underlying reason for the problems in the implementation process is seen in the fact that although not specifically spelled out in the act,<sup>59</sup> WIA demands a fundamental reform of administrative structure on which neither of the different levels of governance wholeheartedly embarked. Although not detailing all rules of governance is justified in the light of the overall objective to provide flexibility to the states, it also creates ambiguity which is further pronounced by the fact that different agencies administer the different funding streams. Another issue raised by the GAO refers to the fact that although WIA has a number of mandatory programs, the financially by far largest program, TANF, has not been included into WIA. This arrangement may trigger healthy competition between WIA and TANF training providers, but it may also serve as an obstacle to efficient use of funds. To resolve open questions which cannot be solved at the level of individual states or local communities, the GAO report calls upon the four federal agencies involved in WIA to “provide more effective guidance on how to address the specific concerns identified by state and local implementers” (GAO 2001, p. 5). The states’ request for more guidance, as the SPRA evaluation concluded, may also have evolved from a general perception that the offered discretion was not real (SPRA 2001, p. VIII-13). For guidance to be followed it is, however, crucial that the federal level provides incentives to follow the guidance. A very suitable way for this was seen in the form of best practices addressing very concrete problems that, the local level in particular, faces when implementing WIA.

A rather positive view of the state of WIA implementation is presented in a report of the Employment and Training Administration (2001). It concludes that out of fifty-four states and territories, forty-three were well on their way to full implementation. The remaining states/territories will be fully operational by June 30, 2001.

The most optimistic stance on the short term implementation prospects was taken by Assistant Secretary of Labor, Emily Stover DeRocco (2001) In her reaction to the GAO report presented at a WIA hearing at Senate Committee on Health Education, Labor and

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<sup>58</sup> Keeping this database updated has been discontinued as of end October 2000.

<sup>59</sup> For instance, the law does not require that all one stops provide all services, but only that all service were presented. So there may be information on a program but no person physically located in the one-stop center to provide assistance.

pensions she expressed the view that "...next year at this time we will be able to reflect back and say, they (i.e. the different actors involved in implementing WIA) were up to the task."

Drawing on these studies, the following will provide a comparative analysis of two states: West Virginia and California.<sup>60</sup> The selection of these two states is motivated by the following considerations: West Virginia can be considered as a state with classical Objective 2 problems<sup>61</sup>: old fashioned heavy industries with a developing new economy in parts of the state. In 1999, West Virginia had the highest regional unemployment rate of all fifty states. In only two years, however, it managed to reduce it considerably. In terms of funding, West Virginia receives the second largest share of WIA funding per worker (only Washington D.C. receives more funding per worker).

As for California, it represents by far the largest beneficiary of WIA funds. Not only in total terms does it receive the largest amount of money (16.6 percent of the total funds made available in 2001) it also ranks very high on the share per worker where it holds the sixth position.<sup>62</sup> This is linked to the fact that, in spite of the economic upswing during the second half of the nineties, California has always had an unemployment rate that was considerably higher than the U.S. average rate.

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<sup>60</sup> It should be noted that comparative studies in the public sector and in labor market policy face many more problems than in the private sector. Particularly intriguing is the case of possibly conflicting goals pursued by the two objective functions contemporarily involved in policy making: the explicit welfare function and the often implicit voting function. Very rarely the mix between the two is clear and even less is easily transferable to different national or local contexts. However, as Tronti (1999, p. 7) points out "the processes of comparison and exchange of experience could by themselves lead to a progressive improvement in the efficiency of policy making and to a rationalization of public action as they can clarify the objectives behind the policies and better establish and govern the relationship between objectives of economic and social character and those of a more general nature."

<sup>61</sup> EU Structural Funds support is granted on the basis of three priorities: Objective 1 deals with regions lagging behind (i.e. with an GDP/capita of less than 75 percent of EU average), Objective 2 deals with regions in transition and Objective 3 deals with human resource development.

<sup>62</sup> Only Alaska, Washington D.C., Hawaii, New Mexico, and West Virginia receive a larger share per worker.

In total terms, West Virginia and California received the following allotments under WIA (broken down to the three WIA tiers):

	PY 2000		PY 2001	
	USD	percent	USD	percent
<b>Youth - WV</b>	10,548,280	1.1	11,428,555	1
<b>Youth - CA</b>	171,424,027	17.1	176,044,587	16
<b>Youth - total</b>	1,000,965,000	100	1,102,965,000	100
<b>Adult - WV</b>	10,306,103	1.1	10,558,659	1.1
<b>Adult - CA</b>	160,743,770	16.9	156,375,879	16.5
<b>Adult - total</b>	950,000,000	100	950,000,000	100
<b>Dislocated Workers - WV</b>	23,364,426	1.5	25,426,973	1.6
<b>Dislocated Workers - CA</b>	297,723,349	18.7	273,391,437	17.2
<b>Dislocated Worker - total</b>	1,589,025,000	100	1,590,040,000	100
<b>WV - total</b>	44,218,809	1.2	47,414,187	1.3
<b>CA - total</b>	629,891,146	17.8	605,811,903	16.6
<b>Federal spending - total</b>	3,539,990,000	100	3,643,005,000	100

Source: Employment & Training Administration, "State Funding Formula"

Since this study focuses on the governance structure, the choice for these two states was also motivated by the fact that California is a very large state and thus has a large public administration, whereas West Virginia is one of the smallest states in the United States (in terms of population size). It is assumed that the resulting differences in the structure of public administration have an impact on how the WIA is implemented.

The analysis will focus on two levels of governance, i.e. the federal and the state levels. Given the diversity at the local level in ways of implementing – even within a state – an extensive analysis of that level would go beyond the scope of this study. Issues that arose frequently at the local level, however, will be reflected in the analysis.

Based on the neo-institutional theory and further to the considerations above the study is framed by the following heuristic questions:

- Did the two states initiate to change their administrative structure and adapt it to the new policy environment?
- Which steps did they take to achieve this and how far did they get?
- What kind of particular challenges did they face in this process?

## **1. The U.S. Department of Labor**

Out of the four Government departments involved in implementing the WIA,<sup>63</sup> the DOL contributes to WIA with the largest share. While the DOL provides about 70 percent of the 2001 appropriations, the Department of Education and the Department of Health and Human Services each only provide 26 and 4 percent respectively. According to HUD, none of its many workforce development initiatives have employment and training as a primary purpose. The Labor Department coordinates WIA-related activities at the federal level. This does, however, not imply that Labor provides strategic guidance to the other federal departments. In addition to guidance issued by the individual department, guidance is regularly issued jointly by two departments when it concerns cross-cutting issues pertaining to the implementation of WIA. The first joint guidance was issued on December 17, 1998 dealing coordination efforts undertaken by the Departments of Labor and Education. Since this first statement, a number of joint statements have been adopted and are made available on the Internet. Judging only from the number of statements the cooperation between the departments of Labor and Education is much closer than cooperation between the other departments. However, the relatively large number of joint DOL and Education statements can also stem from the fact that these two departments contribute the largest amount of funds to the WIA system. As to the content and the level of guidance provided by the joint or solo-departmental memoranda, the GAO report (2001) pointed to a lack of appropriate guidance specifically targeting the needs at the state and local levels.

In view of preparing the different actors involved, the Department of Labor also organized and conducted a number of one-time events. They conducted a series of implementation panels with state and local practitioners, town hall meetings as well as briefings for the staffs of various intergovernmental organizations, such as the National Governor's Association, the National League of Cities, the U.S. Conference of Mayors, the National Association of Counties etc. (Bramucci July 1, 1999). In view to prepare guidance on very specific issues, Labor also commissions evaluations. For instance, an evaluation that deals with the different ways local levels have opted to set up Individual Training Accounts<sup>64</sup> is currently under way. This evaluation will only be available in 2003, in the third full year of WIA implementation. By then local authorities will have already established some kind of structures. It can therefore be assumed that it will be difficult to change that again even if the report presents very good arguments to do so. This example shows that implementation of WIA is a work in progress. The federal

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<sup>63</sup> The four government departments concerned are: Department of Labor, Department of Education, Department of Health and Human Services, and the Department of Housing and Urban Development.

<sup>64</sup> Based on a comparative study of a number of different local areas, Patel and Savner (2001, p. 16) have identified three different structures of ITAs: (1) Structured Participants Choice; (2) Guided Choice; (3) Maximum Participant Choice.

level is still as much in the process of developing the structure as the state and local levels are.

Consequently, the lack of guidance – as mentioned in the GAO report –cannot exclusively be attributed to the policy objective of giving the sub-national level more flexibility but also to the simple fact, that the federal level itself does not have a solution for problems that only occur during implementation.

Although one of WIA’s fundamental aims is to give the state and local levels flexibility in implementing the program, the federal level and the Labor Department, in particular, play a crucial role especially with respect to providing strategic guidance. To Assistant Secretary Bramucci (July 1, 1999), this guidance was particularly necessary in order to ensure “that WIA does not end up simply being JTPA with a new name.” To promote a transition from the old to the new system, Labor used a variety of different tools: policy guidance, technical assistance, and training. These efforts were mostly directed at the state level, and only to a lesser extent to the local level. Therefore although Labor only provides vertical strategic guidance to the state and local levels and not horizontal guidance to other departments and given that Labor provides the largest funding share to WIA, the risk exists that WIA is considered to belong to Labor. The other departments may not buy into the program. Such a development would seriously undermine the need for strategic and coordinated guidance from the federal level.

To address this risk, Bramucci identified as a central aim the increase the participation of other federal programs in the workforce investment system. Labor has engaged in “conversations” with a number of federal authorities, including Departments of Education, Health and Human Services, Transportation, Agriculture, and HUD. To further promote this close cooperation between the agencies, former President Clinton has tasked the National Economic Council with convening a series of Deputy-Secretary level meetings. These meetings addressed three issues in particular: (1) unified planning; (2) performance accountability; (3) participation in the One-Stop delivery system.

To address key issues that have been identified in the WIA Readiness Report (see above), ETA convened four groups consisting of local, state and federal experts. The groups addressed issues, which the report identified as “barriers to the successful implementation of WIA,” (DOL-2001) namely:

1. one-stop service delivery: service integration, cost allocation and resource sharing, and partnership and Memorandum of Understanding development;
2. adult and Dislocated Worker Services: Individual Training Accounts and Eligible Training Providers, eligibility determination, the implications of service design and mix on WIA title I programs, and the point of registration for adult and dislocated worker programs;
3. youth services: engaging youth councils, determining eligibility of low-income youth, meeting the 30 percent requirement for serving out-of-school youth, and youth program design;
4. employer involvement on workforce investment boards: attracting employers and retaining employers on the boards.

The membership in these four workgroups differed. However, in all groups the majority of members came from the DOL. Out of the 276 members (all four workgroups taken together), a total of 100 came from the DOL. The second and third

largest groups came from the local (68) and state levels (66), the fourth largest group were representatives from federal (non-ETA) members (23). The smallest group (19) came from national organizations, IGOs etc.<sup>65</sup> The workgroups have met three times. The output of their work was to identify problems and desired results as well as actions necessary to achieve these results. The type of action initiated consisted of additional guidance, reports, preparation of tool kits, establishment of a workgroup or initiation of an open discussion forum (DOL 2001, Attachment A). In addition to these actions, the DOL initiated financial management training and the formation of performance accountability workgroups. Furthermore, the DOL developed tailor-made technical assistance for state, local, and other grant staff responsible for ensuring that the program is being properly operated. Most of the actions initiated by the workgroups were scheduled to be implemented by January 2002. The training provided by the DOL started in September 2001.

