

# Working to Reduce Poverty: A National Subsidized Employment Proposal



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*Subsidized employment programs that increase labor supply and demand are a proven, underutilized strategy for reducing poverty in the short and long term. These programs use public and private funds to provide workers wage-paying jobs, training, and wraparound services to foster greater labor force attachment while offsetting employers' cost for wages, on-the-job training, and overhead. This article proposes two new separate but harmonized federal funding streams for subsidized employment that would expand automatically when and where economic conditions deteriorate. Participating states and local organizations would be offered generous matching funds to target adult workers most in need and to secure employer participation. The proposal would effectively reduce poverty among workers during work placements, and improve long-term unsubsidized employment and other outcomes for participants and their families.*

**Keywords:** employment, subsidized, transitional jobs, work, wraparound services, barriers

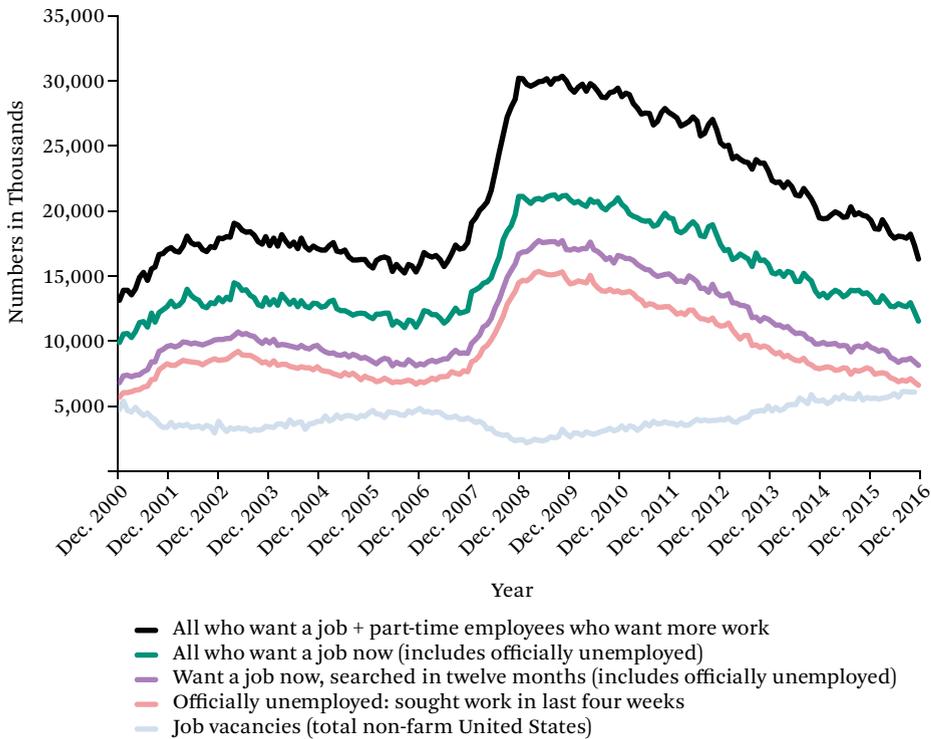
The U.S. economy does not produce enough employment opportunities for all those who are able and want to work and who could contribute to the economy. This is especially true in the most challenging economic times—such

as the Great Recession, when unemployment levels reached 10 percent—but it also remains true today, eight years into an expansion that has lowered unemployment to under 5 percent. According to Bureau of Labor Statistics (BLS)

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**Figure 1.** U.S. Job Shortage

Source: Authors' compilation based on Bureau of Labor Statistics 2017.

data covering the period from 2000 to 2016, the number of officially unemployed jobseekers (using the formal, conservative definition that an unemployed person must have actively sought work during the previous four weeks) has exceeded the number of job vacancies (regardless of part-time or full-time, and of the wage rate) by more than two million for most of the last fifteen years. When other BLS measures of unemployment and underemployment are added, the ratio of job seekers to job openings rises significantly.

In short, there is an aggregate job shortage almost all of the time, even when millions of available jobs go unfilled. The result is that regardless of economic conditions, a swath of American workers—in particular those with serious or multiple barriers to employment (see

figure 1)—are routinely left out of labor force opportunities.<sup>1</sup> Periods without stable and adequate employment represent lost income and productive output, and are associated with a lower well-being for workers, their families, and their communities (Nichols, Mitchell, and Lindner 2013). This can include higher poverty, poorer health, and greater criminal justice expenditures, as well as worse educational outcomes for many low-income children.

One promising and potentially cost-beneficial and cost-effective approach for addressing these issues is subsidized employment (Nichols, Mitchell, and Lindner 2013; Dutta-Gupta et al. 2016). Subsidized employment helps boost incomes and improve labor market outcomes and well-being, especially for disadvantaged workers. It even has cross-

1. Barriers to employment are broadly defined as limitations that make attaining competitive (unsubsidized) employment significantly less likely. These personal and institutional obstacles reflect a complex mix of socioeconomic dynamics, which can manifest as or exacerbate skill limitations; physical and behavioral health issues, including disabilities; criminal justice system involvement; family obligations; limited resources; immigration status; and discrimination based on characteristics such as race or ethnicity, gender, and age, among others.

ideological and bipartisan support (Office of U.S. Representative Robert Dold 2016; Haskins 2014; Floyd 2016; Luhby 2010; Office of U.S. Senator Tammy Baldwin 2016, 2017). This support may stem from the fact that subsidized employment offers a way not only to provide essential basic income in exchange for productive work, but also to connect workers to services and opportunities that can lead to wider, longer-term benefits even beyond the labor market. In addition, subsidized jobs can reduce the risk an employer perceives or the cost they may bear from hiring a worker or increasing a worker's earnings, employment, or income.

Despite these proven (and in many cases rigorously evaluated) benefits, subsidized employment is still an underutilized strategy in the United States (Dutta-Gupta et al. 2016). This article proposes a national subsidized employment policy that would provide dedicated and flexible funding streams to subsidize work positions, which in turn would have the potential to lead to further-reaching gains for the well-being of participating workers and their families, employers, and communities at large.

