Opening Up American Federalism: Improving Welfare the European Way

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Abstract

The European Union is experimenting with using an Open Method of Coordination (OMC) for pursuing common social policy objectives in the context of the demographic, economic, and institutional diversity of Member States. OMC involves jointly developed and monitored procedures for benchmarking Member State accomplishments, developing goals for improvement, planning action, and assessing achievement. While American federalism differs from EU governing structures, OMC procedures appear applicable to problems of governance in various US social programs. This is illustrated by outlining changes that might occur were OMC procedures applied to joint federal-state management of the High Performance Bonus in the Temporary Assistance for Needy Families program. OMC techniques would help clarify program objectives, encourage performance orientation, and identify successful practices.

Keywords: Open Method of Coordination, Temporary Assistance for Needy Families, federalism, government performance management

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Opening Up American Federalism:
Improving Welfare the European Way

The Member States of the European Union (EU) are engaged in a long-term effort to build and refine the political and social institutions needed for the conduct of public affairs. This effort is accompanied and informed by debate among and within the various member countries concerning the appropriate spheres of responsibility for EU government, the objectives of policy within those spheres, and the means by which the goals of policy might be obtained. Some of the most contentious issues involve the role, if any, of Union governance in the realm of social policy. In some ways this debate mirrors long-standing conflict over state and federal roles in American social policy. One instrument of Union governance, the Open Method of Coordination (OMC), possibly provides a model for how state policies might be better coordinated to foster improvement and serve common national ends. This paper looks to EU invention and experience for ideas relevant to governing social policy in the United States.

The EU is not by common standards a federal state, but many features of EU governance address issues common to federal systems (Bogdanor, 2003; Kelemen, 2003). Federal systems come with virtues and vices. The virtues lie in the greater responsiveness and accountability of governments matched in scale to the requirements of their public functions. The vices arise when the match is imperfect and the costs of actions of one government are born by citizens of another. The consequences of such spillovers are not, however, always negative: The "laboratories-of-democracy" hypothesis is that government collectives, by providing multiple testing grounds for government response to public needs, foster innovation.

As commonly described, the responsiveness/ accountability virtues of federal systems are basically static. In theory it is the responsibility of higher levels of government to address problems raised by spillovers and to provide those goods with common national benefit. While adjustments are never easy, once such problems are fixed, either by reallocating responsibility or redrawing boundaries, they're fixed. In contrast, the laboratory virtue is dynamic in consequence: Innovation produces change. Here, too, innovation by constituent governments produce spillovers, but in this context the task of higher spanning tiers is to encourage development of new ideas and to facilitate transfer among member governments of knowledge pertinent to common functions and concerns.

Thus we may distinguish two sets of governance tasks. One is figuring out how to do what governments are asked to do; the other is finding and promoting better ways to do such things. The laboratories-of-democracy argument has traditionally been cast in terms of the gains to one constituent state from innovation by others in the conduct of common tasks. To work, there must be the experiences of other states that federalism provides and also mechanisms by which the lessons may be identified, validated, and disseminated. Our thesis is that the EU Open Method of Coordination suggests new mechanisms for policy learning that might be adapted to make American federalism itself work better.

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In the next section we provide more detail on the evolution of European models of intergovernmental cooperation, including the OMC. We then review application of the OMC to a particular issue—social inclusion—and point out what we consider to be attractive features of the strategy. We subsequently turn to an example of current methods of coordination in the Temporary Assistance for Needy Families (TANF) program with emphasis on the objectives promoted by the TANF High Performance Bonus (HPB). We provide sufficient detail on the HPB to support thought in the fourth section about how an "Open Method" coordination procedure might address procedures for awarding the bonus and using the system to encourage state performance improvement. In our conclusions we point to similar opportunities in other federal programs.

European Governance

Formed with six nations as the European Iron and Steel Community in 1950, the EU now comprises 25 nation states that share a market of 452 million people and are bound together by an evolving web of quasi-federal mechanisms of governance. Economic development provides the principal momentum for the European venture and underpins the legal framework that regulates the apportionment of authority between the Member States and the European institutions: the Council of the European Union, the main decision-making body comprised of representatives of the governments of Member States; the European Commission which is a proactive civil service; and the still-weak European Parliament. The authority of the European institutions remains largely restricted to the economic sphere, but the logic of ever-closer economic integration arguably compels greater coordination of social policy. It is this imperative that has generated experiments in governance that emphasize horizontal linkages and learning between Member States. It is these developments that attract our attention.

The presidency of the Council of the European Union (representing the governments of the member states) rotates among member countries. Significant points in the evolution of EU policies tend to be marked by reference either to the country occupying the presidency or the location where key decisions are formally made. While there are many precursors for the development, it was a meeting of the European Council in Lisbon (during the first "Portuguese Presidency") in March 2000 that set as a goal for the Union "to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion" during the first decade of the new millennium. Achieving this Union goal required coordination of macroeconomic and employment policies—theretofore the major focus of policy effort—with social policies pursued by Member States to address social exclusion. Along with an enhanced coordinating role for itself, the Council identified the "Open Method of Coordination" (OMC) as the instrument for cooperation in the field of social policy under the principle of subsidiarity (social policy remains the responsibility of Member States).