As pointed out above, integrated provision of services at the one-stop centers is a key element of WIA. In view of that, the DOL together with the Department of Education stated in a memorandum that each “partner is ... required to make certain core services available through the one-stop.”<sup>66</sup> The Department of Education also stated very clearly that the responsibilities established by WIA are not secondary or subsidiary to the responsibilities established by Perkins. It is left for the states and local areas to decide to make “available the core services that are applicable to Perkins III through the one-stop delivery system either in lieu of or in addition to making these services available at the site of the particular program” (McNeil May 24, 1999). Similarly, veterans programs are mandatory programs. Whether or not staff of the Disabled Veteran Outreach Program (DVOP) and the Local Veteran Employment Representative (LVERs) will serve customers coming in the one-stop centers who are not eligible for any veteran program has not been defined at federal level. Although the One-stop delivery systems will fully integrate the multiple career development services provided to veterans and LVER and DVOP staff can receive guidance from the one-stop delivery system operator, “compensation, personnel actions and terms and condition of employment, including performance appraisals and accountability of merit-staff employees will remain under the authority of the state Agency” (Borrego July 7, 1999). It can, therefore, be assumed that LVER and DVOP staff will most likely be evaluated and promoted on the basis of how they have served veterans and not on the basis of how they have contributed to running the one-stop system. Consequently, as Deputy Secretary of Education, William D. Hansen in his letter of September 21, 2001 commenting on the draft report of GAO, conceded that while “in some cases, the integration of services across programs is an appropriate and viable strategy ... in other instances, opportunities for services integration might be more limited given both the scope of relevant programs and the needs of the individuals whom those programs serve.”

In response to the criticism raised in several reports, with regard to the insufficient level or inappropriate type of guidance, labor for its part holds that it “provided unprecedented levels of guidance and technical assistance on implementing WIA... Specifically, from the moment WIA passed, policy concept papers were prepared in consultation with state and local partners and stakeholders” (Assistant Secretary Emily

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<sup>65</sup> For an overview of individual groups, see annex 4

<sup>66</sup> Raymond L. Bramucci, et al., *Department of Labor /Department of Education Memorandum on Coordination in Implementation Efforts*, without date.

Stover DeRocco, response to the GAO draft report, September 21, 2001). Moreover, the DOL underlines that too much guidance or even requiring the state to comply with rules and procedures set at the national level would undermine one of the fundamental principles which the DOL considers key to the WIA: the state and local flexibility to implement the provisions of the WIA according to their needs (ibid).

### 1.1. Interim Conclusions

Considering these two opposing views (intensive guidance and insufficient level, type and/or degree of guidance) two aspects are striking when analyzing the federal level's approach to WIA implementation.

The first one relates to the timing. There seems to be a mismatch with respect to the time frame of obligations for taking actions at the different levels of governance. Whereas the states were required to implement WIA and have a fully fledged managerial structure in place which ensures a financially sound, effective and even efficient channeling of the funds the latest by mid 2001<sup>67</sup>, most of the guidance provided by the DOL was issued in the course of 2000 and 2001. E.g. in June 2000, i.e. when most of the states already had prepared and submitted their five-year strategic plan, the DOL issued a guidance outlining the "steps to be taken in the event that a state is not prepared to fully implement the required provisions for the WIA" (DOL 2000).

The second striking aspect in the federal structure implementing WIA is the seemingly weak interdepartmental coordination. Although WIA combines programs of four different federal agencies, it seems that no standing and permanent structure at the working group level or at the level of policymakers for that matter, coordinated their approaches to WIA. Apart from statements that could also be interpreted as paying lip-service to the integration principle written into WIA, the departments did not move either their strategic visions or those aspects of WIA's managerial structure, which are determined at federal level such as the system of performance evaluation of the different mandatory programs, eligibility of costs etc., closer to each other.

These findings lead to the conclusion that the federal level did not – at least not openly – anticipate the degree of required reforms following the adoption of WIA. Although when adopting WIA, the political debate was dominated by calls for a fundamental reform of the old system. Since the federal level reacted almost surprised by the difficulties of the states in implementing WIA, the reform rhetoric therefore seems to be considered mostly to apply to the anticipated effects of the instrument, i.e. reducing unemployment and increasing employability.

One reason why the impact on managerial structure was underestimated, or at least not openly discussed, could be found in the fact that it is a block grant and not a categorical grant. Opting for a block grant seemed to somehow allow for improving the economic impact of the program in comparison to the former JTPA without imposing fundamental reforms on the management structure. That assumption is, however, misleading. Opting for block grant instead of a categorical grant impacts the division of competences and tasks between the different levels of governance but not the need for, or the extent of reforming the institutional structure. It leaves flexibility as to the concrete design of the structure, but not about the fact to adapt the structure to the new policy environment. This misperception or – to put it more strongly – negligence of the

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<sup>67</sup> Although WIA became fully operational already in 2000, the actors involved suggested that the first (July 2000-June 2001) was seen as a trial year.

managerial structures, i.e. institutions and procedures seem to be a recurrent feature of U.S. social policy making. As Finegold and Skocpol (1995) remark in their study on the history of the New Deal, politicians often seem not to pay much attention to the managerial dimension of a policy instrument but focus on the economic rationale behind it.

To conclude, two structural deficits at the federal level are to be highlighted. The first one relates to a lack of horizontal strategic coordination. The second one relates to a lack of vertical coordination that has to strike a balance between guidance and flexibility.

## **2. The case of West Virginia**

The economy of West Virginia has traditionally been heavily dominated by three major industries: mining, manufacturing and timbering. While even today large parts of West Virginia's economic wealth are still heavily generated by these industries, the state is at an early stage of transition into a new economy composed of high technology, telemarketing, and tourism. This newly developing industry is, however, mostly found in the Eastern Panhandle of West Virginia. For the most part, West Virginia has kept its rural character. It has no big cities, only few pockets of population density, and long distances across mountainous terrain. Overall, however, West Virginia remained at the very low end of Gross State Product per capita<sup>68</sup> (see Annex 1). In line with the overall trend in the U.S., unemployment declined also in West Virginia over the last years. However, West Virginia managed to exceed the nationwide trend. While in January 1990 it had an unemployment rate of 9.8 percent, it reached its lowest level of 4.4 percent in October 2001. In spite of this above average reduction of unemployment, West Virginia still belonged to those states with rather high unemployment rates. However, while in 1999 it had the highest unemployment rate of all fifty states (6.6 percent) in 2001 its unemployment rate was only slightly above the U.S. average (West Virginia: 4.9 percent U.S. average 4.8 percent) Against the U.S.-wide trend, West Virginia managed to further reduce its unemployment rate during the year 2001. (See Annex 2 for a comparative overview of unemployment rates over the last three years)

In spite of the achievements, with respect to reducing unemployment, the state's economic structure implies considerable challenges for workforce development policy: on the one hand it has to be very flexible in order to address vastly varying needs of the different branches of economy (which includes the demand for completely different skills) on the other hand it has to be able to work in a mostly rural environment with low population density.

### **2.1. Implementing the WIA in West Virginia**

The five-year strategic plan of West Virginia was drafted in several steps involving input from different groups of society and regions. The 1997 created West Virginia Human Resource Investment Council (WV HRIC), which later was transformed into the West Virginia state workforce board (with some modification to the membership), was

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<sup>68</sup> In fact West Virginia, together with Mississippi and Montana, are the only states that fulfill one of the criteria for becoming an Objective 1 region under EU Structural Funds, namely a Gross Domestic Product of less than 75 percent of U.S. average. If the eligibility criteria for the Cohesion Fund is applied (i.e. 90 percent or less GDP than U.S. average), the situation changes considerably. Then fifteen (which include, of course, West Virginia) out of the fifty U.S. states would qualify for Cohesion Fund support.

in charge of drafting the plan. In November 1999 the WV HRIC conducted a series of regional workforce planning forums to gather information for the plan development in early 2000. Written comments on the plan from a number of different organizations and individuals were mostly presented between March 1 and March 24. The state plan was submitted to the DOL on March 29, 2000. Considering the very limited time available, it is doubtful whether the written comments on the draft state plan did indeed have any impact on the final plan (Attachment 1 to West Virginia strategic plan 2000). Drafting the local plans took place at about the same time.

In terms of governance structure, the plan states very clearly that the state is strongly committed to “transform the system on multiple dimensions simultaneously because that is the only way to take full advantage of the opportunities presented by the WIA”. Unlike some other states (O’Shea & King, p. 12), West Virginia did not want to rely on structures established under previous programs such as the JTPA. Instead, West Virginia aimed at a fundamental reform covering the following dimensions (cf. West Virginia strategic plan 2000, p. 4):

1. “to shift a substantial amount of authority and responsibility for workforce policy and services to the local elected officials and local workforce investment boards”; LEOs should for the first time become actively involved in workforce development.
2. to expand and deepen interagency partnerships in building a unified system;
3. to craft extensive interstate service agreements and strategies including a shift from a program silo orientation to a system orientation;

The plan acknowledges the fundamental character of this reform, in that it requires “substantial shifts of behavior and thinking by many within the system, both at the state and local level... the challenges are more in terms of building a shared vision and developing a new culture” (West Virginia strategic plan 2000, p. 29).

One of the most controversial issues when setting up the governance structure for WIA was the designation of the workforce investment areas. Former Governor Underwood initially favored a single area (Charleston Daily Mail June 28, 2000). He based his preference mainly on the following three reasons: (1) If one board fails to meet performance criteria, this would affect the entire state, (2) Increased costs of administering several local boards, and (3) Flexibility to use some funds for special projects (West Virginia Human Resource Investment Council September 14, 1999). For some time the planning process was conducted assuming that West Virginia would operate with one single workforce area. After several months, however, it became clear that West Virginia did not qualify for a single area.<sup>69</sup> Two alternative scenarios consisting of six and seven areas were then discussed. A proposal submitted by the Labor Market Information Group to establish five areas was not further pursued. In October 1999 the Governor endorsed the proposal of the Human Resource Investment Council to designate seven areas.

This decision was based on the following considerations (West Virginia strategic plan 2000, p. 31):

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<sup>69</sup> DOL interpretation of section 116 of WIA regarding the designation of a state as a single workforce investment is that WIA does not permit the designation of a state as a single workforce investment area unless the state was a single service delivery area under the JTPA as of July 1, 1998. Letter of Thomas Dowd, Regional Administrator, DOL, to Mr. Clark M. Bolser, Colorado Workforce Coordinating Council, September 2, 1999.

- economic development;
- community patterns;
- industry clustering across the state;
- existing service providers and education institutions;
- resource available for administering WIA activities;
- statewide population distribution;
- existing regional identity and alignment.