### WORKERS LEFT OUT

In recent years, even as the economy has added nearly fifteen million jobs since the end of the Great Recession (Center on Budget and Policy Priorities 2017), large segments of the labor force and those just outside it are not well-attached to work and their capacities are not being employed or developed. The 5 percent of the labor force that is officially unemployed represents nearly eight million workers, in terms of the current size of the national labor force (Bureau of Labor Statistics 2016a). Some economists may consider the current economy to be at or near *full employment* based on the level of churn in a large, dynamic economy in which many workers are first entering and re-entering the labor market, and others are experiencing short spells of unemployment as a part of regular labor dynamic changes (Zumbun 2015). However, two million (more than one-quarter) of those unemployed in the August 2016 monthly employment report were long-term unemployed (FRED Economic Data

2016b; Bureau of Labor Statistics 2016b, 2016c).<sup>2</sup> This does not include the more than two million discouraged workers who either are not considered part of the labor force or face barriers to employment that make them marginally attached to the labor market. Nor does it consider the additional six million workers employed part time for economic reasons who indicated they would have preferred full-time work (Bureau of Labor Statistics 2016d). This suggests that as many as ten million American adults at any point in time may fall into these categories, in addition to the six million more who are unemployed and not in the long-term unemployed group.

Of further concern is that the labor force participation (LFP) rate in the United States has been declining, especially in recent years, even as the economy has added jobs:

Since 2000, the LFP rate has fallen from its historical high rate of 67 percent (84 percent for prime-age workers) in 2000 to 63 percent (81 percent for prime-age workers) as of August 2016, even with unemployment below 5 percent (FRED Economic Data 2016a).

The participation rate of twenty-five- to fifty-four-year-olds, who are prime-age workers, declined from 83.4 percent in 1994 to 80.9 percent in 2014 (Toossi, 2015; Council of Economic Advisers 2014).

Since 2000, and particularly since 2007, labor force participation has fallen as a result of several coinciding forces: the severity of the Great Recession, the increasing rate of retirements by the oldest age cohorts of the baby boom generation, and the overall aging of the population that has steadily increased the number of older Americans living well past their working lives (Toossi 2015; Council of Economic Advisers 2014; Congressional Budget Office 2014). Economists estimate that half of the decline in LFP is due to the aging of the population, and the other half to continuing cyclical and other structural factors. One of the structural factors that may have contributed to the recent decline is the likelihood that large numbers of discouraged workers have exited the la-

2. Long-term unemployed refers to workers unemployed for twenty-six or more consecutive weeks.

bor force either because they do not believe that enough employment opportunities are available, or because they are facing barriers to employment. Their capacity for economic productivity is untapped even in an extended period of ongoing economic recovery.

The lack of job opportunities and secure employment is unevenly shared among Americans, with particular groups and communities bearing a greater burden. Today's disconnected younger workers face particular challenges getting a foothold in the labor market—all of which were exacerbated in the aftermath of the Great Recession (Forsythe 2015). In addition to young workers, African Americans and individuals with less education have disproportionately high unemployment and long-term unemployment rates roughly double the average (Evangelist and Christman 2013). Other significant groups that face barriers to employment include

people with short- and long-term disabilities that create work limitations;

formerly incarcerated individuals or those who have any previous criminal record; and

people in areas of concentrated joblessness where entire communities may be disconnected from the labor market and the networks that lead to employment opportunities (Dutta-Gupta et al. 2016).

## WORK AND POVERTY

Employment (and especially steady employment) is widely seen as one of the surest routes to exit poverty or prevent entering it. Work, especially full-time work, is more highly associated with lower poverty than almost any other factor that influences the risk and duration of poverty. Brookings Institution researchers examined a variety of factors that affect poverty, and estimated that the poverty rate for families with children would be cut in half if all non-elderly, non-disabled family heads worked full time (Haskins and Sawhill 2009). Other research corroborates these findings, showing that higher employment is a primary way families exit poverty (McKernan, Ratcliffe, and Cellini 2009). For instance, the Urban Institute estimated with respect to 2010, that if only 25

percent of the unemployed poor took advantage of wage-paying transitional jobs at the then-prevailing minimum wage (and smaller percentages of the poor who worked only part time increased their employment levels through such jobs), the poverty rate would have declined by nearly 9 percent (from 14.8 percent to 13.5 percent), using the more realistic Supplemental Poverty Measure (SPM). If 50 percent of the unemployed poor took advantage of such transitional jobs, and smaller percentages of part-time poor workers increased their employment through such jobs, the Urban Institute estimated that the poverty rate would have fallen by more than 17 percent—from 14.8 percent to 12.2 percent). As part of a separate proposal that also included a minimum wage increase, larger Earned Income Tax Credit (EITC), expanded childcare, and an income boost for impoverished adults with disabilities and retired seniors, the Urban Institute analysis estimated a 50 percent to 58 percent drop in the poverty rate—from 14.8 percent to 7.4 percent or 6.3 percent, depending on the take-up rate for transitional jobs (Lippold 2015). In short, jobs are a major pathway out of poverty.

It is thus no surprise that while the 2015 poverty rate for all non-elderly adults ages eighteen to sixty-four was 12.4 percent, among those with any employment in 2015 it was barely half that rate (6.3 percent), and among workers employed year-round, full-time it was just 2.4 percent. By contrast, the poverty rate among adults ages eighteen to sixty-four who did not work at least one week in 2015 was 31.8 percent. This group totaled nearly fifteen million adults, who accounted for more than 60 percent of all the 24.4 million poor, non-elderly adults in the United States (U.S. Census Bureau 2016).

Moving beyond just these strong associations between employment and poverty, evidence is ample that providing work opportunities and income, particularly when jobs are scarce or people face serious barriers to employment, can mitigate the degree of poverty experienced (Dutta-Gupta et al. 2016). As we discuss later in the article, rigorously evaluated programs produced large increases in earnings during the period when participants worked in subsidized jobs (Dutta-Gupta et al. 2016). For example, in the U.S. Department of Labor's En-

hanced Transitional Jobs Demonstration, programs targeting people (mostly men) returning from prison and low-income noncustodial parents increased participants' earnings by as much as \$2,000 to \$3,000 over the course of the year (Redcross, Barden, and Bloom 2016).

In the U.S. Department of Health and Human Services' Subsidized and Transitional Employment Demonstration, a short survey was administered to the program and control groups a few months after study enrollment, when many participants were working in subsidized jobs. The difference between the two groups in the overall employment rate was large. The survey measured a number of economic and noneconomic outcomes that might plausibly be affected by work. Although the results varied from site to site, some impacts on measures of perceived financial well-being, happiness, and even mental health were statistically significant (Redcross et al. 2012; Glosser et al. 2016). Also noteworthy is that some experiments proved effective in leading to increased earnings and employment beyond the program period, likely reducing poverty even after the program ended (Dutta-Gupta et al. 2016).

