Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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EXTENDING TANF EMERGENCY FUND MEETS CBO CRITERIA FOR EFFECTIVE POLICIES TO INCREASE EMPLOYMENT

By LaDonna Pavetti

As Congress considers actions to create jobs and boost the economy, one of the most effective steps it could take — on a "bang-for-the-buck" basis — would be to extend and modestly expand the TANF Emergency Fund, set to expire September 30.

This fund, created by the American Recovery and Reinvestment Act, is creating jobs at a very low cost. More than 30 states are (or soon will be) using Emergency Funds to create subsidized private- and public-sector jobs for low-income parents and youth. (Resources from the fund subsidize part or all of the employer's wage costs for a temporary period.) By the end of the summer, when states' subsidized jobs programs will have reached maximum capacity, they will have provided support for more than 100,000 jobs, according to state estimates.[1]

Depending on a state's program, the cost to the federal government of a subsidized job paying $10 per hour ranges from only a few thousand dollars to about $20,000.[2] Often, the program subsidizes part, rather than all, of the wage costs, for jobs that pay a low wage to begin with. When one adds in the fact that the low-income workers placed in these jobs will quickly spend all (or almost all) the income they receive, the cost of creating jobs via the TANF Emergency Fund is likely to be lower than virtually every other jobs-related tax-cut or spending measure that Congress is considering, and the job-creating stimulus per dollar spent is likely to be quite large.

If the fund expires on September 30, however, most of the jobs it has created will vanish then — or even *before* that time. Employers typically don't want low-wage workers who would be with them for only a few weeks or a month or two because it takes time for new hires to learn their jobs. Accordingly, most employers participating in these programs will cease to accept new workers for subsidized job slots well before September 30 if they expect the program to terminate on that date.

[1] This figure is based on data collected from 22 states that have been approved for funding to operate a subsidized employment program or are planning to implement a program in the near future. Data were collected by staff from CBPP, the Center for Law and Social Policy, and the National Transitional Jobs Network between January 28 and February 16.

[2] These cost figures are for each job placement. Job placements in these subsidized job programs usually run for four to 12 months, depending on the state program.

In light of the program's early track record and the continued high joblessness and economic weakness that the nation faces, President Obama has proposed extending the fund for one year, through September 30, 2011, and modestly increasing its funding — at a cost of $2.5 billion. If Congress adopts this proposal, the number of subsidized job placements will grow as states with programs maintain or expand them and additional states institute them. Conversely, if Congress does *not* adopt the proposal, very few states plan to continue their programs; fewer than 10,000 of the subsidized jobs created will remain in place after September 30.

Why the Emergency Fund Is Unique

Two features of the TANF Emergency Fund make it unique among the proposals Congress is considering to reduce unemployment and boost the economy. First, it is targeted to low-income parents and youth, many of whom have limited skills and work experience and thus encounter serious difficulty obtaining a job during times of very high unemployment. Because these families have such limited incomes, *nearly all of the money they earn goes back into the economy immediately,* increasing the demand for goods and services that businesses produce.

Second, the Emergency Fund provides states with great flexibility to design employment approaches that respond to their particular circumstances and to tailor these programs so they create jobs in urban and rural communities alike.

Emergency Fund Scores Very High on CBO Criteria for Effective Stimulus

The Congressional Budget Office recently outlined three criteria to judge which policies work best at increasing employment and promoting economic growth during an economic downturn.[3] They are:

(1) **Timing.** Policies should provide help when the economy is weak, not after it is recovering strongly on its own.

(2) **Cost-effectiveness.** Policies should be selected that provide the most growth and employment per dollar of cost to the federal government.

(3) **Consistency with long-term fiscal objectives.** Policies should be designed to prevent the *short*-term increase in the deficit they necessarily engender from adding significantly to the *long*-term debt. This essentially means that policies should be temporary.

The proposal to extend and expand the TANF Emergency Fund meets all three of these CBO criteria for effective policy. It is timely: it would provide jobs now, while they are most needed. It is cost-effective: as noted, the cost per subsidized job is very low, with nearly all of this cost going

[3] Congressional Budget Office, *Policies for Increasing Economic Growth and Employment in 2010 and 2011,* January 2010, http://www.cbo.gov/ftpdocs/108xx/doc10803/01-14-Employment.pdf.

directly to pay wages, and the programs are targeted to parents and youth with low incomes, who spend virtually all of the money paid in wages immediately to purchase goods and services. Finally, the program has a modest cost and would be strictly temporary (as noted, it would terminate on September 30, 2011), so the proposal would have hardly any impact on the long-term fiscal problem.

Timing: Emergency Fund Is Providing Help When It Is Needed Most

Twenty-two states (including the District of Columbia) have received approval to use TANF Emergency Funds to create or expand subsidized employment programs.[4] At least another ten states are awaiting approval or are in the final stages of planning their programs. Twenty-two of these 32 states report that they plan to place about 120,000 low-income parents and youth who would otherwise be unemployed in subsidized jobs before the fund expires on September 30. (We have been unable to obtain comparable information for the remaining ten states.)