Establishing seven areas was then seen as a proof of the Governor's strong commitment for decentralization (Charleston Daily Mail June 6, 2000). Empowering regions was an explicit objective of the WIA. In that respect West Virginia endorsed this objective by establishing seven areas. However, the question arises, whether the cost-benefit rationale would not have been better if West Virginia had opted for less areas. Although the funding which each area receives decreases proportionally to the increase of areas, each area nevertheless has to establish e.g. an individual local WIB and a one-stop center. One year into the program, one of the local areas still has not established an administration according to WIA rules due to the very limited amounts of funds allocated to that specific area (West Virginia Strategic Planning Committee August 8, 2001).

Overall, establishing seven areas constituted a major reform for West Virginia. Under JTPA, West Virginia had one single county Service Delivery Area (SDA), Kanawha County, one multi county SDA in the state's Northern Panhandle region, and a third SDA was comprised of the rest of the state. Consequently the newly created WIA local investment areas had only very limited experience with managing workforce development or running a one-stop structure. Since the federal level anticipated difficulties for local areas to establish a one-stop structure it provided funding to support start-ups of such centers. West Virginia, for its part, did not manage to spend all funds available. In May 2001, about \$2.9 million of the original \$5.4 million was still available to support start-ups of one-stop centers. Consequently, at the time of starting preparation for the WIA, no single one-stop center existed in the state (West Virginia strategic plan 2000, p. 40).

One year into the program, the one-stop centers still face considerable problems. Out of the seven areas, only one or two areas can be considered to have fully implemented the WIA provision on one-stop centers (West Virginia Incumbent Worker Committee August 24, 2001). One of the most difficult tasks for one-stop centers was the integration of mandatory programs. As Arley Johnson, former Executive Director of the Workforce Investment Board, noted the work of one-stop centers is handicapped by mandatory battles between mandatory partners over resources, responsibility, turf and stability. One of the reasons for the resulting lack of coordination between the partners is seen in the fact that no Memorandum of Understanding (MOU) between the partners exists at the state level. At the local level, these MOUs have been adopted; but strategic guidance at the state level is considered to be necessary to provide e.g. guidance on cost sharing (West Virginia Strategic Planning Committee August 8, 2001).

The body in charge of strategic guidance is the State Workforce Investment Board (WV WIB). It was established on August 8, 2000 by executive order 13-00. Its predecessor was the West Virginia Human Resource Investment Council (WV HRIC), which laid the ground for implementing the WIA in West Virginia. In addition to

members of the West Virginia HRIC, the new body included representatives of business community and labor. In May 2001 it included fifty-eight members, of which the majority came from the private sector. The other members represented different branches of West Virginia public administration, local elected officials, members of the state legislature, education institutes, and churches. The first meeting of the West Virginia WIB took place in October 2000, the second one in March 2001 and the third in May 2001. A fourth meeting, tentatively scheduled for October 2001, did not take place. That was already the second time that a meeting had to be rescheduled. Obviously, the plan to meet on a quarterly basis did not work out during the first two years of existence of the state board. In spite of the few number of meetings, the level of attendance of members remained relatively constant over time.<sup>70</sup> Although the majority of those members *not* attending the meetings came from the private sector no trend towards less participation of private sector representatives can be observed. There were however six members who did not attend any of the three meetings. Among those were two of the four members of the state legislature and a county Commissioner. Although the total number of members did not change, the members themselves were replaced by new ones. Roy Smith, secretary-treasurer of West Virginia State Building and Construction Trades Council, who was a member of the board from the beginning claimed that he had served in five different versions of the board (Charleston Daily Mail April 2, 2001). In spite of the large number of participants - including guests, there were usually around fifty people assembled - the meetings only lasted between one and three hours. Equally short are the minutes of the meetings that are made accessible on the Internet. They are hardly more than an annotated agenda. Only the minutes of the third meeting provide some insight into the contents of the debates.

Although in formal terms the private sector had the majority in the board, West Virginia, similar to other states, faced considerable problems in getting the private sector interested in joining the WIA implementation structure. As a board member has put it, “employers are not rallying behind the WIA because of the history.” (Incumbent Worker Committee August 24, 2001). When asked how to get the business community to invest in the WIA, Governor Wise responded: “We may have to make sure that they believe us.”

The state board is assisted by the following six committees: Executive Committee, Strategic Planning, Incumbent Worker, Youth, Work4WV, LWI. In average these committees have ten members. Not all committees were in their majority composed of private sector representatives. Four out of the six, however, did have a chair coming from the private sector. These committees’ work is not easily accessible to the public because no documents relating to their work have been put on the West Virginia WIA web-site. Although the committees did indeed meet, they did not meet as often and regularly as planned. Similar to the WIB, the committees aimed at a regular schedule with meetings every quarter or so. Not only did the meetings not take place according to this schedule, they were in general also poorly attended. For instance, at one meeting of the youth committee on March 26, 2001, the administrative staff from the Governors Workforce Investment Office (GWIO) outnumbered the committee members by 4:2. Nine committee members were absent.

The coordination of WIA implementation on a day-to day basis was done by the GWIO. It was set up by executive order 13-00 as an independent state entity under the

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<sup>70</sup> Out of the regular members usually between twenty-one and twenty-four did not attend.

Bureau of Employment Policy with operational responsibility. It has no direct responsibility for providing workforce investment programs and services. Its main task was to get WIA up and running in West Virginia. The GWIO was headed by Trend Redman. In addition, the Governor appointed an executive director, Arly Johnson, who assisted the WIB itself. Johnson and his team were tasked to support the work of the WIB and its members in administrative terms. The executive director and his staff were independent of the GWIO, even though they closely worked together. This arrangement, however, has strongly been criticized because it caused confusion about who was doing what (Charleston Daily Mail, November 6, 2001). Not only did this arrangement create confusion for the public, it may also have contributed to some factions within the administration because it contributed to blurring the division of competencies.

This board structure at the state level is reflected at the local level, where every workforce investment area has established a board. The state's determination to reform the system of governance became clear again with the state's approach to the local WIB. None of the Private Industry Councils (PICs), established under the JTPA, has been grandfathered. Instead, West Virginia has "seven brand new WIB certified" councils to be established in every local workforce development area<sup>71</sup> (West Virginia strategic plan 2000, p. 5). The tasks of local WIB (LWIB) include setting up a one-stop system and reviewing statistics on the achievements. Unlike the state board, the LWIBs negotiated and concluded Memoranda of Understanding with the mandatory partners.

Membership in the LWIBs, however, caused some irritation at the state level. In particular the state level was concerned about the fact that LEO named union members to the boards who did not belong to the state federation (AFL-CIO). Similar to the state board, the local boards are considered to be too big to function effectively. All LWIBs together had almost ninety members who showed an equally low overall attendance rate of 30 to 40 percent as has been observed at the state level (Strategic Planning Committee August 8, 2001). No information on the work of these boards is publicly available via the Internet

The above-described system was considerably changed after the new governor, Robert Wise-D, took office in January 2001. He did not only change the board but also the administrative structure in charge of the day-to-day oversight of WIA implementation. At the WIB meeting in May 2001, he made it very clear that he is "not satisfied with the way this program is run. We were at one point, by the U.S. Department of Labor, rated at the bottom in the nation in terms of getting it off the ground" (WV WIB May 15, 2001). He was calling for more effective, more accountable, more flexible use of the funds and in particular, for better coordination of the implementation between the different agencies and between the state and regional level. For instance, given the amount of funds provided under the TANF program and its scope, he considered it necessary to establish some form of coordination between these two programs. With executive order no 18-01 he dissolved the board set up by the previous Governor in August 2000. He announced his plan to establish the West Virginia Investment Advisory Council, which must be limited to thirty-nine members. The Council should meet not less than once a quarter. The members are appointed by the governor for a three year term.

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<sup>71</sup> This decision was however criticized by some of the existing PICs. In particular members of the Kanawha county's PIC were lobbying hard to retain their PIC and transform it into the new local WIB. The Charleston Gazette, 02/14/00.

His decision to dissolve the existing board triggered quite some debate in the media. Senator John Unger, member of West Virginia Legislature, claimed that the new provisions are against federal law because the WIA clearly stated that the Senate President and Speaker of the House of Delegates appoint two members each to the board. The executive order took that authority away, instead allowing them to recommend two members to the Governor for his consideration. In that, Unger claimed that the Governor's act was against federal law (The Charleston Gazette October 23, 2001). However, it was expected that the board would be established in late 2001, the decision to establish the board was still pending as of end January 2002. Consequently, since the board in its old composition met for the last time in May 2001, there has not been any board meeting. Thus, an essential element of the WIA governance structure which is tasked to provide strategic guidance was not in place for more than half a year. One reason for this long deferral might be that governor and state legislature could not agree on a division of tasks. The crucial point being, whether new legislation has to be adopted in order to improve implementation or whether the existing laws were sufficient but the follow-up of their implementation needs to be strengthened. While the Senate favored the adoption of a new bill governing the implementation of WIA, Governor Wise explicitly rejected this initiative at that time. He instead called for giving him more responsibility for this program as well as the authority to decide about certain aspects of its implementation. If by the next legislative session no progress has been achieved, he is "perfectly willing to accept ... to have the Senate and the House exercise a strong oversight in expressing their concerns" (WV WIB May 15, 2001).

At the same time, when reorganizing the political arm of the governance structure, Governor Wise initiated an overhaul of the administrative structure. Executive order 18-01 integrated the office of the executive director of the WIB into the GWIO and merged it with the position of the Director of GWIO. The former director of GWIO was replaced. The newly appointed director, David Lieving, was designated to act as the Governor's primary policy advisor on employment and training, and WIA related issues. The director took office at the end of November 2001. He identified poor communication as one of the agency's biggest problems (*Charleston Daily Mail*, January 5, 2002). When the web-site of the GWIO is taken as a benchmark for the short term effects of this reform, the assessment is not very positive: in February 2002 the most recent Governor's WIA newsletter put on the Web-site was more than a year old. Documents such as minutes of Committee or board meetings, Memoranda of Understanding or any strategy papers (apart from the five-year plan) were not available online (as it is e.g. the case in California). Nor is the annual report on the progress of the state in achieving state performance measures available on West Virginia's WIA web-site.<sup>72</sup> This is particularly noteworthy because unlike with e.g. strategy papers etc., there exists a legal obligation to "make the information contained in such reports available to the general public through publication and other appropriate methods". (WIA sec 136 (d)) Therefore it can safely be concluded that the GWIO did, according to acting Director Lieving, not only have problems in communicating and coordinating internally but was also struggling to communicate with and informing the public about its activities. The changes introduced by Governor Wise were, however, not only limited to the leadership but included the very structure of the office. The new office was moved

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<sup>72</sup> It is available via the DOL-ETA's WIA Web-site. However, unlike the annual report of other states, the report of West Virginia only contains statistics with view to achieving the targets. It does not include a system evaluation.

from the Bureau of Employment Programs to the state development office. This decision was motivated by the aim to create better linkages and build upon synergy effects of WIA strategy with economic development.

The above structure is, however, likely to be modified yet again, although only slightly. A bill is under discussion to introduce an even more streamlined service. It would require the GWIO to work more closely with LWIBs. Unlike his predecessors, the new director of GWIO shows a very keen interest in close cooperation with the local level. Instead of sporadic visits to the LWIBs, David Lieving has initiated a continuous consultation process that includes monthly meetings with local level representatives. Another element of the draft bill stipulates stricter provisions on coordination between the boards' activities with other agencies. Discussion extent to a reorganization of the state's division in workforce investment areas and increase it from seven to nine (Charleston Daily Mail January 9, 2002). However, given the fact that one area does not even have sufficient administrative funds to properly run a one-stop center, this change seems highly unpractical and unlikely. When establishing the seven regions in the first place, the other options discussed ranged between five and seven areas. None suggested as many as nine areas.