In a nutshell, the OMC involves a sequential combination of:

(1) collective identification of objectives,

(2) connecting these objectives to commonly defined social indicators,

(3) development of "National Action Plans" to achieve the objectives,

(4) peer review of the plans,

(5) joint evaluation reports,

(6) identification of "good practice," and

(7) feedback to recommendations for policy adjustment.

The notion that the tools of governance, such as the OMC, that are evolving in Europe are "experiments" is not far fetched. Each is subjected to evaluation that sets in train a reflexive dynamic which generates a continuing process of development, the goal of which is improved governance. To describe the European system it is therefore necessary to freeze a process, to take stills from a movie, and as such there is no ideal time to do it. As we write (in late 2005), the details are set to change again, but there is no suggestion that the underlying principles are to be abandoned or that their relevance to US federalism is to be lessened.

European Models of Coordination

Engaging the governments of proud and long-established nations (and an increasing number of newly constituted states) in collective endeavor is a heroic venture of considerable audacity. Inevitably, the reality is one that entails repeated failure as well as success, much complexity, and sometimes mind-numbing banality such that it is possible and appropriate only to convey outlines of the story in an article of this length. In this spirit, we focus on just three aspects of European coordination and begin the narrative in 1997. Annotation is extremely limited, since more comprehensive studies of the history and details of EU governance are readily available (cf. Bomberg and Stubb, 2002).

We consider coordination through legal sanction, as it appears in macroeconomic policy, coordination through authoritative guidance as reflected in the European Employment Strategy, and finally coordination largely through peer pressure—the open method as applied in selected areas of social policy.

Macro-economic policy: Legal sanction

Member States of the European Union are obliged under Article 99 of the Treaty Establishing the European Community (the Maastricht Treaty, 1992, as amended by the Treaty of Amsterdam, 1997) to "regard their economic policies as a matter of common concern" and to co-ordinate them. This is achieved by two principal mechanisms: the Broad Economic Policy Guidelines (BEPG) and the Stability and Growth Pact (SGP). The guidelines, originally annual but since 2003 set for a period of three years, serve three functions:

(1) They constitute the definitive reference document containing policy recommendations that are designed to provide the basis for economic policy in both the Member States and the European Union as a whole.

(2) They establish a benchmark for the process of “multilateral surveillance” by which economic developments in individual Member States are monitored.

(3) They provide a set of country-specific recommendations that take account of the particular circumstances of each Member State.

Twenty-eight guidelines were established for the period 2003-5 and an interim assessment of progress, both Community-wide and for each Member State was published in January, 2004 (European Commission (EC) 2004) that portended further developments in 2005 (see below).

The SGP is the mechanism introduced to enforce fiscal discipline in the context of European Monetary Union (EMU). It is presumed that sound government finances are required to foster price stability and facilitate strong and sustainable economic growth and employment creation. Specifically, the requirement is that Member States should set the “. . medium-term objective of budgetary positions close to balance or in surplus . . ” so as to “ . .allow all Member States to deal with normal cyclical fluctuations while keeping the government deficit within the reference value of 3 percent of GDP.” The SGP comprises three elements underpinned by European Council regulations:

(1) Political commitment to the full and timely implementation of the budget surveillance process to ensure effective peer pressure in the event that a Member State fails to abide by its commitments.

(2) Preventive elements that limit budget deficits including the submission for examination by the Council of Economic and Finance Ministers of stability programs by EMU members and convergence programs by non-EMU members.

(3) Dissuasive elements that require Member States to take immediate corrective action in the event of a breach of the 3 percent reference value and, if necessary, allow for the imposition of sanctions. As originally formulated, sanctions were initially to take the form of a non-interest-bearing deposit with the Commission (a fixed component equal to 0.2 percent of GDP and a variable component linked to the size of the deficit) but this would be converted into a fine if the deficit were not corrected within two years.

In addition to these legal bases, a Code of Conduct specifies the content and format of the stability and convergence programs, both completed annually (the former by Member States within the Eurozone, the latter by all other Member States). The Code (EC, 2005a) requires programs to include:

(1) A medium-term objective for the budgetary position of close to balance or in surplus, the adjustment path and the expected path of the general government debt ratio;

(2) the main assumptions about expected economic developments (growth, employment, inflation and other important economic variables);

(3) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the program; and

(4) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position.

The dirigiste character and details of the budget deficit provisions of the Maastricht Treaty and the SGP were severely criticized (cf. Alesina and Perotti, 2004), and the problem of applying them when both France and Germany exceeded the ceilings helped trigger reform in 2005. The reform replaced nominal restrictions on deficits with structural ones for 2005-2008 that significantly lessen the susceptibility of Member States to sanction (EC, 2005a; European Council, 2005; Calmfors, 2005). Nevertheless, both the details and problems provide a good example of EU coordination by "hard" law and the association of specific objectives with well-identified indicators. Significantly, too, in the context of the Open Method of Coordination discussed below, one justification given for the 2005 reforms was 'the need to improve "ownership" by national policy makers' (European Council, 2005, p. 4) and the suggestion that this might be attained by increasing peer support and applying peer pressure—possibly using OMC techniques (Calmfors, 2005, 96).

