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Subsidized Employment: A Proven Strategy to Aid an Equitable Economic Recovery

By Laura Meyer

Millions remain out of work a year into the pandemic and ensuing, uneven economic recovery. The American Jobs Plan released by the Biden Administration includes subsidized employment, a time-tested tool for economic recovery and supporting workers with disadvantages in the labor market, as a component of its efforts to reimagine and rebuild the economy. That's especially important because job losses and resulting hardship have exacerbated racial inequities and poverty, particularly harming Black and Latino workers, immigrants, those with less education, and parents.

Federal policymakers have enacted badly needed relief, with the American Rescue Plan in particular providing substantial help to tens of millions of people struggling to make ends meet. But as more businesses reopen and the economy continues to recover, those whom the recovery is leaving behind will need extra help to reconnect to a changing labor market and avoid continued hardship. The threat of long-term unemployment and permanent disconnection from the labor market looms for many but is especially pronounced for people of color.

Subsidized employment programs, meanwhile, have improved workers' wages and employment for decades, and can provide economic benefits for participants that last for years. In the recovery from the Great Recession, state subsidized employment programs resourced through the Temporary Assistance for Needy Families (TANF) Emergency Fund placed more than a quarter-million people in public- and private-sector jobs, giving them needed income and work experience. Experience like this, in turn, can connect participants to unsubsidized employment, improving their long-term job prospects.

The current crisis calls for a permanent subsidized employment program that can similarly respond to short-term needs as well as support workers who are disadvantaged even in good economic times. The resulting higher wages and employment levels would help not just these workers but the economy, as such workers are likelier to keep the money they earn flowing into local economies. Federal policymakers should ensure such a program makes it to the finish line and is included in the recovery legislation that they will consider later this year.

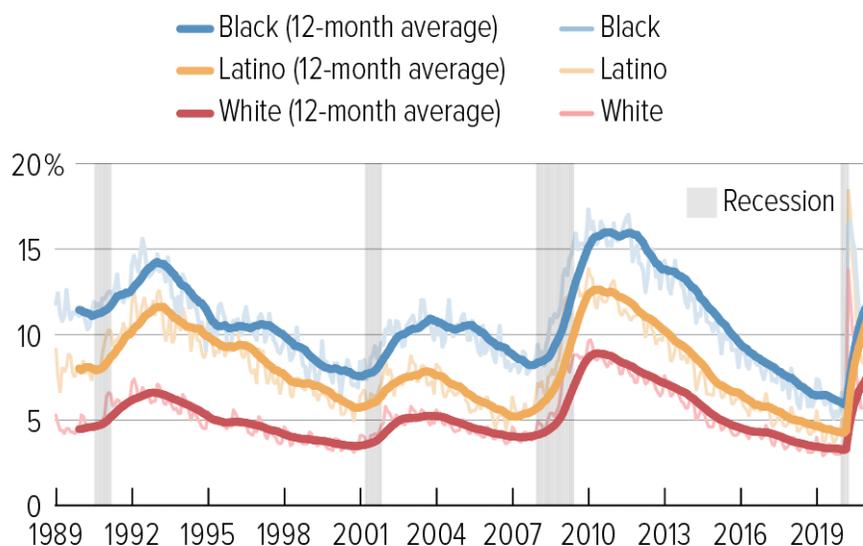
Labor Market Remains Weak, With Uneven Impact and Long-Term Risks

There are 9.5 million fewer jobs now than in February 2020. Workers of color, workers without a college degree, women, and immigrants have experienced a disproportionate share of these losses.¹ Widespread school and child care closures have also hindered the labor force participation of parents with school-age children.²

The COVID-19 recession has exacerbated existing inequality, with its roots in structural racism that contributes to the disproportionate representation of people of color in low-wage, unstable jobs. Unemployment has been particularly high in such industries, and Black and Latino unemployment remains persistently high.³ In general, recessions hit Black workers particularly hard: their unemployment rate rises more in recessions and falls more slowly in recoveries than the rate among white workers.⁴ (See Figure 1.)

FIGURE 1

Black and Latino Unemployment Rates Consistently Higher Than White Rate



Note: Data are not seasonally adjusted.