One example is the particularly effective New Hope for Families and Children demonstration project in Milwaukee. New Hope reduced poverty among those who worked in community service jobs, including workers "with moderate barriers to employment [who] saw higher employment, earnings, and income through the five-year follow-up period" (Dutta-Gupta et al. 2016, 33). Data from New Hope also showed changes in the behaviors and outcomes of participants' children, including positive attitudes about and actual engagement in work-related activities, which likely reduced poverty incidence among these children (Miller et al. 2008).

### **SUBSIDIZED EMPLOYMENT AS AN UNTAPPED STRATEGY**

Subsidized employment is a promising but underfunded strategy for reducing joblessness and poverty among the long-term unemployed

and others with barriers to employment. It includes but is not limited to relatively temporary, transitional employment intended to lead directly to unsubsidized (that is, competitive) employment. At its core, subsidized employment offers public subsidies of workers' wages (and associated payroll taxes and work-related costs) to encourage the hiring of workers who are unlikely to be hired otherwise. It also allows the opportunity for local, intermediary organizations to provide complementary wraparound services alongside job placements.

The empirical evidence in support of subsidized jobs as an important national employment strategy already exists. For example, a number of different subsidized employment models spanning forty years and targeting hard-to-employ groups have been rigorously evaluated (Dutta-Gupta et al. 2016). Other studies have examined the implementation of large-scale, broadly targeted subsidized employment programs such as those operated in 2009 and 2010 under the Temporary Assistance for Needy Families (TANF) Emergency Fund (TANF-EF) (Pavetti, Schott, and Lower-Basch 2011; Farrell et al. 2011).

The findings from these and other studies show the importance of subsidized employment as a strategy for workers typically left behind in the labor market. First, virtually all evaluated programs revealed significant worker demand for and interest in these programs regardless of wider economic conditions. Second, nearly all of the rigorously evaluated programs showed that the programs genuinely increase employment among participants. When people were offered temporary subsidized jobs, program participants were substantially more likely to be employed than members of a control group who were not offered subsidized jobs. This is a critical result, because it means that the programs were successfully targeting many people who would not otherwise have worked. Moreover, they were able to place participants into jobs that provided both income support and opportunities for meaningful work experience and skill acquisition (Dutta-Gupta et al. 2016).<sup>3</sup>

3. The term *meaningful work* in this article refers to productive and economically valuable work that would plausibly be demanded by the private and public sector without regard to the value of employment to the worker.

The longer-term results were more mixed, but certain features—especially relating to participation duration and the provision of wrap-around supports and services—in some programs may have led to more positive economic and social outcomes. In a few studies, program participants continued to have higher employment rates or earnings than the control group even after the temporary subsidies ended. This suggests that some programs were able to increase their participants' employability. However, in most studies, the employment rates and earnings of the two groups converged after the subsidized jobs ended, and the program group's long-term employment outcomes were no better than those of the control group. Still, many of these programs nevertheless had positive impacts beyond the duration of the job placement, including reduced recidivism (Redcross et al. 2012) and improved outcomes for children of adult participants (Miller et al. 2008).

Studies of the broad-based programs that operated under the TANF-EF describe how these programs were able to get up and running and place thousands of people into subsidized jobs quickly and efficiently during the Great Recession (Pavetti, Schott, and Lower-Basch 2011; Farrell et al. 2011; Roder and Elliott 2013).

In sum, these studies show that it is possible to design and operate subsidized employment programs that provide meaningful work opportunities to large numbers of jobless individuals. These models can provide earnings for productive work performed, whether they are targeting a broad swath of unemployed workers during a recession or a narrower group of more disadvantaged workers who experience high rates of joblessness even when overall economic conditions are good. In other words, subsidized employment programs can achieve the primary goals of the national program proposed here—an earnings foundation in the short term that contributes to poverty reduction and an increase in unsubsidized employment and earnings in the medium to long term. At the same time, the evidence suggests that ongoing experimentation is needed, which this proposal is also intended to facilitate.

### **A NEED FOR FEDERAL SUPPORT**

A permanent national subsidized employment program with new dedicated federal funding would reduce short- and long-term poverty by helping participating workers with temporary, wage-paying jobs and facilitating their transition to obtaining—and maintaining—unsubsidized (competitive), secure, and decent employment during economic expansions and contractions. In recent history, the federal government has shown itself more able to raise revenues and provide countercyclical funding increases than state and local governments. Whether local programs did or did not improve workers' medium- to long-run labor market outcomes, they would provide earnings and ensure productive work output while offering countercyclical balance during economic contractions. Moreover, the needs addressed and likely positive impacts would have important national implications. Funded programs could reduce public criminal justice, health, and other spending, and have positive long-term impacts on the custodial and noncustodial children of participating workers (Dutta-Gupta et al. 2016). For employers, the program would expand their labor pool for marginal hiring that would not take place without a public subsidy.

### **EXPECTED EFFECTIVENESS**

In addition to these significant antipoverty effects from earnings during program participation, the expected effectiveness of this proposal can be determined in part by surveying existing evidence of impacts from subsidized employment models that approximate what this national program would fund. In addition, the program would include funding and requirements that ensure that it grows the evidence base for subsidized employment.

### **Research Review**

A number of subsidized employment models have been rigorously evaluated over the past forty years; in fact, several large-scale studies are under way as of this writing. Most of these studies were randomized controlled trials: individuals who were eligible for and interested in a particular subsidized employment program were assigned, at random, to a program

group that was invited to participate in the program or to a control group that was not (in some studies, the control group was offered assistance searching for an unsubsidized job). The two groups were then followed over time (usually two to four years) to assess whether people who were offered subsidized jobs had better outcomes than those who were not (Dutta-Gupta et al. 2016).

These studies have contributed to a growing base of knowledge about the implementation and impact of these programs. However, it is important to note that almost all focused on models that targeted groups facing serious barriers to steady employment—for example, people with disabilities, people coming home from prison, and public assistance recipients—and sought to use temporary subsidized jobs as a tool to improve participants' long-term employment outcomes. These programs operated on the assumption that people would “learn to work by working.” As discussed earlier, however, this is just one of several possible goals of subsidized employment (Dutta-Gupta et al. 2016).

Almost all of the studies showed a similar pattern of results. Early in the follow-up period, when many program group members were working in temporary subsidized jobs, the program group's employment rate was dramatically higher than the corresponding rate for the control group. This is a critical result, because it means that the programs were successfully targeting many people who would not otherwise have worked, but who wanted to work and did indeed successfully take advantage of wage-paying jobs that were made readily available. In other words, the programs were not spending money to create jobs for large numbers of people who would have found employment anyway. Moreover, they were able to place participants into jobs that provided opportunities for meaningful work. As might be expected, impacts on employment during the early period were larger for more disadvantaged participants, who were less likely to find jobs on their own (Bloom 2010).