Luxembourg process: Formalized guidance

The second model of policy coordination is evidenced by employment policy. Although, central to the European project since its foundation, a Community role with respect to employment was only made explicit following the Maastricht Treaty in 1992. Title VIII of the Treaty founding the Community sets out the principles and procedures for establishing a coordinated employment policy and Article 128 (as drafted in the Amsterdam Treaty of 1997) established an annual policy cycle that was launched as the European Employment Strategy (EES) at the European Policy Council in Luxembourg in November 1997.

The core of the EES is a set of common employment guidelines for Member States designed to achieve full employment, improve productivity and quality of output of work; and strengthen "social cohesion and inclusion." Each Member State presents annually a National Action Plan to the European Commission and European Council explaining the main measures taken with regard to the employment guidelines. After reviewing the reports, the European Council and European Commission jointly publish a report on the European employment situation and the implementation of the Guidelines. Based on this report, the European Council publishes conclusions that give the process its dynamic, since they can include proposals to reformulate the Guidelines. This dynamic is reinforced by the option of the European Council to address specific recommendations to individual Member States. Based on the Joint Report and subject in the Council to qualified majority voting by Member States, any such recommendations are underpinned by Community Law. However, the mechanism of influence is generally that of political embarrassment rather than legal sanction for noncompliance.

The European Employment Strategy, or the "Luxembourg process" as the mechanisms have come to be called, incorporates five principles of governance: subsidiarity, management by objectives, surveillance, convergence, and integration (Employment and Social Affairs Directorate (ESA), 2005). The principle of subsidiarity that applies within the European Union relates to political legitimacy rather than fiscal federalism with responsibility vested in the lowest appropriate political level rather than necessarily the most efficient level. As a consequence, nation-states are largely responsible for the design and implementation of national policies and programs. Specification of objectives gives direction and forward momentum to the process and, to the extent that these are adequately expressed as measurable baselines and targets, allows for monitoring, evaluation, and comparison. Monitoring and evaluation are undertaken with regard to a set of key indicators developed for the purpose.[1] Comparison, based on surveillance, allows for identification of successful practice and failure. This information will shape the policy debate and may lead to the revision or reformulation of objectives. Advocates argue that comparison also builds peer pressure to improve the quality and effectiveness of policy that will, in turn, result in policy convergence.

In the context of the European Union, the achievement of convergence is an objective as well as a principle that is fueled by desire to avoid what is there termed "social dumping" (Member States competing with each other through reduced welfare expenditures), enhance collective economic efficiency generally, and to promote the "European Social Model" (of which, more later). The final principle of integration refers to the recognition that, to be effective in attaining objectives as broad and ambitious as those driving the European Employment Strategy, policy needs to be comprehensive and embrace multiple domains of government activity. The importance of such integration is underscored by the European Commission decision in spring 2005 to integrate the guidelines for economic and employment policies in a single document as part of a "new cycle of governance" intended as a "new start to the Lisbon strategy," which we discuss next (EC, 2005b, 4-7).

The Open Method of Coordination: Peer Pressure

From Luxembourg we jump to the March 2000 European Council meeting in Lisbon, which articulated the vision of an integrated socio-economic strategy for Europe as a whole and famously the "most competitive and dynamic knowledge-based economy in the world" goal cited in our introduction (European Council, 2000a). This, in turn, required:

- Preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
- modernizing the European Social Model, investing in people and combating social exclusion;
- sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix.

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[1] See Employment Committee, (2002). The indicators include everything from employment rates through measures of the gender gap to "Employment in newly established enterprises" ("Number of persons employed in newly born enterprises (in year n) and in surviving enterprises (set ups in years n-3, n-2 and n-1) in relation to the number of persons employed in all active enterprises (in year n)"). We do not care to attempt to explain why knowing "employment in newly established enterprises" justifies the effort required to collect the data. In this endeavor we are pursuing process, not particulars!

The resultant strategy comprises a policy triangle with positive interaction between economic, employment and social protection policies. While the primacy of economic and employment policy is enshrined in Community law, recognition that the success of these policies was conditional on the effectiveness of social policies meant that the Community could assume a legitimate role in seeking to ensure that the social policies implemented by Member States were as effective as possible. Indeed, a European Social Policy Agenda was agreed at the Nice Council as early as December 2000 (European Council, 2000b).

Following Lisbon, the policy process associated with the European Employment Strategy, now formally denoted the Open Method of Coordination, was remodeled under the auspices of the Social Protection Committee (of the EU Commission Employment and Social Affairs department) and applied to social inclusion and pensions. These are areas beyond the formal competence of Community institutions but where the Amsterdam Treaty allows Community action to support and complement the activities of Member States. This third model embraces the dynamic created by the common goals, action plans, multi-lateral surveillance and revision that characterizes the Luxembourg process but relies entirely on peer pressure to influence national policy since there is no legal basis for recommendations to be issued to Member States (Ferrera et al, 2002; Smismans, 2004).

The Open Method in Action

The Open Method of Coordination has to date (2005) been applied to two areas of European social policy: social inclusion (the reduction of social exclusion) and pensions, and a proposal for application to health and long-term care is pending from the Commission and Parliament. Numerous other applications are under consideration. Since pension issues are quite different and social inclusion is more closely related to objectives of the American programs that are of concern here, we limit our discussion to this area. A much more comprehensive overview is provided by Zeitlin, Pochet, and Magnusson (2005).