As regards the allocation of funds, West Virginia received an increasing share. While in 1999 (hence before the WIA entered into force), West Virginia received a total of 1 percent of those funds that, from the year 2000 onwards, were combined under the WIA. In 2000 the share increased to 1.25 percent and in 2001 to 1.3 percent. At first sight, this does not seem to be a lot of money. When looking at the share per worker, however, West Virginia received the second largest share. Only Washington D.C. continuously received a larger share.<sup>73</sup> When looking at the three funding streams under the WIA, i.e. youth, adult and dislocated workers, West Virginia received a disproportionate large share for dislocated worker, namely: 1.15 percent of total funds allocated for dislocated workers under JTPA in 1999, 1.47 percent in 2000, and 1.6 percent in 2001. With regard to the allocations of funds within the state, West Virginia opted for applying the formula outlined in the WIA, i.e. 15 percent for adult, youth and dislocated worker, and 25 percent for dislocated workers - rapid response (West Virginia strategic plan 2000, p. 19). The allocation of funds to the West Virginia's seven workforce areas differs considerably according to their respective problems. It ranges between 24.6 percent (for Area 1) to 4 percent (for Area 7).

According to an overview prepared by the DOL, West Virginia expended 50.2 percent of the total funds allocated to the state in FY 2000. With that spending level, West Virginia was more than 6 percent below the U.S. average of 56.7 percent. During the first six months of the second year of implementing WIA, West Virginia has spent 28.2 percent of the funds, which is also exactly the average spending of the U.S. in total during that period.<sup>74</sup> On the effects of the financial support provided under WIA, the annual report of West Virginia shows differing results. Whereas West Virginia performed very well with respect to the performance level of earning change under all three strands (adult, dislocated and youth). It did not score so well under the performance indicator entered employment. The worst results were achieved for the indicator employment and credential rate. This poor performance can most likely not be

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<sup>73</sup> See Annex 3 for a comparative overview of the allocation.

<sup>74</sup> The best performing state for that period was Delaware with 44.6 percent and the worst was New Mexico with 12.5 percent.

attributed to bad performance per se but to some confusion as to what kind of statistics should be gathered and how they should be compiled.<sup>75</sup>

## 2.2. Interim Conclusions

In its annual report adopted in early 2002, West Virginia points to the following challenges in implementing the fund (West Virginia 2002, p. 17):

1. limited participation by mandatory partners in the one-stop centers due to programmatic constraints at the federal level;
2. maintaining private sector participation and interest at the local board level;
3. drastic reduction in training providers due to data collection and report requirements;
4. data collection and reporting issues due to relying on mainframe-based systems that were designed for JTPA.

These comments point to the difficulties faced by a number of states during the first year of implementing WIA. They do not, however, deal with the very specific challenges West Virginia's governance structure faced when implementing WIA.

The first challenge was the election and the new government entering office in January 2001. With the election and change of government being an essential and, at the same time, normal feature of every modern democracy, administrations are used to compensate for the void in political and strategic guidance, which often occurs in the immediate aftermath of elections. However, in the case of WIA, the change in government had an overly disruptive effect, for which the administration could not easily compensate. Although at the state level, the election did not only lead to a change in the leadership positions, but it also triggered a far-reaching overhaul of the structures. The old structures could not perform anymore, whereas the new ones could not take over yet, because they were lacking the authorization by the new leadership. Moreover, the reorganization included several levels of governance, i.e. the level of personnel in form of the director, the structure of the administration, and the strategic level of the board. The governance structure was stripped of important elements at the same time. That this could happen reflects back on how the state approached WIA. In contrast to what had been stated in the strategic plan, there seems to be an overall lack of awareness about the challenges administrations are facing when implementing WIA. When the WV HRIC started discussing the WIA and the reforms in terms of this new program, the prevailing impression was that the program's first years would not require any modifications. Modifications were only necessary for the second year (WV HRIC July 22, 1999). Thus, the first year of WIA from August 2000 to July 2001, which the DOL had labeled the transition year, in the case of West Virginia, cannot in fact be considered a transition year but, rather, the year when the old system was slowly abandoned. In contrast to what the first annual report of West Virginia claims (West Virginia Annual Report, p. 5), real transition to the new system – which required a fundamental reorganization of old structures taking the WIA requirements on board – only started to get off the ground in late 2001. Unfortunately for West Virginia, the DOL will not be as “forgiving” as in the transition year, as a member of the Strategic

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<sup>75</sup> The GAO in its report of 2001 pointed to the difficulties states have with the data collection rules. GAO suggests that that belongs to one of the most difficult aspects in implementing the WIA.

Committee has put it (West Virginia Strategic Planning Committee August 8, 2001). West Virginia did not only deprive itself of the chance for a smooth transition; it also did not make full use of the possibilities and flexibility WIA allows.

The second challenge that slowed down the implementation process related to the relationship between the state legislature and governor. As was pointed out, these two pillars of the state's political system could not agree on the terms of cooperation under the WIA. Disagreement prevailed as to whether the reorganization of the WIA governance structure required new legislation or simply an executive order of the Governor. Similarly, the composition of the board, decided by the Governor with some say of the legislator, led to frictions. The underlying rationale for these problems was that WIA and everything related to it seem to be considered as a matter for politics. However, since one of the program's fundamental principles is to encourage a broad public debate on the state's priorities in implementing WIA, the governor and the legislature had less means to unilaterally influence the use of WIA funds, because this was determined in the five-year strategic plan. Changing this plan required to follow certain procedures involving interaction with the public. Consequently, the formulation of policy objectives of WIA in West Virginia was taken out of the immediate political sphere without, however, providing the governance structure with similar stability and 'ringfencing' it, to a certain degree, from politics. On the contrary, the legislature and the governor both had direct access to the governance structure. That does not necessarily in all cases have to result into antagonizing the system. However, in the case of West Virginia, where the governor and legislature had somewhat differing views about WIA, these differences could – at least in the short term – be channeled via the governance structure. Therefore the governance structure seemed to have become the political battlefield to influence WIA implementation in West Virginia. This is particularly surprising because, since January 2001 West Virginia had a unified government, i.e. a Democratic Governor and legislature. Therefore it can be concluded that the disagreement over the WIA structure did not stem from fundamental political cleavages between different political parties, but, rather, was geared to carve out the role of legislature and governor in delegating power to bureaucracies under the WIA system.<sup>76</sup> Since the act itself did not allocate a dominant role in setting up the WIA system to either legislative or executive, this led to a structurally sub-optimal solution that could not easily be changed. Fritz Scharpf has labeled this type of gridlock in decision making "joint decision trap" which he defined as "an institutional arrangement whose policy outcomes have an inherent (non-accidental) tendency to be sub-optimal – certainly when compared to the policy potential of unitary governments" (Scharpf 1988, p. 271). It is likely to occur most clearly "in joint decision systems in which *de facto* unanimity is not backed up by the formal possibility of unilateral or majority decisions or by the clear preponderance of power of a hegemonic member" (Ibid, p. 272).

### **3. The case of California**

California is a state of widely varying regions with a differing economic structure. Consequently, economic growth varies greatly between the different regions. The Five

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<sup>76</sup> In contrast to conventional wisdom Craig Volden's study of the role of welfare boards in the framework of Aid to Families with Dependent Children (AFDC) delegating power to bureaucracies under the AFDC confirmed, that the delegation of power to bureaucracies is not more likely to occur in unified than in partisan governments (Volden 2002).

Year strategic plan of California presents the following causes for this situation: the industries on which the local economy is based, differing rates of population growth, cost factors, environmental regulations, and land availability. Based on similar demographic, geographic and economic factors within each region, the state's economic strategy identified nine regions. Over the past years (1996-99) California's Gross State Product (GSP) per capita continuously exceeded the U.S. average (see Annex 1 for statistics). Taking the GSP as a baseline, California belongs to the fifteen richest states of the United States. However, the situation is slightly less rosy when looking at unemployment. Although California managed to reduce its unemployment rate throughout the past years of economic upswing,<sup>77</sup> it still retained an unemployment rate higher than the U.S. average over the past three years. In fact, with an annual unemployment rate of 4.9 percent, California had the seventh highest unemployment rate in the U.S. in 2000 (see Annex 2 for comparative overview).<sup>78</sup> According to a 2001 survey of the National Priorities Project, 15.3 percent of California's population and 23.1 percent of California's children lived in poverty. These rates are considerably higher than the U.S. average (12.6 percent and 16.6 percent respectively) and not significantly lower than those of West Virginia, which is much poorer in terms of GSP/capita (16.6 percent and 24.2 percent respectively), ([www.natiprior.org](http://www.natiprior.org)). Therefore in spite of the large wealth in terms GSP, California is a major beneficiary of WIA funds. In fact, California received the largest total amount of money under WIA (a little more than 16 percent of the 2001 WIA funds, all three WIA strands put together). It also receives the sixth largest share of WIA spending per worker (see Annex 3).

Although California has the largest population of all the U.S. states (with a population of about seventeen times the size of West Virginia<sup>79</sup>), its economic wealth depends heavily on small and medium sized enterprises scattered all around the state. Therefore, implementation of WIA had to be tailored to meet the needs of small business employers to be successful (California annual report 2001, p. 2).

### 3.1. Implementing the WIA in California

California began preparing for the WIA shortly after the passage of the act in August 1998. In total ten different agencies were involved in the plan preparation.<sup>80</sup> In October 1999, the Governor of California, Gray Davis, set up the Workforce Investment Board (Executive Order D-9-99). The same order terminated the appointments of all the members of the existing Job Training Coordination Council. The initial decisions about California's strategic plan, including the decision not to submit a unified plan, were made by the Employment Development Department (EDD). EDD was also in charge of preparing the bylaws for getting WIA off the ground. The EDD was tasked with implementing WIA because it also had managed JTPA. The plan drafting is described as a highly interactive process that involved a number of stakeholders at the state as well as at the regional level. Workgroups comprised of representatives of the federal,

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<sup>77</sup> In January 1991, California had an unemployment rate of 7.0 percent. This went down to its lowest level of 4.5 percent in February 2001.

<sup>78</sup> The following states also had an unemployment rate of 4.9 percent in the year 2000: Idaho, Montana, New Mexico, and Oregon.

<sup>79</sup> According to recent data of the Bureau of Economic Analysis, the population (in thousands) of California is 25,044 and of West Virginia 1,447.

<sup>80</sup> In other states the number of agencies involved in plan preparation varied between eight and thirteen.

state and local levels dealt with specific issues such as performance based accountability and transitional arrangements in the workforce investment system (California strategic plan, attachment A-2). At its first meeting on January 27-28, 1999, the state board approved the draft plan for release to begin the public comment process, which included six hearings and comments on the web-site. The state board approved the state plan at its second meeting on March 15, 1999 and transmitted it to the governor for submission to the DOL.