The longer-term results were more mixed, but some had features that led to more success. In a few studies, the program group continued to have higher employment rates or earnings

than the control group even after the temporary subsidies ended. This suggests that some programs were able to increase their participants' employability. This pattern was observed in some programs targeting people with disabilities, and in one program that targeted public assistance recipients and combined classroom training with subsidized jobs. These programs were all similar in that they targeted specific groups of people, which can be a strategy for success. For example, Transitions SF targeted incarcerated adults who were not job ready and Youth Transition targeted youths with disabilities (Dutta-Gupta et al. 2016).

However, in most studies, the employment rates and earnings of the two groups converged after the subsidized jobs ended, and the program group's long-term employment outcomes were no better than those of the control group. In one study of a program for people recently released from prison, the program generated lasting reductions in recidivism (particularly for those at higher risk), which led to net cost savings for taxpayers, but other programs for a similar population did not achieve this result. Of course, long-term improvements in earnings and employment represent just one measure of success for these programs. A comprehensive review that looked at more than forty subsidized job programs over forty years found that the best of these programs decreased workers' public benefit reliance, improved school outcomes among the children of workers, lowered criminal justice system involvement for workers and their children, and reduced long-term poverty (Dutta-Gupta et al. 2016). For example, in the mid-1990s, the New Hope Project in Milwaukee significantly improved parents' employment, earnings, marriage rates, and mental health, and the achievement and behavior of the children of participating parents also improved. The New Hope Project provided health insurance and subsidized childcare, along with an earnings supplement, which shows that using subsidized employment as a part of a package of benefits rather than a standalone policy can lead to success. Society's gains easily exceeded the program's costs.

Because the studies tested a variety of different subsidized employment models for differ-

ent populations, they have yielded important lessons on program design and implementation. For example, some of the programs placed subsidized workers in nonprofit social service organizations or social enterprises (businesses with a social purpose) that would accept almost anyone, and did not ask the employers to commit to hiring the participant after the subsidy ended (most of the agencies did not have enough funding to take on more unsubsidized workers). In those models, the proportion of program group members who actually worked in a subsidized job was quite high, sometimes approaching 100 percent.

Other models attempted to place participants with private, for-profit businesses, and asked the businesses to commit to hire participants after the subsidy ended, if their performance met expectations. In contrast to the programs discussed earlier, the private-sector-focused programs placed fewer than half of the program group into subsidized jobs. This is perhaps not surprising because often businesses will not hire people who are considered unqualified, even with generous subsidies.

This disparity does not mean that the former programs had better long-term outcomes, but it does suggest that any program aiming to provide subsidized jobs to a large number of hard-to-employ individuals would almost certainly have to allow for placements with nonprofit organizations or public agencies.

Other operational lessons can be drawn from the experience of states and localities that used funds from the TANF Emergency Fund (part of the American Recovery and Reinvestment Act) to employ more than a quarter million youth and adults during the height of the Great Recession (Administration for Children and Families 2012). Many of these programs were able to get up and running and reach a large scale very quickly by keeping eligibility criteria simple and developing streamlined procedures to issue subsidies. Interestingly, the largest programs placed most subsidized workers in private sector jobs, often with small businesses, though it is important to note that in a very weak labor market, these programs were serving many people with relatively strong work histories (Pavetti, Schott, and Lower-Basch 2011).

In sum, research shows that it is possible to

design and operate subsidized employment programs that provide meaningful work opportunities to large numbers of jobless individuals. These models can provide earnings in exchange for actual work performed, whether they are targeting a broad swath of unemployed workers during a recession or a narrower group of more disadvantaged workers who experience high rates of joblessness even when overall economic conditions are good. These programs can also have benefits beyond the labor market. In other words, subsidized employment programs can achieve the primary and secondary goals of the national program proposed here. At the same time, the evidence suggests that more experimentation is needed to identify subsidized employment models that can reliably improve workers' long-term employment outcomes, perhaps by combining subsidized employment with other needed services such as job training.

#### **A NATIONAL SUBSIDIZED EMPLOYMENT STRATEGY**

This article proposes a national subsidized employment program comprising two distinct federal funding streams: formula funding and competitive grants to states and local entities. The new effort is intended to realize multiple goals, at times in tension with each other, including

- providing unemployed and underemployed individuals the opportunity to work and earn income that allows them—in combination with the EITC and Child Tax Credit (CTC) they can then claim—to rise out of poverty;

- providing on-the-job training and help for individuals who do not have the skills, education, or work histories to effectively compete in the formal, unsubsidized labor market;

- providing small businesses with the chance to test their potential for growth by providing access to time-limited employment subsidies;

- increasing employment rates in communities with high concentrations of joblessness;

providing marginalized communities with resources to address community needs; and mitigating barriers to employment through providing access to wraparound services.

In addition to improving workers' overall income through earnings by making them eligible for the EITC and CTC, which will add to the poverty reduction impacts, the program's provision of wages will result in workers' paying FICA (Social Security and Medicare) taxes, which will increase their prospects for a more secure and healthy retirement.<sup>4</sup>

### PROGRAM ADMINISTRATION AND FUNDING DISBURSEMENT

The program would be administered cooperatively by the U.S. Department of Labor (DOL) and the U.S. Department of Health and Human Services (HHS), both of which have highly relevant experience and expertise. The structure of the funding would reflect a two-pronged federal strategy: a DOL-managed program of grants to states based on a funding formula; and an HHS-managed competitive federal grant program for local entities. Both are discussed in more detail later in the article.

National legislation would create the two streams for funding, which would be distinct, but able to be mixed by on-the-ground recipient organizations. The first would be available to all states to use for a broad share of struggling workers, but require state plans for targeting workers with serious or multiple barriers to employment. The second would be available to local governments and community-based organizations for targeting communities and workers who are not well served by state programs. The federal government would use a formula for all states in the first category and competitive grants for the second.

Formula funding to all states recognizes that the needs for subsidized employment are varied, based on regional economies, rural versus urban conditions, and ongoing structural changes in local economies. Using formula funding to all states ensures that states can ad-

dress different needs within their borders while targeting the policy to specific areas and populations. It also underlines that this strategy is not just about or for certain populations or states, but also needed and useful across the entire country in addressing unemployment and underemployment.

Although the two grant programs would operate fairly independently, HHS and DOL would be required to coordinate in developing the rules and regulations for each program to ensure that they would operate in harmony with one another.