Source: Bureau of Labor Statistics

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¹ Chad Stone and Matt Saenz, “Labor Market Weaker Than Headline Numbers Suggest,” CBPP, March 1, 2021, <https://www.cbpp.org/research/economy/labor-market-weaker-than-headline-numbers-suggest>.

² *Ibid.*

³ CBPP, “Tracking the COVID-19 Recession’s Effects on Food, Housing, and Employment Hardships,” updated March 29, 2021, <https://www.cbpp.org/research/poverty-and-inequality/tracking-the-covid-19-recessions-effects-on-food-housing-and>.

⁴ Chad Stone, “Robust Unemployment Insurance, Other Relief Needed to Mitigate Racial and Ethnic Unemployment Disparities,” CBPP, August 5, 2020, <https://www.cbpp.org/research/economy/robust-unemployment-insurance-other-relief-needed-to-mitigate-racial-and-ethnic>.

The impacts of the recession will be long lasting. Long-term unemployment nearly quadrupled between February of 2020 and 2021: at more than 40 percent of unemployed workers, the share has nearly reached the Great Recession’s historical high.⁵ (See Figure 2.) Long-term unemployment is associated with lower wages for years — up to 20, some research finds.⁶

FIGURE 2

Long-Term Unemployment Is Nearing Great Recession Record

Long-term unemployed as a share of total unemployment



Source: Bureau of Labor Statistics, “Unemployed 27 weeks or longer as a percent of total unemployed,” March 5, 2021.

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The unemployment rate will not reach pre-pandemic levels for a decade, the Congressional Budget Office predicts.⁷ And economists warn many of the jobs won’t come back at all: remote work, for example, will likely remain a feature post-pandemic and will mean fewer service industry jobs. “We’re recovering, but to a different economy,” Federal Reserve Chair Jerome H. Powell observed.⁸ Urgent action is needed by the Biden Administration and Congress to ensure an equitable recovery for women, people of color, and workers with low wages in this new economy.

Subsidized Employment: An Evidence-Based Boost for Workers and the Economy

Subsidized employment, in which the government temporarily subsidizes some or all of an individual’s wages, gives participants some economic security and can connect them to unsubsidized

⁵ Stone and Saenz.

⁶ Austin Nichols, Josh Mitchell, and Stephan Lindner, “Consequences of Long-Term Unemployment,” Urban Institute, July 2013, <https://www.urban.org/sites/default/files/publication/23921/412887-Consequences-of-Long-Term-Unemployment.PDF>.

⁷ Congressional Budget Office, “An Overview of the Economic Outlook: 2021 to 2031,” February 2021, <https://www.cbo.gov/system/files/2021-02/56965-Economic-Outlook.pdf>.

⁸ Heather Long, “Millions of jobs probably aren’t coming back, even after the pandemic ends,” *Washington Post*, February 17, 2021, <https://www.washingtonpost.com/road-to-recovery/2021/02/17/unemployed-workers-retraining/>.

employment, improving their long-term job prospects. Governments, nonprofits, and social enterprises have used subsidized employment for decades to provide job experience and needed wages.⁹ Some recent evaluations have found earnings benefits that last for years after the program ends.¹⁰ Subsidized employment played a critical role during the recovery from the Great Recession,¹¹ and with additional funding it could play a similarly important role as we recover from the pandemic.

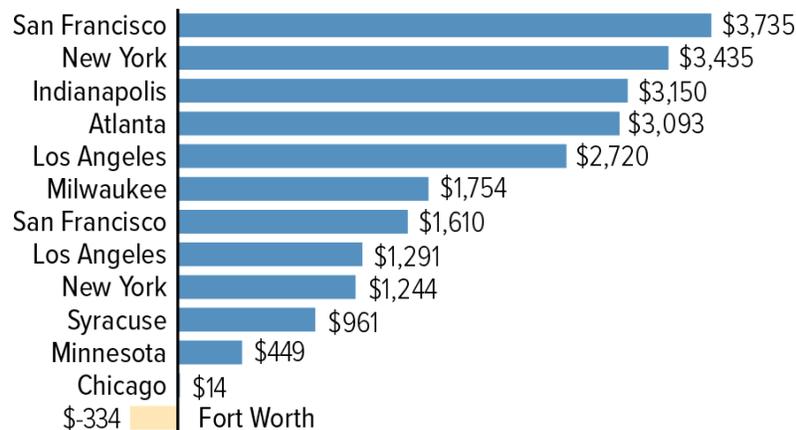
Benefits Participants and Communities

Subsidized employment significantly increases wages and employment in the short term, decades of evaluations have found.¹² A recent evaluation of 13 programs found that participants in almost every program had higher income — \$3,700 higher, in one program — in the first year after starting subsidized employment than similar individuals not chosen for the program.¹³ (See Figure 3.) Six of those programs’ income impacts persisted into future years.