Social Inclusion

Concern over social welfare is a natural concomitant of steps taken to achieve European economic integration. Monetary union and reduction in barriers to trade and mobility are expected by most policy makers to increase European economic output and raise personal income in aggregate. However, the consequences for distribution are at best uncertain, especially in the period of transition to full economic integration. Moreover, the fiscal and demographic pressures generated by population mobility and economic competition threaten the viability of the social protection systems of individual member states. In the late 1980's various authorities began to express some of these concerns with reference to the threat of "social exclusion," which, of course, could be opposed by promoting inclusion.

The process relating to social inclusion was initiated by specification of four Common Objectives at the European Council in Nice in December 2000:

(1) To facilitate participation in employment and access to resources, rights, goods and services for all;

(2) to prevent the risks of exclusion;

(3) to help the most vulnerable;

(4) to mobilise all relevant bodies.

The first National Action Plans were produced in June 2001 covering a two year period, and a Joint Report on Social Inclusion was issued by the European Commission and the European Council in December 2001 that included reflective accounts of the plans of individual Member States. The process was repeated in 2003 but with some modification to the objectives agreed in 2002 (Social Protection Committee, 2002). The latter encouraged the specification of numerical targets for the reduction of poverty and social exclusion, urged that the policies of Member States take more account of gender in the development, implementation and monitoring of action plans, and pointed to the high risk of poverty faced by some immigrant groups. In 2001, in Laeken (a part of Brussels), the Council endorsed a set of eighteen indicators of poverty and social exclusion proposed by the Social Protection Committee to provide "a solid basis for monitoring progress and assessing the effectiveness of policy efforts" (EC, 2003, p. 10; see also Atkinson et al 2004). These indicators were employed in the second Joint Report to undertake a comparative contextual analysis of social exclusion and short-term trends before identifying the main challenges for policy on the basis of which a policy agenda was established for the European Union for the period 2003-5. This agenda was encapsulated in six key priorities (see Figure 1).

[Figure bound at the end of the manuscript]

Figure 1: Key Priorities Established in Joint Report on Inclusion, 2003

From the perspective of the European Commission and the Council of the European Union, aspirations for OMC in relation to social inclusion were always high because the system was seen as an essential mechanism by which the ambitions of the Lisbon Council could be realized. It was to result in a closer integration of domestic policies with the strategic goals defined at Lisbon and to mobilize all parties in pursuit of them. It was recognized that there was a need to ensure consistency with economic coordination through the Broad Economic Policy Guidelines and with the European Employment Strategy. In this sense, the OMC was not only a mechanism by which Member States could coordinate their social inclusion policies but also a means by which Community level economic, employment and social policies could be coordinated.

The Joint Reports reflect these twin aspirations. As already noted for the 2003 report, a large part is devoted to a contextual analysis and to an assessment of collective progress towards meeting the Common Objectives. However, each report also provides an assessment of how well each Member State has been translating the EU Common Objectives into national strategies to combat poverty and social exclusion. Instead of the formal recommendations that follow Joint Employment Reports, the Joint Inclusion Reports draw attention to the challenges ahead for individual Member States and also identify examples of good practice (EC, 2003, p. 53).

Each of the three processes outlined (the Broad Economic Policy Guidelines, the Luxemburg process of employment guidelines and the Open Method of Coordination) contains a forward-looking dynamic imposed by the rubric of "management by objectives." Objectives are set, plans are promulgated, progress is assessed against the objectives and peer reviews, and recommendations of various strengths are made for reform of policy, both in light of progress and with respect to other changes that might have occurred. The process also allows for reform of the objectives themselves. While critics might argue that the level of activity is frenetic (recent modifications—streamlining—have been introduced to slow the process, focus attention more on the medium term, and better articulate the linkages between economic development and social policy identified at the Lisbon Summit), the positive gains are in terms of cumulative learning and continuing refinement of policy goals and policies and the definition and measurement that underpins the process of multilateral surveillance.

The Common Objectives on social inclusion remained unchanged between 2000 and 2002/3, since the official view was that they had "proved robust and viable" and that what was needed was "building on the progress that has been made with a view to further increasing efforts to advance the social inclusion process launched at the European Council of Lisbon" (Social Protection Committee (SPC), 2002, p. 2). Nevertheless, a process of refinement was still evident. The accompanying guidance sought to add precision and bite by encouraging member states to transform objectives into targets thereby ratcheting up accountability (and with it political risk):

> [Member States] are invited to set targets in their National Action Plans for significantly reducing the number of people at risk of poverty and social exclusion by 2010 and in doing this to draw, as appropriate, on the commonly agreed indicators endorsed at the Laeken European Council (SPC, 2002, p. 9).

The 2003 Joint Report on Social Inclusion lauded Ireland, France, the Netherlands, Portugal, Sweden, and the UK as the Member States most consistently and systematically setting quantified targets from the priorities and objectives established in their National Action Plans. However, it also complained that few Member States had "set ambitious, achievable and time specific objectives" in relation to reducing the risk of poverty. It criticized many of the targets set on the grounds that they were too broad and non-quantified, related to intermediate outcomes that are only indirectly related to the policy objectives, or were focused on input targets related to policy effort but not outcome.