### PROGRAM BENEFIT AND SUBSIDY CONFIGURATION

Under the proposal, the federal government would provide states with a generous match for subsidized employment program spending (see section on proposed funding) and local entities with competitive grants. State and local programs would directly or through intermediaries provide subsidies to third-party employers (which could be private, nonprofit, or public) to hire and employ eligible workers.

Subsidies would be used by employers toward hiring, compensation, and on-the-job training costs. Payments to employers would be allowed to vary by and within states. However, employers cannot be subsidized for more than 120 percent of wage costs, which is a reasonable approximation of total compensation and overhead costs for the lowest paid workers.

Programs also may use federal funds to provide wraparound services, including screening and matching and job preparation services, as well as transportation, childcare, counseling, or other assistance. The scale of programs and these complementary services would vary across target population, location, and other factors. The policy would be sufficiently flexible to allow programs to adjust to local dynamics and changing circumstances while keeping the needs of participants and employers paramount.

As for specific wages and costs, workers in subsidized job placements would be paid at

4. The EITC will see increased costs because the economic expansion from this policy is mostly in low-wage work, so more people will be eligible for the EITC because they have jobs that pay low wages. However, the EITC itself can lead to poverty reduction.

least the prevailing minimum wage in the relevant jurisdiction. The wage subsidy to the employer would not be higher than the prevailing minimum wage (that is, the federal minimum wage, now \$7.25 per hour, or, if higher, the applicable state or local minimum wage). However, if employers wanted to pay a worker more than the prevailing minimum wage, they would be able to do by supplementing the minimum wage with their own resources.

Under state formula-funded programs, each subsidized job would be limited to nine months, though this period could be extended to accommodate time needed for training. Workers would be able to apply for a different subsidized job if still unemployed four weeks after completing the initial period of program participation. The individual could not be hired back, however, by the same employer or at the same site, because that could become a way that an employer could unfairly take advantage of the program (such as hanging onto specific individuals indefinitely, at taxpayer expense, with no thought of bringing them onto their own payroll). Programs may create review processes to address occasional exceptions to this rule that might make sense.

Furthermore, if the subsidized employment program is part of skilled training, the maximum time for the subsidy might be longer (or shorter), based on the level of skill and experience that the worker needs before being hired as a regular employee. If the program is part of an initiative that targets low-skilled individuals, the maximum time might also be extended.

#### **WORKER ELIGIBILITY AND TARGETING**

The structure and design of the proposed program would aim to balance several, potentially competing objectives: to target scarce public funds to those most in need; to provide states the flexibility to tailor the program to reflect local conditions and preferences; to promote

participation by employers; to ensure that program implementation is efficient; and to allow the program to operate effectively in both strong and weak labor market conditions.

As discussed, the program would include two parallel federal funding streams: broad-based grants to states and territories that would be distributed according to a formula, and targeted, competitive grants to localities or non-profit organizations to serve specific populations.

To limit administrative expenses and respond to local need, federal eligibility requirements for individual participation in a subsidized job under this program would be few. Participants would be

unemployed for sixty days or more, or have earnings below half the prevailing minimum wage in the previous twelve months (\$7.25 per hour in much of the country);<sup>5</sup>

eighteen years of age or older; and

lawfully permitted to work.

These restrictions are intended to simplify administrative burdens and increase outreach effectiveness while targeting workers who are struggling to find employment recently or secure stable earnings. The policy is also not intended to address the overlapping but often quite distinct needs of school-age youth.

These criteria would include underemployed (less than full-time) workers; discouraged workers who have been unemployed for a significant amount of time and may have stopped looking for work; and those who are just becoming low-income after job loss, which would enable a strong and automatic countercyclical response. In addition, asset tests would be prohibited. Having such broad eligibility requirements would allow local programs to saturate struggling communities that generally do not have enough employment opportunities,

5. We recommend using a simple formula that assumes two thousand hours of work. For example, in a city in Florida lacking a separate minimum wage, the maximum prior-twelve-month earnings would be \$8.05 (the state's minimum wage), divided by two, and multiplied by two thousand hours, or \$8,050. This formula intentionally leads to variation across labor markets and over time. This threshold likely would be sufficiently generous during recessions, as evidenced by data from the Economic Mobility Corporation's 2013 evaluation of several TANF Emergency Fund subsidized employment programs during 2009 and 2010 (see Roder and Elliott 2013).

especially for people with barriers, including limited skills and uneven work histories, to employment.

The streamlined nature of the rules governing the formula grants would thus leave many of the key design decisions to the states. Although no federally set maximum income limit is in place, states would be able to set such limits as they see fit. In other words, the proposal would leave room for states to have the option of targeting low-income families and individuals. States could set additional eligibility criteria subject to some limitations intended to prevent discrimination. Nevertheless, the program would be well targeted for several reasons. First, subsidized job placements would pay the prevailing minimum wage in the relevant jurisdiction initially.<sup>6</sup> The wage received by workers could rise during the placement, but the wage subsidy received by employers could not. In other words, employers would be free to increase both their share of and the amount of the wage paid. The low pay offered in these positions inherently prevents them from going to individuals whose families have higher incomes, because those with educational and other advantages would rarely see these jobs as attractive or necessary.

Finally, workers would not be permitted to participate in more than three years of subsidized employment total during any five-year period (each placement limited to nine months per worksite). In recognition of the fact that some workers, even upon completing several subsidized jobs, may (due to barriers such as a disability or significant health issue) never be able to attain stable, unsubsidized employment, states would be able to institute waivers for this requirement. Time limits would be suspended during periods of recession.

The competitive grants also build in room for programs to be more narrowly targeted. These funds would have to be used to subsidize jobs for individuals with specific characteristics that make them hard to employ, such as those with disabilities, veterans, noncustodial parents who owe child support, or those with crim-

inal records. Alternatively, these grants could be targeted to people living in specific communities with high poverty rates.

Under both funding streams, the proposal would also require state plans to target—but not restrict eligibility to—people with serious or multiple barriers to employment.<sup>7</sup> Barriers to employment, though broadly defined, would constitute limitations that significantly reduce the likelihood of an individual being able to attain or maintain competitive (unsubsidized) employment. Limitations could be “personal or institutional, and can manifest as skill limitations; physical and behavioral health issues, including disabilities; criminal justice system involvement; family obligations; limited resources; and discrimination based on characteristics such as race, gender, and age, among others” (Dutta-Gupta et al. 2016, ix).