Prior to the creation of the TANF Emergency Fund, few states had TANF-funded subsidized employment programs in place. It has taken time for some of these states to plan and implement these programs, but now that those tasks are behind them, these states have the infrastructure in place to place substantial numbers of individuals in subsidized jobs.

Cost-Effectiveness: Most Subsidized Employment Dollars Are Used to Pay Wages

The subsidized jobs programs created through the TANF Emergency Fund are highly cost-effective. The cost to the federal government of placing an unemployed individual in a job paying $10 per hour ranges from several thousand dollars to about $20,000. The federal subsidies go primarily toward covering some or all of the worker's gross wages and, sometimes, wage-related costs or benefits such as the employer share of FICA, unemployment tax contributions, and workers' compensation.

A key reason why these programs are cost-effective is that states can take into account local labor market conditions in designing them. While some states may need to provide a substantial subsidy to entice employers to create subsidized jobs, others may be able to attract employers with a much lower subsidy. The following examples illustrate the choices states have made about which costs to cover and how long to cover them.

- Texas plans to provide employers with a flat subsidy of $2,000 for a four-month placement. (The subsidy amount will not vary with the wage.)
- Oklahoma reimburses employers for 100 percent of wages paid for the first month and 50 percent of wages paid for the next three months; employers who retain employees for six months *beyond* this four-month subsidy period receive an additional 50 percent reimbursement for the final three months of the subsidy period. This means that employers who retain employees for ten months receive a subsidy for 100 percent of the wage for four months. Oklahoma will reimburse employers for wages up to $12 per hour.
- Florida reimburses employers for 95 percent of wages and wage-related costs (FICA,

[4] Approved expenditures can be found at: http://www.acf.hhs.gov/programs/ofa/tanf/apprTANFemerfund.html.

unemployment taxes, and workers' compensation) until the end of the program.

- Erie County, New York (Buffalo) reimburses employers for 100 percent of gross wages for up to 12 months.

In addition, some states and counties are administering their jobs programs through existing program structures and thus are charging little or no administrative costs to the Emergency Fund.

Another positive feature of these programs is that some states and counties have designed their programs to increase the likelihood that these jobs will endure beyond the subsidy period. For example, Mississippi places individuals in jobs with the understanding that employers will retain them at the end of the six-month period. Oklahoma uses the financial incentive described above to encourage employers to retain employees for at least ten months. Erie County, New York places individuals only in permanent jobs.

To receive funding, subsidized jobs programs must include a "non-displacement requirement" to prevent employers from laying off existing workers and re-filling the jobs with new workers in order to obtain a subsidy.[5] Also, states may not use the federal funds to help cover existing administrative costs in their human services agencies.[6] In addition, some state programs require that all subsidized positions be new jobs or jobs that have remained unfilled for a specified period of time. Some programs also are using subsidies to avert layoffs or to allow employers to hire workers currently on layoff.

Consistency with Long-Term Fiscal Objectives: Strong Short-Term Stimulus Without Adding to the Long-Term Deficit

The TANF Emergency Fund represents a very modest short-term investment that has a significant stimulative effect. It provides jobs to low-income parents and youth with the least favorable employment prospects, and because they have very low incomes, they spend their wages quickly, boosting demand for goods and services. In addition, this initiative helps states to keep their TANF programs employment-focused even when recipients have little hope of finding private, unsubsidized employment quickly.

Finally, because the proposed extension of the program is temporary — lasting only through September 30, 2011 — it would not add noticeably to long-term deficits.

Conclusion

Unemployment is expected to remain high throughout 2010 and into 2011. The need for subsidized jobs will remain strong, especially for individuals with the most limited employment prospects. Extension of the TANF Emergency Fund would allow states to build on their current efforts and to maximize the investments they have already made.

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[5] Section 607(f) of SSA or 42 USC 406(f).

[6] U.S. Department of Health and Human Services, "Questions & Answers on the American Recovery and Reinvestment Act of 2009 (Recovery Act)," http://www.acf.hhs.gov/programs/ofa/recovery/tanf-faq.htm#_subsidized.

If Congress fails to extend the fund and provide more resources, few states will continue their subsidized employment programs beyond September 30. Large numbers of jobs will be lost at a time when the need for jobs remains great and hardship is still widespread.

Quick action is needed so that states can continue to operate their programs at full capacity. Some states are already beginning to put plans in place to begin ramping down their programs this spring, by ceasing to fill subsidized job slots as they become available. Other states are just getting their programs started and may create smaller programs than they would if they knew the funding would be available for a longer period. For both of these reasons, states will place many fewer individuals in jobs this spring and summer than they would if they knew the program would continue. Acting now to extend and expand this modest, efficient, and effective program should be an easy choice for policymakers.