With regards to the managerial structure the plan does not reveal a great amount of detail. It seems that – in contrast to the plan of West Virginia – California did not aim at a fundamental reform of its administrative structure established in previous job-training programs from the very beginning. On the contrary, California relied on continuity and experience gained and structures established prior to the WIA, in particular under the Regional Workforce Preparation and Economic Development Act under which “a formal partnership between state leaders representing education, workforce preparation and economic development” had been established (California annual report 2001, ii). With its experience and structure, California considered itself sufficiently prepared to implement WIA without applying any waivers or workflex authority (California strategic plan, Addendum 2, p. 5). Nevertheless, some aspects of the implementation structure needed to be addressed and improved, namely:

- “reduce duplication and improve coordination of service delivery”;
- “overcome administrative barriers that preclude partners collocating and cost-sharing”; and
- “effectively separate system policy and governance from service delivery and operation” (California strategic plan, p. 34).

Instead of targeting the state and local overall managerial structure, the “capacity building strategic plan” aimed at developing individuals who work the system. In its response to the DOL request for a clearer definition of its concept of capacity building, the state board gave the following definition: The plan is geared at “the systematic improvement of job functions, skills, knowledge and expertise of personnel who staff workforce investment systems in California” (California Vision, p.4). Also, the plan heavily builds on decentralization and empowering the local level in decision-making.

The state board consists of sixty-four members, with thirty-seven members representing the private sector, who have been appointed by Governor Gray Davis in late 1999. In order to achieve the by law required private-sector majority in the board, California used private nonprofit institutions (GAO 2001, p. 30). Reflecting the difficulties in keeping up attendance rates, in early 2002 the number of members to the board was reduced to forty-seven with a total of twenty-four members representing the private sector. Furthermore, the strategic plan members are sought to reflect “California’s social and economic diversity and complexity” (California strategic plan, p. 10). The meetings took place at a relatively regular schedule, three-four times a year. However, apart from the first two meetings which were well attended (between forty-five and fifty participants), only twenty-seven to thirty-seven members were present. A dozen members did not attend any of the seven board meetings held until mid December 2001. All but two of those members came from the private sector. Adding those to the five private sector representatives who attended only one meeting, it can be concluded that in its practical work the California state board did not fulfill the WIA requirement

of having a majority of private representatives. As regards the representatives of the state legislature, in most of the cases they did not attend the meetings themselves, but sent a designee. Apart from one member who sent the same designee to all meetings, different people represented the respective legislators. Although this arrangement ensures that the state legislature is informed about the discussion at the meetings it does not contribute to continuity and hinders developing expertise with one person involved. Due to the low attendance rate, especially from the private sector, the state board did not have a quorum at any of their meetings.

The board was handicapped by the low attendance rates, which meant that it did not have a quorum. More importantly however, its organization and tasks seemed not to be sufficiently clear to its own members and to the public<sup>81</sup>. In order to tackle the resulting lack of leadership, the board convened twice for extended meetings. The first meeting took place in December 2000 and resulted in updating the vision and goals that were initially included in California's five-year strategic plan. The second workshop-type meeting took place in February 2002.<sup>82</sup> The second meeting, in particular, was perceived as a possibility to step back from the day-to-day business, which often deals with technicalities rather than with strategic decisions and deals with questions of strategic nature such as what the state must do for WIA and what the state board can do for workforce policy. The discussions circled around the question of what value the board can add to the creation of a statewide framework of workforce development. The board was considered as the nucleus for change in the workforce development structure with view to achieving the following key objectives:

- improve system input through better information about workforce needs;
- improve system operations through (1) better incentives for innovation and (2) better collaboration among partners;
- improve system outcomes through better measures of success.

By means of bylaws the following committees supporting the state board were established:

- Executive Committee: it is chaired by the state board's chair and consists of nine members selected from the members of the board. It reviews and coordinates the work of the other committees. It has 40 percent business members.<sup>83</sup>

For the following committees, the executive order did not set an upper limit in terms of number of members and did not limit membership to state board members:

- Operations Committee: it is charged to recommend actions necessary for the administration, oversight and coordination of the different workforce development programs.

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<sup>81</sup> During the board meeting in December 2001, the board's chair, Mr. Lawrence Gotlieb, identified as the aims of the seminar in February 2002 that it will contribute to "develop a better sense of the board's mission and purpose, to organize effective committees, and to address key issues." California workforce investment board, meeting summary, December 6, 2001.

<sup>82</sup> It had initially been scheduled for October but was postponed due to the events of September 11.

<sup>83</sup> Information about membership is taken from the GAO report 2001, p. 34.

- Performance Based Accountability Committee: its task included the development of a performance-based accountability system.
- Economic Analysis, Planning and System Development Committee: the tasks of this committee included observing trends in California's economy and industry and developing training policies.

With respect to their structure, the first two committees were very similar, whereas the structure of the latter is clearly different. While the Operations and Performance Committees have about ten members, the Economic Committee contains more than thirty members. The first two committees hardly include any members from the private sector, i.e. none in the former and 27 percent in the latter (GAO 2001, p. 34). For the Economic Committee, the situation is exactly the opposite: there are hardly any members from the public sector but the vast majority (83 percent) comes from the private sector. However, as regards the attendance of these members the situation is the same as in the board, at most meetings more than half of its members did not attend.

Although all of the above committees have been integrated in the structure of the workforce investment board, only the Performance Based Accountability Committee is based on a formal bill. Adopted in 1996, it provided the structure for developing a performance-based accountability system (PBA) in California. In response to the criticism of the JTPA, The purpose of this initiative was to provide data and information to support funding decisions and use it for program improvement. This committee is not only tasked to oversee PBA aspects in the implementation of the WIA, but it also decides on the PBA annual report. At its meeting in December 2001, the committee adopted the third annual PBA report. While the first two reports looked at the implementation of the JTPA, the third one, for the first time, also includes data on the implementation of the WIA.

In addition, the staff of the workforce office established a number of working groups to deal with issues such as technical assistance, certification or better addressing the need of small businesses. A special effort has been made to include local area representatives into the assessment process initiated by state authorities one year into the program (California annual report 2001, p. 77).

As regards the division of the state in local workforce investment areas, the Governor decided to establish 51 areas. They included, initially, three categories of areas: those that were automatically designated (16), temporary and subsequent designated areas (21) and areas where the designation had been recommended by the state board (14). Unlike West Virginia, which did not have much previous experience with decentralized structures, California did have local structures in place. In fact, the fifty-one local areas under WIA are very similar to the fifty-two areas designated as Service Delivery Areas under the JTPA. Although California followed a similar approach as West Virginia by not grandfathering local PICs into local boards, the individual areas could build upon their regional experience. Consequently, the decision to divide the state into fifty-one LWIA was not surrounded by a major political conflict. This contrasts sharply with the experience of West Virginia where the division of the state was subject to a long debate involving key players at state and local levels, which delayed the preparation for the WIA at local level.

With respect to the allocation of funds, California's share of WIA funds decreased over time. In 1999, California received a total of 16.9 percent of those funds, which, from 2000 onwards, were combined under the WIA. In 2000 its share increased to 17.8

percent and in 2001 it decreased to 16.6 percent. With that, California received the largest amount in total and the sixth largest amount per worker (see Annex 3 for a calculation per state). When looking at the three funding streams under the WIA, i.e. youth, adult and dislocated workers, the relative largest amount of funds went to dislocated workers (17.2 percent in 2001) followed by the adult tier and the youth tier (16.5 percent and 16 percent respectively in 2001). During the first year of implementing WIA, PY 2000, California succeeded in spending 55.9 percent of its total funds. With this share, California stayed slightly below U.S. average of 56.7 percent. During the first six months of PY 2001, California exceeded the U.S. average by 2.5 percentage points, achieving a spending level of 30.7 percent.

In terms of effective use of the funds measured on the basis of the performance indicators, California exceeded performance levels negotiated with the federal level on twelve of the seventeen core performance indicators. It exceeded them by at least 5.8 percent (adult program, entered employment rate). The best results, in comparison, to the negotiated levels were achieved under older youth programs and the entered employment rate indicator, where a level of 68.5 percent was reached, whereas a level of 55 percent had been negotiated.

The Office of Workforce Investment was set up in October 1999 under the authority of the Health and Human Services Agency, Employment and Development Department. Initially it was staffed with not more than fifteen staff members, all of which came from the Department of Economic Development (EDD). By February 2002 it has grown to slightly more than thirty staff members. The Office is responsible for carrying out all three tiers of WIA, i.e. adult, dislocated workers and youth as well as some mandatory partner programs. The executive director of the office was only appointed in April 2001. The deputy director comes from the Department of Education. It has been pointed out that this staffing policy, i.e. combining staff from different departments has considerably contributed to establish good interdepartmental cooperation structures in particular between EDD and the Department of Education. Ad hoc and in view of evaluating the impact of WIA, interdepartmental working groups were established, which also included other state agencies. For instance, assessing California's one-stop system, a state team consisting of representatives from the California Health and Human Services Agency, the state board, the EDD, the Department of Education, the Chancellor's Office of California Community Colleges, the Department of Social Services, and the Department of Rehabilitation was convened (California annual report 2001, p. 76). Overall, however, interdepartmental cooperation rests on personal contacts between the employees and only very limited standing and formal coordination structures exist. Moreover, although close links to the private sector in implementing WIA have been established, the private sector is usually not represented in such ad hoc coordination or review mechanisms. It has been pointed out that that the DOL has not provided any guidance about how to ensure private-sector views in the day-to-day management of WIA.

### 3.2. Interim Conclusions

Overall, the implementation of WIA and its administrative structure was much less politicized than in West Virginia. The local press hardly ever reported about the WIA, its implementation or administrative structure. The director of the WIA office, Mr. Andrew Baron, stayed in office during the entire time covered by this study. Although this all suggests a rather smooth and effective implementation of the WIA in California,

workforce development did not seem to be on the top of the political agenda in 2000 and early 2001. For instance the budget summary of PY 2001 did not contain an individual chapter on workforce development. With rising unemployment rates, workforce development moved more to the center of political attention. In his budget summary for FY 2002 Governor Davis announced the plan to fundamentally reform the California workforce development system. He proposed to combine the management of all job- training programs in one single Labor Agency.<sup>84</sup> However, when finalizing this study in April 2002, these plans seem to be still in a formative stage. No information about how this structure should look like could be obtained.

Overall, California implemented WIA without much enthusiasm. Neither the institutions nor the procedures underwent a fundamental reform. In contrast to West Virginia, California did not opt for a fundamental restructuring of its territorial division in workforce investment areas. Implementation of WIA in California explicitly built upon previous experience. It is assumed that this has contributed to the smooth and rather unspectacular manner in which WIA was implemented. Whether this approach is sufficient in the future, in particular when TANF is closer connected to WIA, remains to be seen. Since California has shown the capacity to assemble key players of the system and take strategic decisions without being locked into a joint decision trap, chances are that California will be able to continue on its path and smoothly adapt its structure to future requirements.