#### EMPLOYER ELIGIBILITY

Because the program would target many people facing serious structural and situational obstacles to steady employment, it will almost certainly be necessary to utilize a wide range of government, nonprofit, and for-profit organizations. Therefore, under both funding structures, public, for-profit, and not-for-profit employers would all be eligible to receive subsidies. It would also be permitted for a nonprofit organization to act as an intermediary and employer of record (EOR) for workers who are placed elsewhere. The EOR mechanism places most of the formal obligations of serving as the employer on the nonprofit organization—such as determining eligibility, providing orientation, formally hiring the subsidized worker, conducting any required background checks and drug testing, and, once the worker is hired, paying the worker, making all required deductions (FICA, Medicare, and so on), providing a pay stub, and issuing a W-2 form. If an initial placement does not work out (for any number of reasons), the EOR also helps the subsidized worker find another place to work. Above all, the EOR helps to identify the “host sites” where subsidized workers actually work. Host sites,

6. If the prevailing minimum wage in the relevant jurisdiction is different from the federal minimum wage, workers would be paid the higher of the two.

7. States would have the flexibility to forego targeting during economic downturns.

in turn, are responsible for providing job descriptions, providing day-to-day supervision, and certifying to the EOR that the subsidized worker was employed for a stated number of hours. The EOR-host site approach has worked well in several states, including Colorado and Wisconsin. Small employers in particular appreciate the approach because, as they consider “testing out” an individual whom they may decide to hire as an unsubsidized worker, they are not burdened with the kind of bureaucracy or paperwork that so often deters small firms from participating in other government-sponsored training and employment programs.

In exchange for hiring workers with barriers, the proposed subsidized employment program lets employers take a low-risk chance on workers they would not ordinarily hire. The result is a mutually beneficial arrangement, in which American employers willing to see a worker through a comparatively brief training and skill-building period and transition to competitive employment can be rewarded with access to previously untapped or underdeveloped labor and talent. For small businesses, the benefits may be even more pronounced. Small businesses are often a good prospect for providing work experience for individuals with limited skills or work histories. They are more likely than large employers to find it mutually beneficial, given that they often lack the capital to expand their workforce. Hiring a worker through a subsidized employment program allows them to test their ability to add positions while limiting their immediate investment to the costs of supervision and training. Those costs are real, but are manageable for many small businesses. Even if a business is unable to hire the person beyond the subsidy period, it has provided experience and training that can be translated to other jobs.

Particularly when placements are with private, for-profit employers, measures must be taken to mitigate concerns about relative cost-effectiveness and the use of public money to (indirectly) subsidize private profits. For example, no employer could use subsidized workers to replace unsubsidized workers or striking workers. States or competitive grantees could also choose to require that employers hire individuals on their permanent payrolls if they

are successful in the subsidy period. The wisdom of imposing such a requirement, however, should be carefully considered. Such a requirement may deter private firms who in good faith *want* to hire subsidized workers from participating in the program, given that in advance they cannot necessarily predict whether adding a new worker (subsidized or otherwise) is economically justifiable. Indeed, they may need to try out not merely the subsidized employee, but also the new job itself, to determine whether the new job is economically viable. An absolute requirement that they must hire the subsidized workers they have taken on—even if language like “if the placement is successful” is added—could easily drive away the best employers.

The concern about the program’s being exploited to provide windfall profits to unscrupulous private firms is a serious one. To address it, the authorizing legislation and rules could limit participation of private for-profit business to small businesses, potentially defined as those with fewer than a certain number of employees (such as 50, 150, 250, and so on). Another possible safeguard is to limit the total dollar amount of the subsidized wages that any one for-profit firm can profit from (perhaps allowing the firm to offset the limit by unsubsidized wages it subsequently pays to the workers in question). Maybe the most important safeguard against abuse of the program or its workers, however, is to require regular and adequate site visits and to hold employers accountable for program integrity through regular evaluations of their impact. This is one function that an employer of record might perform *vis-à-vis* the host sites in its network.

#### TARGETING OF JOB PLACEMENTS

State plans would be required to show consideration for type of placement, including supervision, employment sector, employer size, and other issues (Dutta-Gupta et al. 2016). States—when running programs directly or contracting with private organizations to run programs—must also prioritize programs physically located in areas with the poorest labor market indicators and highest (most concentrated) poverty, as well as work placements accessible to workers in these communities (including through the provision of transportation subsi-

dies). Among localities applying for competitive grant funding, the preference would be strong for programs that operate in and employ workers in communities with high (concentrated) poverty, persistent poverty, or deep poverty. States and localities would be encouraged to include additional requirements as needed (as it may be counterproductive for the federal level to set them).

### Employer Expectations

All applicable labor laws would be followed to ensure decent working conditions, including minimum wage laws. Employers (public, private, and nonprofit) that offer advancement opportunities for participating workers would be prioritized.

Programs would be encouraged to follow best practices to support opportunities for roll-over in positions for those who are strong candidates for it. Having the work approximate competitive employment as the subsidy winds down—if not from Day One—would also be encouraged within programs. Furthermore, during times of economic expansion, worksites would be limited to organizations by size (which could be defined in terms of employees, profits, or payroll)—but less so as the economy deteriorates. Other strategies for reducing windfall profits may be explored as well (Bartik 2001).

### PROPOSED FUNDING

This section describes a mechanism for delivery of funds and provides a federal cost estimate for this proposal. The proposed funding consists of two primary streams: a substantial mandatory funding stream for states and a smaller discretionary funding stream for local programs. The proposal is designed to achieve 100 percent state participation and reach approximately 20 percent of all workers who are unemployed for fifteen weeks or longer; available for and desiring work, but no longer looking; those interested in work, but believe no

job is available for them; and those employed part time for economic reasons and earning less than what they would with a full-time subsidized job at the minimum wage.