FIGURE 3

Subsidized Employment Boosts Wages

Wage impact for participants of subsidized employment programs in first year, relative to control group



Source: Danielle Cummings and Dan Bloom, “Can Subsidized Employment Programs Help Disadvantaged Job Seekers?” MDRC for Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services (OPRE Report 2020-23), February 2020. More than one program was evaluated in New York, San Francisco, and Los Angeles.

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⁹ Indivar Dutta-Gupta *et al.*, “Lessons Learned from 40 Years of Subsidized Employment Programs,” Georgetown Center on Poverty and Inequality, Spring 2016, <https://www.georgetownpoverty.org/wp-content/uploads/2016/07/GCPI-Subsidized-Employment-Paper-20160413.pdf>.

¹⁰ Danielle Cummings and Dan Bloom, “Can Subsidized Employment Programs Help Disadvantaged Job Seekers?” MDRC for Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services (OPRE Report 2020-23), February 2020, https://www.mdrc.org/sites/default/files/sted_final_synthesis_report_feb_2020.pdf.

¹¹ LaDonna Pavetti, “The Legacy of the TANF Emergency Fund,” CBPP, February 16, 2011, <https://www.cbpp.org/blog/the-legacy-of-the-tanf-emergency-fund>.

¹² Dutta-Gupta *et al.*, *op. cit.*

¹³ Cummings and Bloom, *op. cit.*

Subsidized jobs can also have impacts outside of wages and employment. They can increase child support payment rates among parents otherwise unable to meet such obligations due to unemployment or underemployment.¹⁴ And they can reduce recidivism among people returning from jail or prison and facing associated barriers to employment. For example, the Center for Employment Opportunities transitional jobs program, which serves individuals recently released from prison, significantly reduced recidivism over three years, with stronger impacts for highest-risk participants.¹⁵

Further, in hard times after the Great Recession, programs resourced through the TANF Emergency Fund benefited small businesses in particular by sustaining employers and contributing to business expansion.¹⁶ And since families with low incomes are least likely to have savings to pull from, especially in hard times, they are likely to spend subsidized wages quickly in the community.¹⁷

Benefits to Participants Can Last for Years

While subsidized employment consistently improves income and employment during programs' duration, recent evaluations have found that some programs also have impacts for years after the subsidized period ends.¹⁸ The same 13-program evaluation found that 12 of them increased employment rates in the first year of subsidized employment, and that four of them improved participants' employment outcomes for at least two years.¹⁹ Programs with longer-lasting interventions, of more than 14 weeks, most consistently improve employment and earnings, another study found.²⁰

One program in San Francisco, STEP Forward, has shown some of the largest long-term earnings impacts among all subsidized employment programs evaluated. During the subsidy period, the program resulted in greater levels of employment, higher average earnings, and a higher likelihood for participants to be employed in higher-quality jobs, compared to a control group.²¹ Improved earnings lasted through the fourth year following placement in the program. (See Figure 4.)

FIGURE 4

¹⁴ *Ibid.*

¹⁵ Cindy Redcross *et al.*, "More Than a Job: Final Results from the Evaluation of the Center for Employment Opportunities (CEO) Transitional Jobs Program," MDRC for Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services (OPRE Report 2011-18), January 2012, https://www.acf.hhs.gov/sites/default/files/documents/opre/more_than_job.pdf.

¹⁶ LaDonna Pavetti, Liz Schott, and Elizabeth Lower-Basch, "Creating Subsidized Employment Opportunities for Low-Income Parents," CBPP and CLASP, February 16, 2011, <https://www.cbpp.org/research/creating-subsidized-employment-opportunities-for-low-income-parents>.