The spring 2005 decision to integrate the economic and employment policy guidelines is to affect the OMC for social inclusion in four ways designed to articulate better the linkages between economic development and social policy identified at the Lisbon Summit (EC 2005c). First, procedures are to be synchronized into a three-year governance cycle commencing in 2005. One result of this is that the 2005 Joint Report on social inclusion, the first to include the 10 New Member States that joined the European Union in 2004, has an interim status pending synchronization (EC 2005d). Second, while the OMC on social inclusion and pensions (social protection) are to continue in full, specific elements of these strategies considered to make a key contribution to growth and employment objectives are to feed directly into Member States' national reform programs developed under the integrated guidelines. Third, the European Commission has strongly indicated that it expects a single set of new Common Objectives, to be established by the end of 2005, to apply to both OMC strands and, as a prelude to this change, the Commission in February 2005 issued a questionnaire to stakeholders soliciting views on the effectiveness of OMC (DWP, 2005). Finally, direct management of the Peer Review process and the network of independent experts and is to be transferred from the Commission to an external service provider working under its supervision (EC 2005e).

Looking for Lessons

Even for scholars and practitioners infatuated with problems of governance, all this surely sounds Euro-peculiar. What features might offer stimulus to creative thinking about policy coordination in other contexts, notably in the United States, but in other countries as well? It helps to step back from recent history and review the OMC application to social policy within the European Union in terms of initial conditions, mechanisms, and expectations.

Initial conditions involve objectives, circumstances, and capacities. EU States, and certainly the EU electorates, are far from consensus on long-term objectives for common social policy, especially as general principles are translated into specific outcomes. However, there does seem to be agreement that whatever the objectives are, they should incorporate improvement over current conditions and convergence in opinion across states regarding what outcomes count. Thus application of the OMC is very much about vision building and clarification and convergence of objectives as well as general improvement of systems.

While in the long run where one is going is generally more important than is the place where one starts, the situation tomorrow is largely a product of the situation today. Variation in current conditions across member countries means that whatever the long-run intention for an integrated European social policy, substantial local autonomy must be granted and accepted for short-term policy design and implementation because of variations in needs, resources, and available information systems.

The mechanism is on its face textbook stuff: Governments set objectives, proclaim timetables, establish indicators and benchmarks, make policy decisions, monitor what happens and then review policies. What is more unusual is the OMC vision of "learning oriented" governance, a more dynamic concept than the more commonly cited and somewhat static idea of policy as "knowledge-based." The OMC attempts to create and encourage a local dynamic to innovate and improve policy that leads, over time, to a stronger knowledge base with emphasis on activation.

Openness and peer review are central to the OMC policy, serving to discipline claims of achievement, encourage innovation, and foster lateral transfer of information across countries. The OMC attempts to use peer experience to provide cross-national incentives, models, and legitimization of change.

Finally, the *expectation* of advocates is that with OMC over time things will improve. Commitment will grow, outcome measures and assessment procedures will converge, and common *measures* of outcomes—indicators—will transform into common *targets* for achievement.

The key to general relevance is appreciation of the role of the OMC in promoting change and improvement in what government does and this promotion is accomplished in the context of highly decentralized governmental authority or in which the hierarchical division of authority is uncertain. Thus at least some features of OMC design and experience are likely to be relevant to policy making in any circumstance involving coordination of change and promotion of improvement across governmental units with substantial independence. It has for some time been popular in policy discussions to promote emphasis on outcomes rather than inputs; the OMC innovation addresses a situation in which change in process is an essential step to clarifying what outcomes are important, how they are to be measured, the means by which such objectives might be pursued, and how effectiveness might be increased.

Coordination in TANF

In the United States social policy is generally the product of a partnership in which the federal government pays most of the bills and state governments deliver the programs. These arrangements are the source of considerable friction. On the one hand, administering federal agencies are held responsible for program management and, to varied extents, for outcomes; on the other, states vociferously resist federal intrusion on operations. Temporary Assistance for Needy Families (TANF) provides many examples of these conflicts, and this program offers good opportunity for thinking about the applicability of OMC structures in an American context.[2]

Background and the TANF Plan

The Temporary Assistance for Needy Families (TANF) is the American program of last resort for poor families with children. Established by the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA), TANF provides monthly income to families that qualify on the basis of composition and need. Eligibility standards and benefit amounts are set by states. TANF costs are shared between the federal and state governments. The federal contribution is in the form of a fixed annual contribution largely determined by the amounts the federal government contributed in matching grants for provision of the TANF predecessor, the Aid to Families with Dependent Children program. These amounts were established by maximum levels attained in 1994-96. States are required to maintain their own contributions at 75 percent of amounts expended during the same time period; a wide range of expenditures satisfy this "maintenance of effort" criterion, and over time states have expanded the range of services supported by TANF so that cash benefits per se now constitute less than half of outlays (Committee on Ways and Means, 2004, p. 7-61).

According to the enabling legislation, the objectives of TANF are to:

(1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;

(2) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;

[2] For an excellent review of the evolution of federalism with an emphasis on the advent and consequences of intergovernmental grants programs like TANF see Gais and Fossett (2005).