#### **V. IMPLEMENTING THE WORKFORCE INVESTMENT ACT – AN EXAMPLE OF EFFECTIVE MULTILEVEL GOVERNANCE?**

The reform of the workforce development system and the adoption of WIA was motivated by a number of weaknesses observed in the previous system, including the lack of a comprehensive workforce development strategy and a fragmented system of programs. Insufficient private sector involvement, limited client and service orientation, and, above all, doubts about the effectiveness of the system added strong incentives for a fundamental overhaul of the old system. This study did not ask whether WIA has indeed addressed these problems. Rather, it has focused on the preconditions or essential elements necessary for WIA to become effective, namely: has WIA and the way it has been implemented at the federal and state levels led to a mode of governance consistent with the overall objective of establishing a comprehensive workforce development strategy?

In theoretical terms, such an evaluation can be conducted from two different angles. It can focus on result variables such as output and absorption, measured at two levels, namely:

- Macro-economic absorption defined and measured in terms of GDP;
- Administrative absorption, defined as the ability of federal, state and local level administrations to draw up and update plans and to deal with administrative, monitoring and reporting requirements.

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<sup>84</sup> California spends \$4.6 billion on Job Training Programs that are spread over thirty-four different programs managed by thirteen different agencies. The WIA funds are the second largest individual fund (only CalWORKs Employment Services includes a larger amount of money).

Without neglecting the importance of this type of evaluation, the present study took a different angle. Based on the assumption that the design of a governance structure establishes the conditions for the effective and efficient use of funds, this study focused on input variables such as structure, human resources, and tools. Structures relate to the clear allocation of responsibilities, competences, and tasks, to institutions, including coordination arrangements between, as well as within, institutions. Human resources refer to the ability to detail responsibilities, competences, and tasks not only at institutional level but also at the level of individual employees. And finally, tools relate to the availability of procedures, forms, guidance, manuals, etc. The analysis of the implementation of WIA at federal and state levels revealed weaknesses in all three dimensions. While each level of governance has faced different challenges in implementing WIA, common problems or problems with spillover effects from one level of governance to another have occurred as well.

One of the reasons for these problems is that the states have difficulty interpreting the notion of flexibility. How much room to maneuver does the sub-national level have in putting WIA into practice? Although generally, more flexibility is appreciated or even called for, both California and West Virginia have had difficulties in filling the strategic gap resulting from the limited guidance from the federal level. Even if this limited guidance is only a perception – thus not corresponding to reality as the federal level argues – it has slowed down the implementation of WIA considerably. This uncertainty on the side of the states has been fueled by the fact that the federal level has not taken just one approach to WIA. While DOL has appeared to grant extensive flexibility to the states, HUD and the Department of Education have seemed to take a different stance and impose stricter rules. It is therefore not really clear how much flexibility the states have, nor is there a distinct division of tasks between the different levels of governance and the different actors involved at these levels. As a result of this ambivalence, California and West Virginia both reported uncertainty regarding the degree of flexibility granted to them. Despite their being asked to deal with WIA as a package that links up the mandatory programs, they have not been able to turn to the federal level to ask for guidance and receive an unequivocal answer to their questions.

However, the problems of dealing with the flexibility have not only resulted from a (perceived) lack of guidance but also from contradictory legal requirements (GAO 2001, p. 13). One example relates to the financing of the one-stop system. The one-stop system infrastructure has mostly been funded out of DOL-managed WIA funds. Changing this arrangement is hampered by different legal provisions. For instance, mandatory programs of the Department of Education generally prohibit states from using Education funds to buy or refurbish e.g. a one-stop center (GAO 2001, p. 19ff). Such problems can be solved neither at the local nor at the state level, but require action at federal level involving all federal agencies that manage mandatory programs. The federal level on its part however is partly paralyzed by different views on the functioning of the one-stop system. While Labor has a vision of an integrated one-stop system comprising all mandatory partners (DOL 2000), the Department of Education has expressed concerns about this concept and has not fully adhered to it. Consequently, the states and the local level are left to deal with this issue without having the (tacit) approval of the federal level.

Another major problem occurring at all levels of governance has been the insufficient quantity and quality of coordination between the different partners dealing with the mandatory programs. The importance of coordination results from WIA's

fundamental features, i.e. coherence and pluralism (coherence as regards the overall objectives and strategy and pluralism as regards the implementation of the program). In consequence, WIA's governance structure resembles a multilevel rather than a one-dimensional network. This makes coordination, especially horizontal coordination involving the different agencies, a vital element of the effective management of WIA. The findings of this study suggest that horizontal coordination is even weaker at the federal level than at the level of the two states investigated. The vertical coordination between federal and state levels within the ambit of one department seems to be functioning to a satisfactory degree. However, adequate vertical coordination in itself does not lead to what the GAO identified as the most difficult aspect of implementing WIA, i.e. a merging of different cultures such as managerial style, service delivery philosophy, or administrative rules (GAO 2000, p. 12).

The work of the WIB is another example of where inconsistencies and insufficient coordination at federal level have hampered implementation in both states examined. Both states report that the state boards are too large to function effectively. However, due to the legal requirements regarding board membership, the boards consist of at least forty or so members. Both California and West Virginia have had considerable problems in getting the boards to work. DOL acknowledged the problem of large, maybe too large, WIBs but "was unable to fully resolve this issue in the regulations due to statutory constraints" (Bramucci, July 1, 1999). Both states resorted to the creation of committees as a way out of the overburdened board structure. The smaller committees that are not bound by, for instance, such a strict quorum requirement as the board, are seen as the real working bodies of WIA. Although this way of bypassing legal requirements by entrusting committees with board tasks is also known from other programs, committees are not the solution to everything. In particular, they cannot perform one of the key tasks of the WIB: providing strategic guidance. Only the board has the necessary competences, composition and legitimacy to transform the workforce development structure and strategy of a state. California realized that this strategic guidance is necessary at state level and has convened special board meetings. West Virginia also aimed at making the board more flexible, but chose to cut down membership. However, due to the stalemate between the legislature and governor, West Virginia has not succeeded in making the board operational. The committees have not been able to compensate for the resulting lack of strategic guidance.

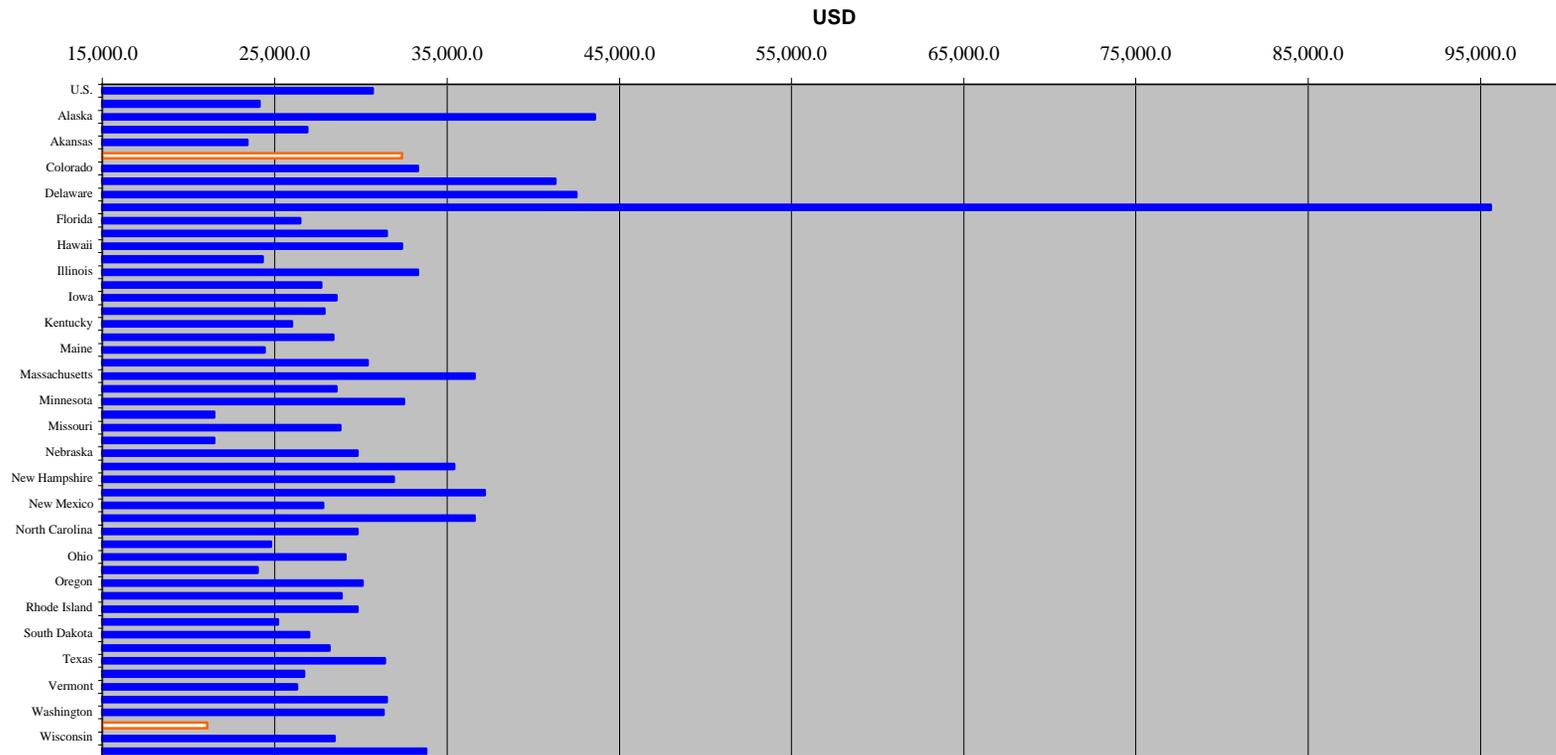
On the basis of the insufficient guidance, limited horizontal coordination involving the different mandatory partners, combined with obsolete (legal) requirements dating back from pre-WIA arrangements, conclusions can be drawn regarding the effective multilevel governance of WIA as a result of the devolution in welfare policy. For a long time now, devolution from the federal to the state and local levels has been a continuum in federal policymaking. The resulting flexibility during implementation granted to the sub-national level also presents itself as a very desirable and intriguing policy objective since it implies that the program is implemented at the level closest to the needs of workers and industry. At the same time, it appears to relieve the federal level of having to decide on concrete and potentially controversial matters because they can best be decided at the sub-national level. However, as the study has shown, flexibility as interpreted during the first years of the implementation of WIA has been a major detriment to effective management. Devolution and empowering the sub-national level seemed to be considered as synonymous with transferring the responsibility for establishing a coherent policy from the federal level to the state level and from the state

level to the local level. However, the contrary is true: as the case studies have shown, multilevel governance requires a different type of policy mix and a different allocation of responsibilities and division of competences involving all levels of governance.