¹⁷ Pavetti, *op. cit.*

¹⁸ Dutta-Gupta *et al.*, Cummings and Bloom, *op. cit.*

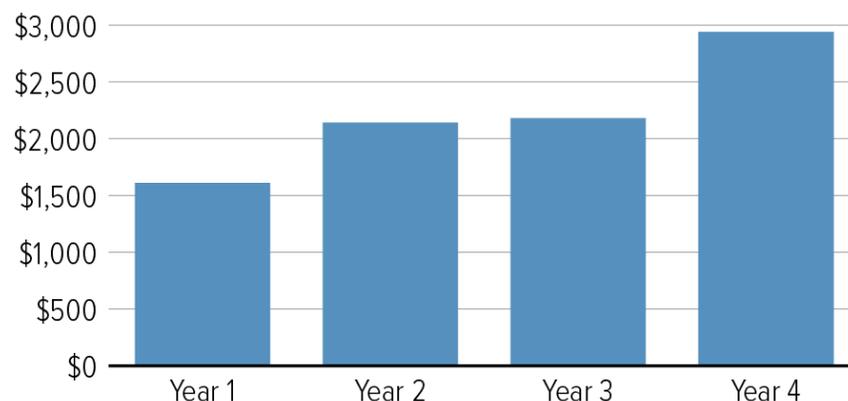
¹⁹ Cummings and Bloom *op. cit.*

²⁰ Dutta-Gupta *et al. op. cit.*

²¹ Johanna Walter *et al.*, "Testing Rapid Connections to Subsidized Private Sector Jobs for Low-Income Individuals in San Francisco: Implementation and Early Impacts of the STEP Forward Program," OPRE, November 2017, https://www.mdrc.org/sites/default/files/2017_sted_sf_FR.pdf. "Higher-quality" employment is an umbrella term the study used to summarize findings that the program group was more likely to be working more than 20 hours per week, to be paid higher hourly wages, and to have employer-provided health insurance.

STEP Forward Subsidized Jobs Program Improved Wages Years After Its End

Difference in total annual earnings between program and control groups



Note: The STEP Forward subsidized job program provided job-readiness services and partially subsidized jobs at private companies for up to five months in San Francisco.

Source: Riley Webster, “Cost Analysis of the STEP Forward Program,” OPRE Report 2019-109, Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

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Helps Those Facing the Most Limited Prospects

Subsidized employment is a powerful tool to target those with the greatest need for wages and employment. Programs that responded to the Great Recession targeted TANF recipients, low-income families, youth, those involved with the criminal justice system, and other subgroups with special employment needs, such as individuals behind on child support payments.²² Other longstanding programs that have operated through good and bad economic times are similarly targeted.²³

Subsidized employment can be particularly beneficial for people of color, who,²⁴ due to racial discrimination and structural racism, are more likely to experience low wages and barriers to employment, such as hiring discrimination.²⁵ For example, the “war on drugs” disproportionately

²² Pavetti, Schott, and Lower-Basch, *op. cit.*

²³ MDRC, “Subsidized Employment: A Strategy for Bad Economic Times and for the Hard-to-Employ,” February 2013, <https://www.mdrc.org/publication/subsidized-employment-strategy-bad-economic-times-and-hard-employ>.

²⁴ See Caitlin C. Schnur, Chris Warland, and Melissa Young, “Framework for an Equity-Centered National Subsidized Employment Program,” Heartland Alliance, January 12, 2021, <https://nationalinitiatives.issuelab.org/resource/framework-for-an-equity-centered-national-subsidized-employment-program.html>.

²⁵ Christian E. Weller, “African Americans Face Systematic Obstacles to Getting Good Jobs,” Center for American Progress, December 5, 2019, <https://www.americanprogress.org/issues/economy/reports/2019/12/05/478150/african-americans-face-systematic-obstacles-getting-good-jobs/>; Natalie Spievack, “For People of Color, Employment Disparities Start Early,” Urban Institute, July 22, 2019, <https://www.urban.org/urban-wire/people-color-employment-disparities-start-early>; Lincoln

targeted communities of color and resulted in the overincarceration of Black men, who now face barriers to employment related to pre-employment screening and background checks, as well as discrimination from employers.²⁶

A recent evaluation of two large-scale federal subsidized employment research projects found that the evaluated programs successfully connected workers who have disadvantages in the labor market with jobs. However, those workers were most easily placed in jobs with nonprofit, public, or social enterprise employers, because private employers were unlikely to employ them even with generous subsidies. This suggests that subsidized employment should be targeted to workers with the most disadvantages *and* designed for their success, to ensure that no one slips through the cracks.²⁷ This might mean providing diverse job opportunities for workers at all skill levels as well as work supports such as increased supervision and coaching.