(3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and

(4) Encourage the formation and maintenance of two-parent families (Committee on Ways and Means, 2004, p. 7-4).

To be eligible for TANF funds, states are required to submit TANF plans that outline how their TANF programs will be conducted and certify the presence of certain features (Committee on Ways and Means, 2004, pp. 7-14/15). Somewhat oddly, the law does not require state plans to include information on eligibility requirements for assistance, benefit levels, the conduct of employment programs, or other program details. Requirements for such details have been added by regulation, but they are not consistently collected and summaries of program features are either collected on an ad hoc basis or by a contractor (cf. Rowe with Versteeg, 2004). Neither by law nor regulation are states required to report on strategies used to pursue TANF goals.

The role of the federal government in TANF delivery has been ambiguous. On the one hand, Congressional advocates for reform were anxious to ensure broad latitude for states in structuring their TANF programs. On the other, the legislation retained or established numerous requirements for state TANF programs that it is the obligation of the administering federal agency, the Department of Health and Human Services's Administration for Children and Families (ACF), to police. In general these requirements are procedural and process-oriented, governing financial reporting, compliance with various component specifications, achievement of certain targets for recipient participation in employment or work training activities, and eligibility, including a prohibition on use of federal funds for more than five years of benefits to adult recipients. In practice the federal time limit and participation requirements have proved inconsequential due to exemption permitted by other provisions of the law.

Performance Bonuses

PRWORA did establish some positive, outcome-oriented incentives, including an Out-of-Wedlock Birth Reduction Bonus (OWBRB) that awarded $100 million in each of five fiscal years to the five states that achieved the largest reduction in out-of-wedlock births, provided abortions did not increase. An annual High Performance Bonus (HPB) of $200 million was authorized for five years for states identified as exceptional achievers. Critics challenged the OWBRB by questioning the reliability of the data upon which awards were to be based and absence of short-term connection between policies states might pursue and the outcomes the OWBRB targeted; moreover, a general national upward trend in nonmarital birth rates left few states with the reductions needed to satisfy the bonus requirement. The program was ultimately terminated.

The record of the High Performance Bonus has been slightly better (Wiseman, 2004). PRWORA stipulated that state performance was to be measured by a formula developed by the Department of Health and Human Services in consultation with the National Governors Association and what is now called the American Public Human Services Association. The law states that the award is to be given on the basis of success in achieving TANF goals. The first HPB awards involved various measures of job entry, job retention, and employment advancement. Since 2001 the awards have been extended to include non-work performance measures related to participation of former TANF recipients in subsidized health insurance programs and the Food Stamp program, receipt of child-care subsidies, and the proportion of children living in two-parent families.

The employment-related performance measures are based on data from the National Directory of New Hires (NDNH). The NDNH is a compilation of unemployment insurance system earnings data for all employers for all states and includes both state and federal government and requires reports on newly employed individuals from their employers. The system was established by PRWORA to aid in pursuit of child support from noncustodial parents, but its function has been expanded to other uses. The NDNH is maintained by the ACF Office of Child Support Enforcement; it is potentially a source of information on employment outcomes for TANF recipients superior to any alternative readily and regularly available to states.

A number of problems have hampered effective use of the HPB as an instrument for improving TANF operations.

Measure development. The consultation process used to develop HPB performance measures, while common to many federal programs, is questionable. The procedure is for the sponsoring federal agency to solicit comment on an intention, then draft rules for operation, then to solicit reactions to the rules, and finally to issue, with explanation, a final federal decision on rules and procedures. The National Governors Association and American Public Human Services Association are representative of states, but they are hardly independent, since the APHSA is dominated by state social services department directors, all of whom are appointed by governors. Neither organization has capacity for major technical analysis of program alternatives, but the NGA does support a “Center for Best Practices” that compiles information on some state initiatives.

Shortcomings in measures. For good reasons, the Administration for Children and Families has placed great emphasis on basing High Performance Bonus awards on common measures of achievement measured in a uniform way. However, all of the non-employment related measures are based on sample surveys without adjustment for variation across states in reliability of inference.

Timing. The measures adopted for HPB evaluation are structured so that considerable time elapses between the occurrence of the activities on which the awards are made and the point the bonuses are awarded—over a year. Thus if the publicity is intended to have favorable incentive effects, its timing is so substantially delayed as to attenuate any connection between current performance and public accolade.

Management irrelevance. HPB indicators are state aggregates. This provides no connection between outcomes so assessed and variations within or across states in program content or circumstances. As a result, the awards are viewed largely as random events, “manna from heaven.” This creates an incentive for award multiplication; it is always good to win something. In 1998 27 states won an HPB in some category; in 2002, after the multiplication of targets, 41 did.

The uneven playing field. No matter how assessed, states vary widely in economic, demographic, and especially fiscal conditions. Evaluated in comparison with numbers of poor persons in general or more specifically numbers of poor children, the capacity for funding TANF operation provided by the federal block grant and states' own resources differs from most disadvantaged to most advantaged states by a factor of 10. High Performance Bonus assessment procedures make no adjustment for this.