### Federal Funding Delivery Mechanisms

This proposal envisions a generous, open-ended federal match to states for the formula grant. Each state's grant would be based on states' FMAP (Federal Medical Assistance Percentage, or Medicaid match rate). The FMAP for each state is based on the relative per capita income of a state compared with national per capita income. It currently varies between 50 and 82 percent, limited by a statutory maximum of 83 percent (ASPE 2015). Under this subsidized employment proposal, each state would receive a minimum (regardless of macroeconomic conditions) match equal to its FMAP plus half the gap between the state's FMAP and 100 percent, resulting in minimum matching rates ranging from 75 percent in the wealthiest states to 91 percent in the poorest. States would be able to count TANF,<sup>8</sup> Workforce Innovation and Opportunity Act (WIOA), and other federal funding legitimately utilized for subsidized employment toward their contributions. Based on the TANF Emergency Fund's subsidized jobs experience and the adoption of the Medicaid expansion under the Affordable Care Act, a reimbursement rate that is more generous than the existing FMAP for basic Medicaid is likely necessary to ensure that all or nearly all states choose to participate in this program (Kaplan 2009; Ollove 2015). This proposed federal subsidized employment match (FSEM) also would rise (never above 100 percent) and fall (never below 75 percent), with each year-over-year percentage point increase in three-month average state unemployment rates triggering a percentage increase in the match rate. Unlike the FMAP, the FSEM would be more responsive to economic changes by being updated every calendar quarter, though increased match rates would trigger on for a minimum of the balance

8. This proposal may raise concerns about further diverting TANF funds away from cash assistance, a valid use for which there are few if any substitutes in most cases. However, even proposals intended to address the low share of TANF used for cash assistance typically limit a share of all TANF spending to core purposes—typically cash assistance, employment, and work supports—that certainly would be served by subsidized jobs (see, for example, Floyd, Pavetti, and Schott 2017).

of the current and subsequent fiscal year to allow for state fiscal, policy, and programmatic planning. (Overly volatile match rates, especially falls in the match rate, would jeopardize the viability of the program's match structure.)

The competitive grant, administered by HHS, would be administered similarly to existing competitive grant programs.

### **Cost Estimate and Poverty Reduction Effects**

The total direct compensation costs of serving 20 percent of the full universe of eligible participants would be \$15.9 billion annually to provide subsidized employment for 2.4 million participants—which would benefit more than seven million members of those workers' households.<sup>9</sup> In addition to these direct compensation costs for wages would be added costs for payroll taxes and net tax benefits, wrap-around services, and state and local administrative costs, which would further add to the annual costs.

The total additional earnings received would reduce the nation's overall poverty rate (SPM) from 14.3 percent to 14.0 and thereby lift approximately one million people out of SPM poverty. The reduction in the poverty rate of expected program participants—who are significantly more disadvantaged than the overall population, having a poverty rate nearly 2.5 times the overall rate—would be far greater. For participants, the reductions in the poverty rate and the deep poverty rate (those with poverty levels less than half the supplemental poverty measure's threshold) would be sharp. The poverty rates among participants would be reduced from 35 percent to 20 percent and the deep poverty rate would fall from 14 percent to below 4 percent. Participants would also see a sharp reduction in the poverty gap (the difference between household income and the poverty

threshold), eliminating the majority (62 percent) of their poverty. Low-income families that have incomes above the poverty level but less than twice the poverty level would also see benefits that would increase their families' income-to-needs ratio by nearly 20 percent.

These calculations account for the likely change in tax benefits net of taxes paid, such as the EITC and the CTC, but not some net savings that would occur for federal spending on other programs, such as Supplemental Nutrition Assistance Program (formerly Food Stamps), for which higher earnings would reduce benefit amounts for participants (West and Reich 2014). The size and benefits of the program could also easily be scaled for lower participation levels of 10 or 15 percent of the universe targeted for services or higher participation levels of 30 percent.

### **BUILDING EVIDENCE AND MEASURING SUCCESS**

Three main strategies would be used to measure the efficiency and effectiveness of the program and to promote continuous program improvement.

First, HHS and DOL would develop a standard set of operational indicators that states and other grantees would be required to report on a quarterly basis. These indicators would include the number of workers placed into subsidized jobs, the characteristics of those workers, and the duration of their spells in subsidized employment—as well as basic information about the employers who received subsidies (for example, public, private, or nonprofit; total number of subsidized and unsubsidized employees). It would be difficult to make apples-to-apples comparisons across grantees because the specific programmatic and targeting strategies are expected to vary, but these

9. Eligible participants were those eighteen and older who were either unemployed for more than sixteen weeks; working involuntarily part time for economic reasons, but could earn more with a full-time subsidized job at the minimum wage; or discouraged or marginally attached. Another approach we use to check this proposal's cost estimate is to compare the per-worker costs with the approximate costs and enrollment of the subsidized employment component of the 2009–2010 TANF-EF program. Total federal spending for TANF-EF subsidized employment, including administrative costs, was \$1.32 billion (Farrell et al. 2011) and it served a total of 262,520 workers over nearly a year and a half (Pavetti et al. 2011), of which we estimate that half were likely full-time participants who averaged six months in the TANF-EF program, and the other half were summer youth for one summer (three months).

indicators would be used to confirm that grantees are using the funds as planned and to highlight areas where technical assistance may be needed. Periodic surveys of employers would be used to measure employer satisfaction.

Second, HHS and DOL would develop a strategy to ascertain whether the subsidized employment program is achieving its primary and secondary goals. The primary goals would include raising earnings—thus, income—and increasing overall rates of employment. Secondary goals would depend somewhat on the specific targeting strategy, but could include improving the rate and amount of child support paid, reducing incarceration, improving economic and social conditions in targeted communities, and improving child well-being. It would be difficult to assess the impact of the subsidized employment on these outcomes for two primary reasons—the first being that the program may not be large enough to “move” these indicators at the state or national level (though it might affect them in individual communities). The second is that, because overall economic conditions and other factors may affect the same indicators, it would be quite challenging to isolate the impact of the subsidized employment program per se. For example, household income may fall during a recession, and it would be hard to determine whether the subsidized employment program made it fall less than it otherwise would have. Despite these challenges, it may be possible to use statistical techniques to estimate the program’s impact. In addition, HHS and DOL would undertake periodic random assignment evaluations that would provide data on the impact of the program on individual workers.

Third, HHS and DOL would develop a systematic evaluation agenda focused on program improvement, including both qualitative and quantitative research. Studies of program implementation and operations would be used to

identify and highlight efficient models for administering the program. These results would be widely disseminated to grantees. In addition, as noted earlier, periodic randomized controlled trials and other experimental and quasi-experimental methods would be used to measure the impact of particular subsidized employment models on participants.<sup>10</sup> These evaluations would measure impacts both while workers are in subsidized jobs and afterward and would focus on a wide range of potential outcomes depending on the target population (for example, employment, income, justice involvement, child support, and public benefits receipt). Some of them would be long-term studies designed to measure impacts on child well-being. These studies would seek to identify particular approaches to subsidized employment that have larger impacts on participant outcomes and are more cost effective.