Can Boost the Economy in Downturns and Expansions

During periods of high unemployment, subsidized employment programs can boost the economy by increasing wages and employment levels — and should be used to do so now. (See text box, “Subsidized Employment Already Being Used to Fight Pandemic.”)

But subsidized employment programs have a role to play even in expansionary periods, when they can improve the employment opportunities and outcomes for individuals with more significant employment barriers who may need more support and supervision.²⁸ These barriers, such as low education levels or caregiving responsibilities, make it challenging for many people to find jobs even when the economy is strong.²⁹ A permanent federal program could create the foundation to support these workers — then scale up rapidly during recessions. Subsidized employment should be a part of a permanent investment in a stronger, more equitable economy.

Quillian *et al.*, “Meta-analysis of field experiments shows no change in racial discrimination in hiring over time,” *PNAS*, September 12, 2017, <https://www.pnas.org/content/early/2017/09/11/1706255114>; David Cooper, “Workers of color are far more likely to be paid poverty-level wages than white workers,” Economic Policy Institute, June 21, 2018, <https://www.epi.org/blog/workers-of-color-are-far-more-likely-to-be-paid-poverty-level-wages-than-white-workers/>.

²⁶ Harry Holzer, Steven Raphael, and Michael A. Stoll, “Employment Barriers Facing Ex-Offenders,” Urban Institute, May 19-20, 2003, <https://www.urban.org/sites/default/files/publication/59416/410855-Employment-Barriers-Facing-Ex-Offenders.PDF>; Drug Policy Alliance, “Race and the Drug War,” <https://drugpolicy.org/issues/race-and-drug-war>; Terry-Ann Craigie, “Employment After Incarceration: Ban the Box and Racial Discrimination,” Brennan Center for Justice, October 13, 2017, <https://www.brennancenter.org/our-work/analysis-opinion/employment-after-incarceration-ban-box-and-racial-discrimination>.

²⁷ Dan Bloom, “Ensuring Equity in Future Subsidized Employment Programs,” MDRC, April 2020, <https://www.mdrc.org/publication/ensuring-equity-future-subsidized-employment-programs>.

²⁸ Cummings and Bloom, *op. cit.*, p. ES-7.

²⁹ Dan Bloom, Pamela J. Loprest, and Sheila R. Zedlewski, “TANF Recipients with Barriers to Employment,” Urban Institute, 2011, <https://www.urban.org/sites/default/files/publication/25396/412567-TANF-Recipients-with-Barriers-to-Employment.PDF>.

Subsidized Employment Already Being Used to Fight Pandemic

Amid the COVID-19 crisis, workers need to be safely reconnected with employment. Some localities have shown that it is possible to develop subsidized employment programs that take into account public health concerns while providing subsidized employment opportunities.

- The city of Baltimore partnered with several private organizations to create the **Baltimore Health Corps**, which hired nearly 300 residents to conduct contact tracing and care coordination for the city. The program provides support services to participants, including employment services to launch them into employment following the program.^a
- Birmingham, Alabama, developed the **Birmingham Service Corps** to employ more than 300 recently unemployed city residents on projects such as screening public housing residents for COVID symptoms, providing lunches for students, staffing testing centers, and fulfilling other urgent needs. The program is designed to promote long-term career advancement for workers by engaging participants in training and work experience targeted to the needs of local employers.^b
- **Summer youth employment programs** (SYEP) typically provide income, work experience, and mentorship for young people with low incomes. In 2020, public health concerns led some cities to cut SYEP. Yet many cities rapidly reoriented their programs to engage youth in virtual work. Some programs even offered outdoor work options based on local conditions.^c

^a Baltimore Corps, "Community Health Workers Needed," <https://www.baltimorecorps.org/baltimore-health-corps#>.

^b Martha Ross et al., "Local service corps can address unemployment and community need," Brookings Institution, July 23, 2020, <https://www.brookings.edu/research/local-service-corps-can-address-unemployment-and-community-need/>.