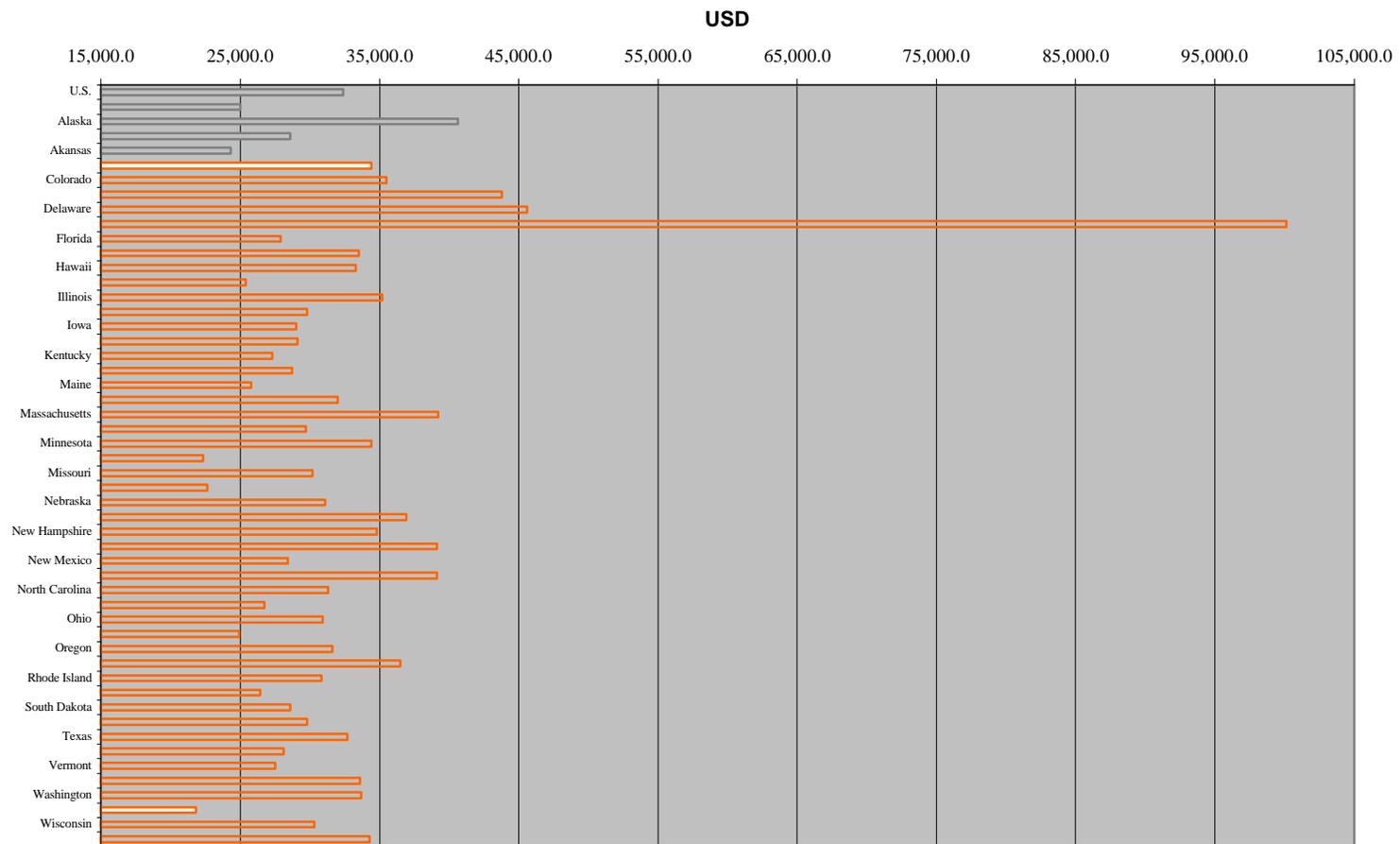
In the light of the problems faced in implementing WIA, the question needs to be addressed of how much more devolution is possible in welfare policy. “Further devolution will have mixed results, but those states that really care can have a better shot at bringing their displaced and disadvantaged out of poverty into the middle class” (Mangum 1999, p. 331). Without sharing this rather pessimistic prognosis about the multilevel governance structure being, in general, incapable of dealing with further devolution, this study has shown that empowering the sub-national level and granting it more flexibility in implementation increases rather than decreases the complexity of the system. The implementation of WIA has pointed to the challenges of strengthening the strategic vision and increasing management skills, both of which have yet to be addressed by the federal as well as the sub-national level.