## CONCLUSION

Work, especially full-time work, is more highly and causally associated with avoiding poverty than nearly any other variable reasonably affected by public policy. Work not only meets immediate needs, especially given that many public assistance programs have work requirements, but is also good for the broader community because it reinforces the expectation of participation in the labor market. However, even when the economy is described as being at full employment, evidence is substantial that many more workers would like to work than are able to secure adequate employment. Targeted efforts that simultaneously reduce employer hiring costs and risks while addressing worker barriers to employment can increase employment overall, especially among disadvantaged individuals. Subsidized employment is such an approach. Although subsidized employment is not appropriate for every unemployed or underemployed worker (or every em-

10. This proposal does not strictly mandate continuous or random assignment evaluations. First, there is value in experimenting with programs that saturate communities, an approach that is not compatible with a randomized lottery. As suggested by one anonymous reviewer, determining priority ranking for admissions could be permitted, enabling regression discontinuity designs. However, such an approach could come with its own conceptual and political challenges and consequently is not required. Finally, continuous (rather than periodic) evaluation has an additional fiscal cost and may reduce the freedom of practitioners to plan, adjust, and innovate in response to their experiences.

ployer seeking to increase its workforce), it is both a proven and promising strategy for some populations. A permanent program with dedicated funding streams can build on the successes of past unsubsidized employment programs, which had neither (Dutta-Gupta et al. 2016). It is encouraging that, in 2016 and again in 2017, federal legislation—Senate Bill 3231 and Senate Bill 1938, co-authored by U.S. Senators Tammy Baldwin (D-WI) and Cory Booker (D-NJ)—were introduced with the goal of creating a federal subsidized employment program. Yet despite the growing body of evidence that subsidized employment is a successful strategy and a rising level of interest among policymakers across the political spectrum, little overall funding and no permanent dedicated funding for subsidized employment programs is available at the federal level.

To be sure, subsidized employment programs are neither silver bullets for all labor market challenges nor fully mature for every reasonable target population of disadvantaged workers. But subsidized jobs programs could and should make up a core component of a broad-based, ongoing strategy to combat poverty, reduce inequality, and ensure that every person wanting to work has access to a decent job at any point in the business cycle. With the goal of supporting robust career paths in mind, subsidized employment should also be developed in parallel with education and training initiatives that forge meaningful and sustainable connections between participants and the labor market. Assuming strong macroeconomic policy, there is no substitute for worker empowerment or strong labor standards such as well-enforced employment protections that prohibit discrimination, especially when it comes to highly disadvantaged workers (Dutta-Gupta et al. 2016). Subsidized jobs is not a panacea, but in combination with other strategies, it has a real chance at leading to long-term labor market gains for the next generation, if not for the adults immediately employed because of it.

As a result, this article proposes a national strategy for funding state and local subsidized

employment programs to increase total employment levels, especially among workers with serious or multiple barriers to employment. The proposed strategy consists of two separate but harmonious federal funding streams, which in turn leverage state, local, and private (both for-profit and nonprofit) resources to create decent job opportunities for workers who likely would not otherwise be hired. The resulting employment immediately provides income through wages and earnings, and in some cases would have deeper and long-term positive effects that would tend to reduce poverty among participants and their children while improving outcomes for their communities. This idea is a missing and politically viable notion for reducing poverty.

#### **APPENDIX: FORMULA FUNDING FOR STATES**

State governments would be the only entities eligible to receive formula grants.<sup>11</sup> As discussed further below, states would be required to contribute funds to the program, but the match rate would be very favorable to them to encourage state participation in the program. During recessionary periods, the program would be up to 100 percent federally funded.

To receive a federal grant, each state would need to complete a detailed plan specifying how the funds would be used. As part of the plan, states would need to describe how they would use funds in areas with rates of joblessness or poverty that are well above the state averages.

The Department of Labor would operate the formula grant program. DOL oversees WIOA, which provides formula-based funding to states. DOL also administers the Enhanced Transitional Jobs Demonstration, which tested subsidized employment programs for people recently released from prison and noncustodial parents who owed child support (Employment and Training Administration 2016). Thus, DOL is well suited to operate the proposed new formula grant program for subsidized employment.

As for how the states would operate their

11. Here, state government refers to all state governments, tribes, and territories. Specifically, the territories that are referenced and included in this proposal (Puerto Rico, U.S. Virgin Islands, and American Samoa) already have unemployment insurance programs.

**Table A1.** Estimated Change in Poverty Rates with National Subsidized Employment Program

Poverty Measure	Current	Impact (Change)
National SPM	14.3%	14.0%
Recipients SPM	35.0	20.0
Recipients Deep Poverty Rate	14.2	3.8

Source: Wimer, Collyer, and Kimberlin 2018.

programs, TANF-EF provides a useful model. States used a variety of administrative structures to carry out their TANF-EF-funded subsidized employment programs. For example, in some states, the TANF agency ran the program, while in others it was administered through a partnership between the TANF agency and the agency that oversaw the Workforce Investment Act (now WIOA). In still others, the TANF agency contracted with a nonprofit intermediary to run the program (Farrell et al. 2011). Any of these structures would be permissible under the new program.

### Competitive Grants to Local Entities

The competitive grants would be targeted to municipalities or private, nonprofit organizations. To receive funds, a nonprofit organization would need to demonstrate—for example, through letters of support—strong linkages to local government agencies that could provide referrals to the program. The grants would be awarded based on an applicant's demonstrated ability to recruit the target group, and provide both meaningful work opportunities and opportunities for participants to learn hard and soft occupational skills. Unlike the formula funding for states, this funding stream would allow for programs that test a broader set of needs, including engaging workers in less-than-full-time, subsidized work for long periods. Competitive grants would allow for more targeting—by population and geography—and for innovative strategies that can be made subject to rigorous evaluation to further build the evidence base of models that work with particular subgroups or communities. These types of programs, such as the Logan Square Neighborhood Association's Parent Mentor program, may reduce poverty—especially when engaging second earners or people

subsisting off of disability and retirement benefits—even if they are not designed to shift people into unsubsidized work (Dutta-Gupta et al. 2016).

HHS, which administered the TANF Emergency Fund, and has also run research projects such as the Subsidized and Transitional Employment Demonstration, would be responsible for the competitive grant program. More generally, HHS's extensive experience and expertise in overseeing experiments and program evaluation make it especially well suited for administering this competitive grant program.

The department would award multiyear grants on an annual basis, with the particular targeting criteria for each year driven by current circumstances and, perhaps, to fill gaps that arise in the states' administration of the formula grants. For example, in one year, HHS might award a set of three-year grants for programs targeting people returning to the community from prison, while in the next, it could award a set of three-year grants for programs operating in high-poverty rural areas.

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