^c Nancy Martin and Mike Swigert, "1.0 Digital Summer Youth Employment Toolkit," Aspen Institute Forum for Community Solutions, June 2020, <https://aspencommunitysolutions.org/wp-content/uploads/2020/06/SYEP-Digital-Toolkit.pdf>.

TANF Emergency Fund and the Value of Subsidized Employment in Hard Times

President Barack Obama and Congress created the TANF Emergency Fund in 2009 to help states assist low-income families during the recovery from the Great Recession. Thirty-nine states and the District of Columbia used \$1.3 billion from the fund to place more than a quarter-million low-income unemployed people in temporary, subsidized jobs. Those jobs helped families afford basics like food and utility bills, supported employers' staffing needs, and helped communities meet increased need for public services.

After the TANF Emergency Fund expired in 2010, CBPP partnered with the Center on Law and Social Policy (CLASP) to assess the program.³⁰ The legacy of the TANF Emergency Fund provides us with illuminating lessons on how to use subsidized employment to recover from the COVID-19 recession.

- **It is possible to get large-scale job creation programs up and running relatively quickly.** To reduce hardship and prevent a delayed recovery, policymakers must act quickly to reconnect workers with employment. During the recovery from the Great Recession, several states used the TANF Emergency Fund to quickly launch large-scale countercyclical job creation programs, ultimately connecting more than 260,000 individuals to temporary

³⁰ Pavetti, Schott, and Lower-Basch, *op. cit.*

jobs. Policymakers can again use subsidized jobs to prevent hardship and boost employment when it is safe for more people to return to work.

- **Flexibility makes success possible in many different environments.** One key feature of the TANF Emergency Fund was its flexibility, which allowed states and localities to implement successful subsidized employment programs in areas from rural counties to urban areas. More flexible funds for subsidized employment would well serve states and localities again, when economic and health conditions across the country vary widely. Some states and cities have already set up subsidized jobs programs to meet unique local needs, such as Baltimore’s Health Corps program, which hired hundreds of residents for temporary contact tracing jobs.³¹
- **Programs can be implemented at reasonable cost.** This will be key given the enormity of the economic challenges facing the country and the potentially competing policy priorities to consider. States controlled costs in Emergency Fund programs by employing various wage subsidy structures. Some states shared costs with employers while others capped wages or hours.

Subsidized Employment Is Needed for an Equitable Recovery

The pandemic has laid bare the labor market’s vast racial and other inequities. The threat of lasting harm grows as some remain out of work for extended periods and the economy experiences permanent changes post-pandemic. Even before the pandemic, millions faced barriers to employment, such as low education levels or involvement in the justice system, which are often related to and compounded by racial inequities.

Urgent action is needed to reconnect workers with disadvantages in the labor market to employment. In order to recover, we cannot accept the status quo and allow the economy to revert to existing structural inequities. We need a federally funded, permanent subsidized employment program to respond to the crisis and build an equitable recovery. The inclusion of subsidized jobs in President Biden’s American Jobs Plan is an important first step in making that happen. The Jobs for Economic Recovery Act, introduced by Senators Wyden, Baldwin, Van Hollen, Bennet, and Booker, provides a more detailed proposal for how such a program could be structured. It would provide states with federal funding to fully cover the costs of operating a subsidized jobs program through federal fiscal year 2023, then shift to a cost-sharing model where states and the federal government both contribute to the program.

³¹ See Baltimore Corps, “Community Health Workers Needed,” <https://www.baltimorecorps.org/baltimore-health-corps/>; Rockefeller Foundation, “New ‘Baltimore Health Corps’ to Hire and Train Hundreds of Jobless Residents to Serve Neighborhoods Hardest-Hit by Covid-19,” June 4, 2020, <https://www.rockefellerfoundation.org/news/new-baltimore-health-corps-to-hire-and-train-hundreds-of-jobless-residents-to-serve-neighborhoods-hardest-hit-by-covid-19/>; Laura Meyer, “An Expert’s Take on Using Subsidized Jobs to Meet Health, Employment Goals in Pandemic,” CBPP, March 30, 2021, <https://www.cbpp.org/blog/an-experts-take-on-using-subsidized-jobs-to-meet-health-employment-goals-in-pandemic>.