Absence of long-term vision. The first HPB awards were for Fiscal Year 1998. Since that time two major transitions have occurred. In 2000 the Administration for Children and Families assumed full responsibility for computation of the employment-related HPB measures, using the NDNH. In 2001 the number of HPB indicators was expanded from six to ten. Since 2001 no significant alterations have been made, and no effort has been made to review the performance of the program itself or to consider alternatives. If it is the purpose of the HPB to create incentives for improvement of the performance of state TANF programs in achieving TANF goals, how well has it done? How might it be improved?

An Open Method Perspective

While more than the Atlantic and the 6,231 kilometers between Washington and Brussels separate TANF policymakers from their European counterparts, the situation confronting TANF is in some important ways similar to that encountered in making EU social policy. In both cases achievement of cross-state goals is dependent upon the actions of individual state governments. Policy on both sides has been guided by general concerns that require translation into specific measures and targets for program guidance. The connection between general outcomes and available policy instruments is in many instances unclear. States differ substantially in initial social, fiscal, and institutional environments as well as skill in governance.

At the same time, the differences are profound. The states are not countries. The U.S. federal government pays well over half of the costs of state social programs like TANF and, in consequence, would appear to have far more leverage over state social policy than the EU has over choices made by Member States. And as diverse as European opinion about the appropriate direction for welfare state development may be, it is fair to say that political consensus over the appropriate direction of development for TANF is even more elusive. Lack of consensus is reflected in the now three-year delay in reauthorization of the program.

Nevertheless, the program has goals, and the ability of the federal government to dictate state policy is far more limited than Washington's funding contribution might imply. Suppose TANF reauthorization were to be influenced by the Open Method. What changes could we anticipate?

Commitment to Improvement. The program changes brought about by the 1996 reforms were widely described as "ending welfare as we know it" (Weaver, 2002). But there appears no consensus that what the reforms have produced to date constitutes welfare as Americans might want it—were that the case, reauthorization would have been easily accomplished in 2002. Application of the OMC would begin with agreement that new welfare should do better and some general sense of at what it is that new welfare should become better.

Partnership. The Open Method presumes considerable Member State autonomy but, simultaneously, commitment of Member States to the larger goals of the EU social policy. TANF reauthorization would provide clarification of what commitment to improvement would mean for state action and how this expected response would be facilitated by the federal government.

The State Plans. TANF State Plans serve a broader purpose than do the National Action Plans for social inclusion required by the European Council. They are a description of the system to which the federal government is contributing. OMC influence would lead to more public attention to the plans, discussions of plan construction, specific discussion of performance targets, and description of strategies pursued by the state in using the TANF program to achieve TANF goals.

Peer Review. Existing relationships within TANF are almost exclusively bilateral, between individual states and the federal government. OMC influence would encourage more state-to-state information exchange and review possibly managed by an external services provider.

Performance. Improvement in performance assessment would be a major consequence of OMC influence. Were the OMC model to be emulated, state TANF plans would include specification of what would be measured to gauge agency achievement and how the measurements adopted are believed to relate to TANF goals. The Federal Government and states would collaborate on development of comparisons of state performance that account for variations in economic conditions and poverty prevalence, federal resources available, and states' own capacity for expenditure. Should the High Performance Bonus be maintained, the focus might be shifted to the adjusted achievement measures and possibly to rewarding states for innovations in management consistent with TANF goals.

Tools. OMC procedures call for two types of performance measures. On the one hand, there are outcome measures that reflect long-term goals—reduction of poverty, for example. On the other, there are measures more closely related to national or local operation and circumstance. Over time the expectation is that consensus on long-term objectives will grow and that idiosyncrasies in state and local practice will wither if convergences makes them look irrelevant; If such idiosyncrasies turn out to be important—the policy equivalent of early uptake—they may come to be adopted by other locations as a norm. Acceptance of significant variation in performance may be an essential first step on the way to making concern about performance the norm. Eventually, however, identification of best practice and cross-state collaboration requires common measures for outcomes, and here implementation of OMC in TANF has an exceptional opportunity in more creative use of the National Directory of New Hires. At present no state uses the system as a resource for management-oriented evaluation. Indeed procedures and protocols for giving states greater access to NDNH data have yet to be developed, although Congress has provided for state access for addressing certain management issues in workforce development and student loan programs. Given the potential of the NDNH as a source of information for assessing TANF program outcomes for all states, adoption of OMC-style approaches to program management would be facilitated by development of procedures for state use of NDNH data.

Joint Reports. There are three major periodic reports on TANF. One is a descriptive chapter compiled by the Congressional Research Service for the biannual *Green Book* of the Committee on Ways and Means of the U.S. House of Representatives (Committee on Ways and Means, 2004). The second is an *Annual Report* prepared by the Department of Health and Human Services (Office of Family Assistance, 2004). The third is a report on "Indicators of Welfare Dependence" published annually by the Office of the Assistant Secretary for Planning and Evaluation in the Department for Health and Human Services (Office of Human Services Policy, 2005). None of these reports is constructed with significant contributions from states aside from data, and none features recommendations either for general or state-specific policy. Here the OMC would call for more collaborative and more challenging review.