## Gross State Product per Capita 1997

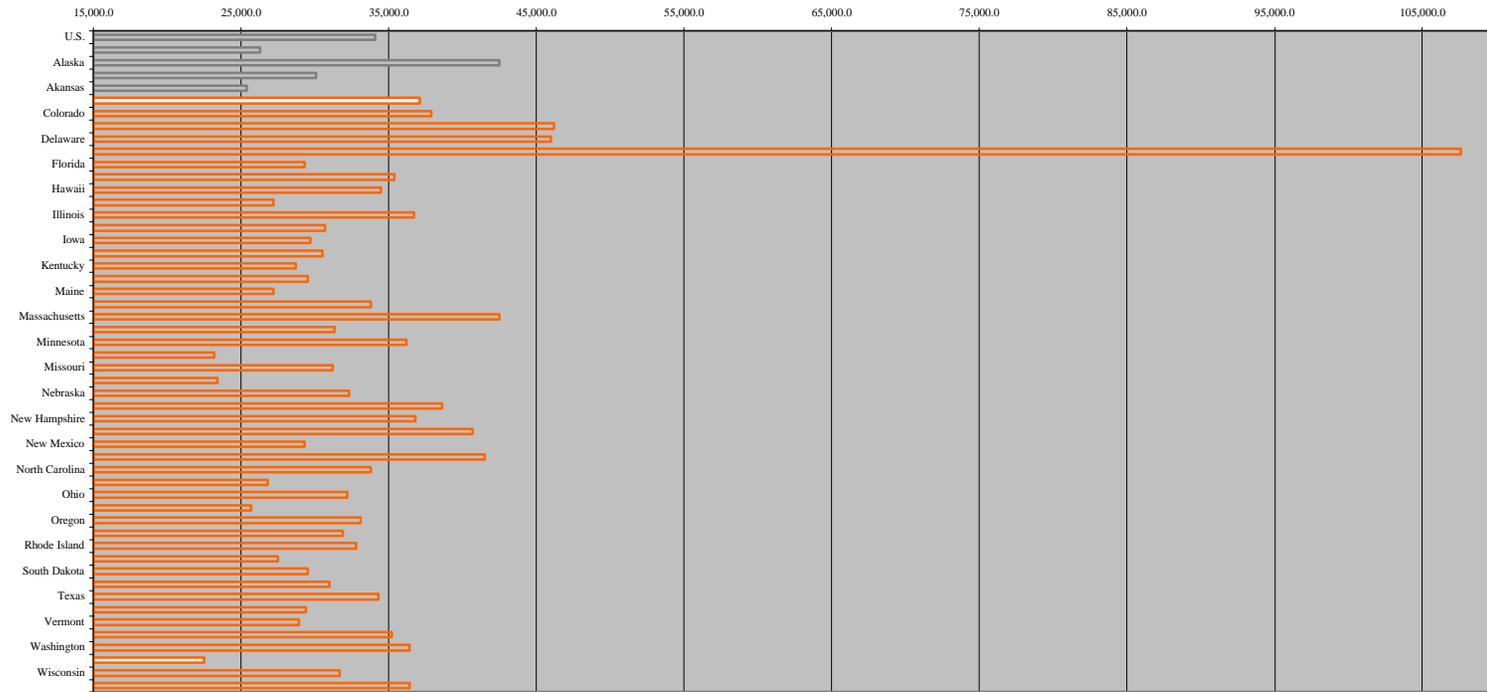


## Gross State Product per Capita 1998

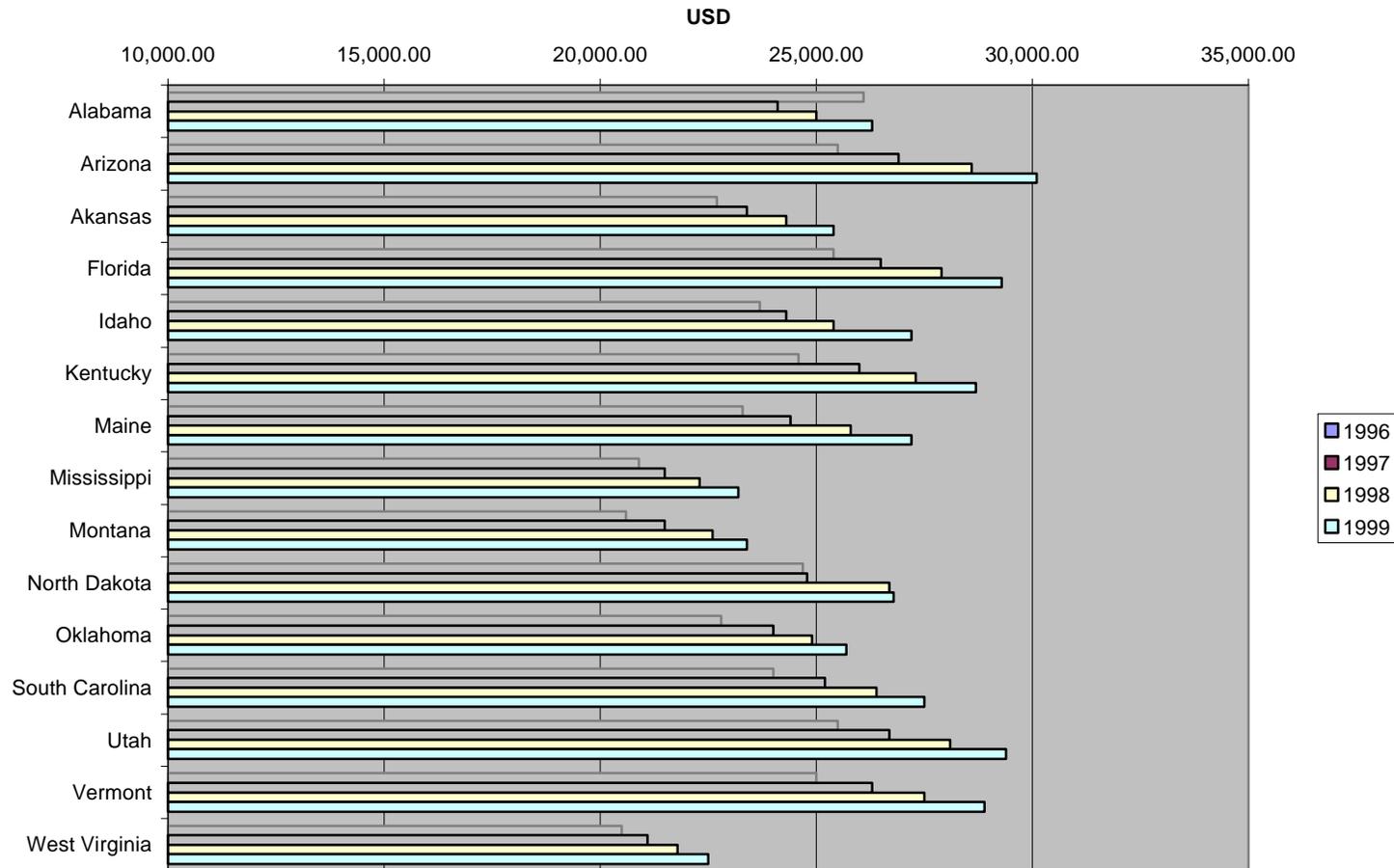


## Gross State Product per Capita 1999

USD

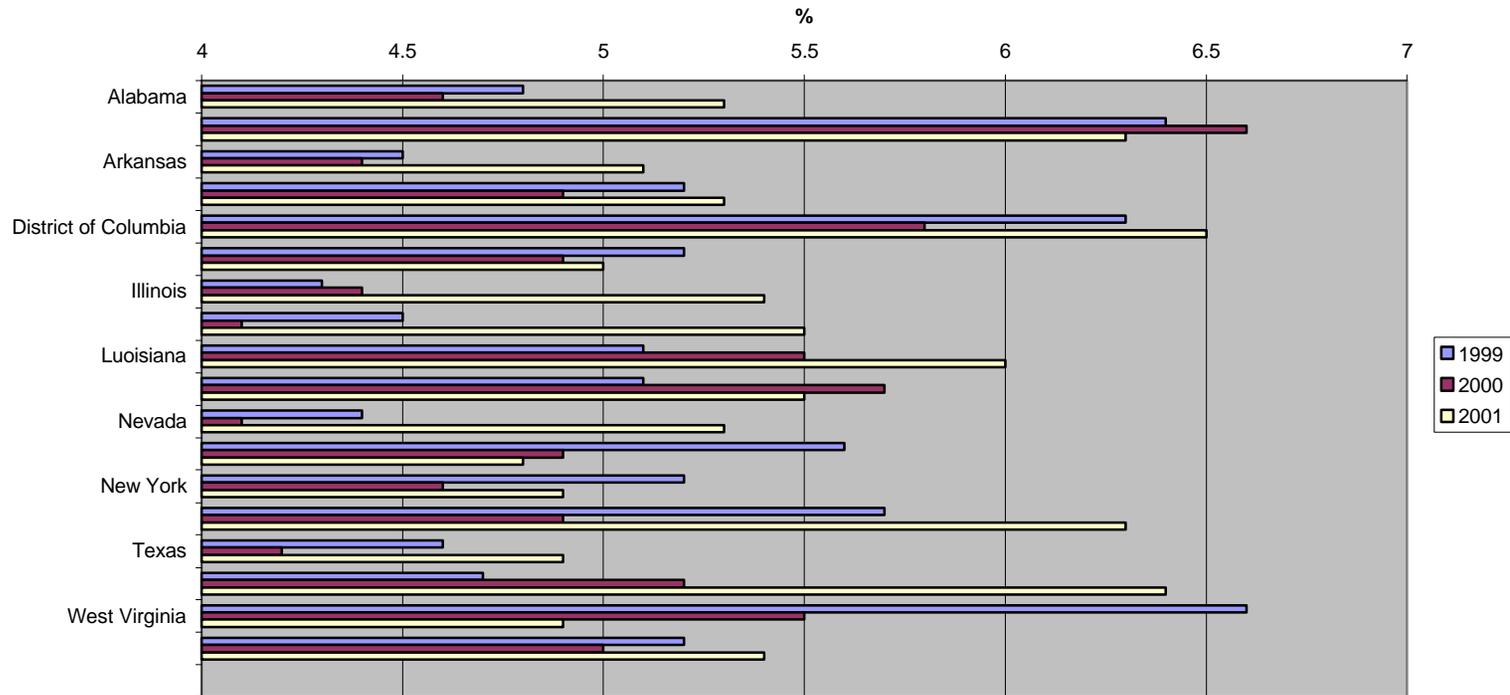


**States with GSP/capita below 90% of U.S. average between 1996 and 1999\***

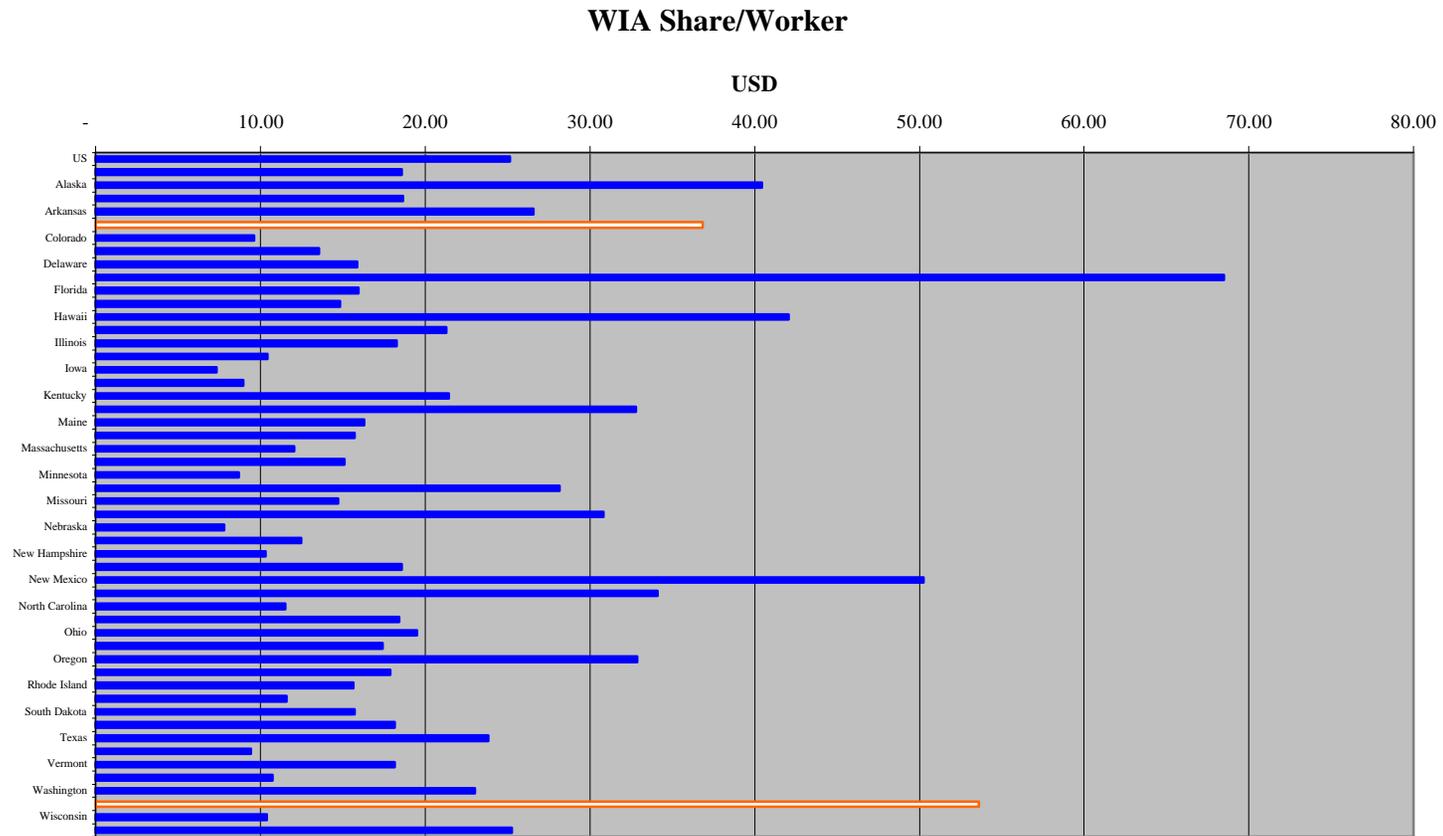


**Appendix 2 Development of unemployment at State level**

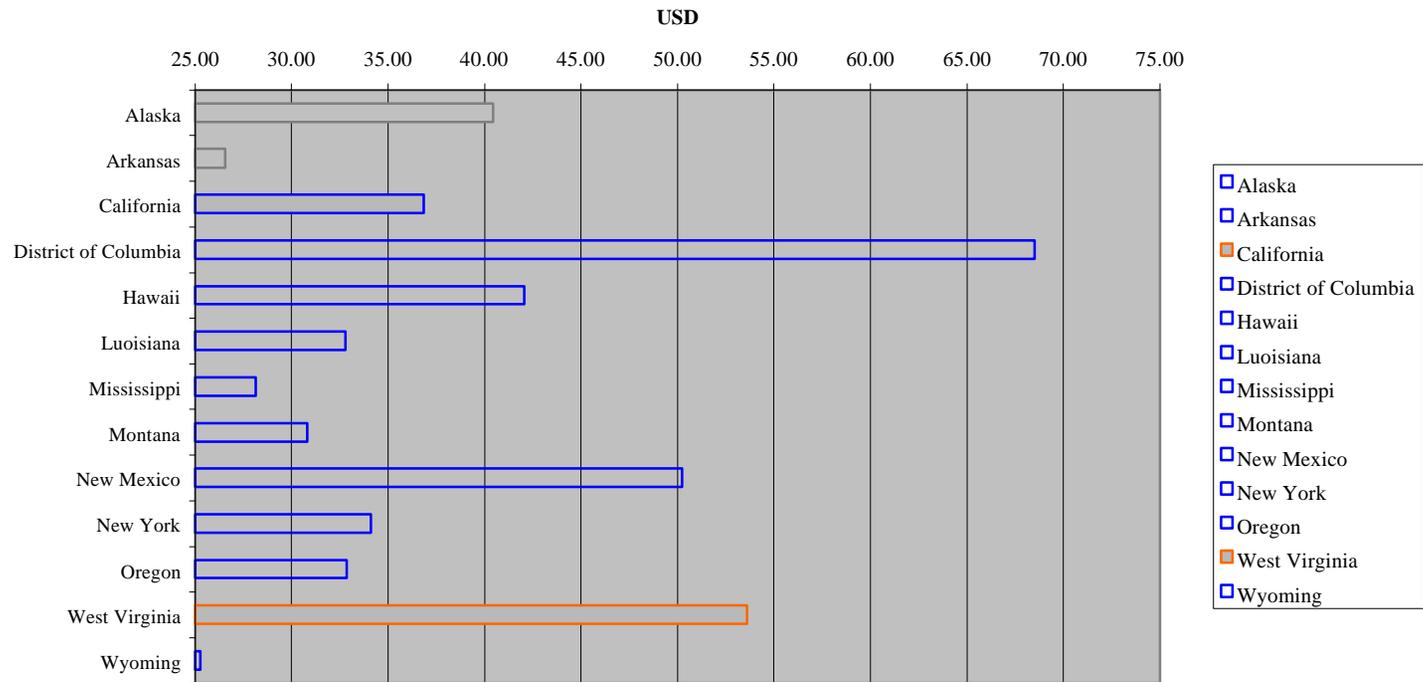
**Regional Unemployment Rates -  
States above U.S. average for three consecutive years  
U.S. average: 1999 4.2%; 2000 4.0%; 2001 4.8%**



**Appendix 3 Allocation of WIA/worker**



**States receiving a higher share than U.S. average of 25,13 USD/worker\***



**Appendix 4 Membership at Workforce Investment Act Readiness Workgroups**

<b>Workgroups</b>	<b>Federal (ETA)</b>	<b>Federal (non-ETA)</b>	<b>State</b>	<b>Local</b>	<b>Other (National Orgs., IGOs, etc.)</b>	<b>Total</b>
One - Stop	21	17	18	14	0	70
Youth Services	29	3	19	32	4	87
Adult Services	30	2	22	13	4	71
Employer Involvement on Workforce Investment Boards	20	1	7	9	11	48
<b>Total</b>	<b>100</b>	<b>23</b>	<b>66</b>	<b>68</b>	<b>19</b>	<b>276</b>

Source: U.S. Department of Labor—Employment and Training Administration, Training and Employment Information Notice No. 4-01, November 14, 2001.

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