Institutional review. Finally, open method procedures should themselves be the subject of open method procedure: It would be important in the early stages of OMC application to TANF to set performance standards and a review timetable for the system itself. The states are numerous and diverse. Any serious application of OMC ideas would have to confront just how the OMC would be organized, "peers" would be clustered, reviews would be conducted, and ideas and information would be exchanged. These issues are appropriately addressed by representatives of the federal government and the National Governors Association.

Summary, and a Link to Reauthorization

As currently operated, TANF includes many features that are consistent with the OMC, including program plans, annual national reports, performance assessment, and systems for peer exchange. Movement of the system in directions charted by the Open Method of Coordination would involve restructuring of the federal-state relationship, changing the role of state TANF plans, increased collaboration among states and between states and the federal government in specification of program goals, more ambitious methods of outcome assessment, and improvement of the information base, especially by expanding access to the NDNH. The system would incorporate a periodic general assessment.

OMC ideas are compatible with features of proposals for TANF reauthorization. The TANF reauthorization bill circulated by Republican leadership in 2005, the "Personal Responsibility, Work, and Family Promotion Act of 2005" (H.R.240) would revise the TANF state plan requirement to require that plans:

(I) describe how the state will pursue ending dependence of needy families on government benefits and reducing poverty by promoting job preparation and work;

(II) describe how the State will encourage the formation and maintenance of healthy 2-parent married families, encourage responsible fatherhood, and prevent and reduce the incidence of out-of-wedlock pregnancies;

(III) include specific, numerical, and measurable performance objectives for accomplishing subclauses (I) and (II) . . . and

(IV) describe the methodology that the State will use to measure State performance in relation to each such objective.

This is hardly the language of the Social Protection Committee, but as in EU procedures the House reauthorization proposal requires states to translate general TANF objectives into the "specific, numerical, and measurable" objectives. The proposal does not insist on uniformity across states in how this translation occurs, but it does require openness with regard to procedures. It is not a long step from here to supporting the development of such measures through the kinds of cross-state collaboration envisioned in the OMC.

Conclusions

Few would claim today that Missouri has nothing to learn from Illinois or Belgium has nothing to learn from the Netherlands. Our argument is that in the domain of union governance, the EU laboratory may produce ideas about the craft of governance that will be of use to the American union of states. TANF is not the only venue of opportunity; the Food Stamp program (FSP) now has its own High Performance Bonus (Food and Nutrition Service, 2005), and the Workforce Investment Act of 1998 (WIA) established a system of allocation of federal funds to states for operation of the nation's network of employment service centers based in part on negotiated performance standards (Government Accountability Office, 2004). TANF, FSP, and WIA all incorporate processes of goal-setting, performance evaluation, and knowledge exchange to which OMC strategies appear relevant.

To be sure, our overview of European aspirations is a little romantic. Claims to the specific achievements of the Open Method are controversial (cf. Atkinson et al, 2005) but, in line with the suggestion of Zeitlin (2003), the method is itself subject to review. This reveals concern among NGOs that streamlining may weaken OMC, perhaps resulting in economic goals being prioritised over social ones (e.g. ATD Fourth World, 2005; Social Platform, 2005), but only muted opposition to the Commission's call for more ambitious targets, strengthened monitoring and evaluation of policies, and greater use of OMC procedures to contribute to effective program delivery (EC 2005c). While initially there may be more lessons from failings than accomplishment (cf. Mabbett, 2005), it is no longer possible for students of American institutions and those who develop and manage policy to ignore insights to be gained from developments in Europe. Regardless of funding, TANF, FSP, and WIA are all commonly described as federal-state partnerships. European developments challenge American policymakers to rethink what partnership means and how such relationship might be better organized.

At the same time, those who question the relevance of American experience with highly centralized and funded social welfare institutions to thinking about the architecture of the new Europe need to appreciate that intergovernmental relationships in the U.S. are more complicated than the flow of funds might suggest. American experiments with agency incentives, use of administrative data for performance management, survey and sample-based outcome assessment, and translation of state targets into goals for local administration surely are relevant to European concerns. What new, and what seasoned, transatlantic institutions will facilitate this exchange?

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Tables and Figures

Figure 1: Key Priorities Established in Joint Report on Inclusion, 2003

Key Priorities Established in 2003 Joint Report on Inclusion
1. Promoting investment in and tailoring of active labour market measures to meet the needs of those who have the most difficulty in entering the labour market and a better linkage between social protection, lifelong learning and labour market policies so that they are mutually reinforcing. 2. Ensuring that social protection systems, including minimum income schemes, are adequate for all to have a sufficient income to live life with dignity and that they provide effective work incentives for those who can work. 3. Increasing the access of the most vulnerable and those most at risk of social exclusion to decent housing conditions, to quality health and long term care services and to special and regular mainstream lifelong learning opportunities, including to cultural activities. 4. A concerted effort to prevent early leaving from schools and other areas of formal education and training and to tackle the continuing problem of the transition from school to work in particular of young people leaving school with low qualifications. 5. A focus on ending child poverty as a key step to combat the intergenerational inheritance of poverty with a particular focus on early intervention and early education initiatives which identify and support children and poor families. 6. A concerted drive to reduce the levels of poverty and social exclusion and to increase the labour market participation of immigrants and ethnic minorities to the same levels as the majority population.
Source: EC (2003) pp. 35-6 Table_PRIORITIES