

Subsidized Employment: A Strategy for Bad Economic Times and for the Hard-to-Employ

MDRC is dedicated to learning what works to improve the well-being of low-income people. Through our research, we seek to enhance the effectiveness of social and education policies and programs. As part of our “Looking Forward” series, we provide policymakers with memos that suggest ways to make progress on critical issues.

Bottom Line: Subsidized employment programs provide jobs to people who cannot find employment in the regular labor market and use public funds to pay all or some of their wages. Some programs are designed primarily to provide short-term income support in poor economic times, while others also seek to improve long-term employment outcomes among “hard-to-employ” groups. Evaluations of subsidized employment programs suggest that they are effective at providing jobs in the short term but are less successful at helping participants transition to unsubsidized employment. However, these programs can also have valuable ancillary benefits, including the value of the work produced, reduced welfare receipt, and decreased recidivism among ex-offenders. To address lingering high unemployment rates for the long-term unemployed in the aftermath of the Great Recession, subsidized employment programs may be part of the answer, much as they were in past periods of deep unemployment.

What Do We Know?

Unemployment remains high for many disadvantaged and displaced groups. Nationally, the unemployment rate hovers around 8 percent long after the official end of the Great Recession. The rate is 15 percent — almost two times higher — if one counts involuntary part-time workers and “discouraged workers” who are not looking for jobs. Jobless rates are even higher for teenagers, individuals with criminal records, workers without any postsecondary education, and other groups that have difficulty finding jobs even when economic conditions are good. For a long time, policymakers have been searching for strategies that can provide people with immediate income (as they face the loss of unemployment insurance benefits), help to reduce the “scarring” that may hurt the employment prospects of the long-term unemployed, and aid the “hard-to-employ” in gaining work experience.

A subsidized employment program is one way to provide income support to people who cannot find jobs in the regular labor market, particularly during periods of high unemployment. The largest subsidized employment initiatives have been counter-cyclical programs, operated during periods of high unemployment. These programs have been designed primarily to provide work-based income support and have often targeted a broad range of unemployed people. Most recently, many states developed subsidized employment programs under the Temporary Assistance for Needy Families (TANF) Emergency Fund, which was part of the American Recovery and Reinvestment Act (ARRA). These programs scaled up very quickly and employed about a quarter million people in 2009-10. Unlike in the past, the largest state programs placed most participants in subsidized jobs in the private sector, rather than creating public service positions.

Subsidized employment programs can also be used to train people with few hard skills, little previous work experience, or other barriers to employment for jobs. A subset of smaller-scale subsidized employment programs have targeted groups of people that tend to have low rates of employment even when the labor market is healthy. These people typically lack education and work experience. The goal of these programs is to improve long-term employment outcomes by providing some soft skills and hands-on training with paid work experience. In some cases, improved employment outcomes are expected to lead to other effects, such as decreases in recidivism among ex-prisoners.

Transitional jobs (TJ) programs are the most common example of this approach and have been found to increase employment in the short term. But more must be done to improve longer-term employment outcomes for those with serious barriers to employment. Studies show that several TJ programs for former prisoners and welfare recipients generate very large increases in employment initially — due to the subsidized jobs themselves — suggesting that the programs have succeeded in employing many people who would not otherwise have worked. However, the TJ programs tested thus far have generally not improved long-term employment outcomes. Two possible explanations are that TJ programs fail to make participants more attractive to employers because transitional work is not perceived as valuable or hard skill-building — or that the programs have lacked strong job development components, which would more directly connect individuals to employers.

Some of the TJ programs have produced other positive effects. The Transitional Work Corporation (TWC), a TJ program that targeted welfare recipients, reduced welfare receipt and welfare payments. Another program that targets former prisoners, the Center for Employment Opportunities (CEO), generated decreases in recidivism through three years, a rare achievement resulting in as much as \$8,300 in savings to taxpayers for each program participant. However, four other TJ programs that targeted recently released prisoners did not consistently reduce recidivism — even during the early period when there was a large impact on employment.

Older subsidized employment models that provided wage subsidies to private employers have been successful at improving employment and earnings outcomes for welfare recipients and other groups, but these programs were small and selective. It will be important to see whether the next generation of subsidized employment models that provide on-the-job training or place participants directly into subsidized jobs with private firms can produce better outcomes.

What's Next?

These findings suggest that providing transitional jobs can provide short-term income support to individuals with serious barriers to employment or to broader groups during poor economic times, but it does not guarantee improvements in long-term employment or other outcomes. Thus, it is important to test enhanced models of subsidized jobs that include partnerships with private employers, the use of incentives for participants and employers, additional training in hard skills to better prepare people for unsubsidized jobs, and other supports designed to address the specific needs of the population being served.

Two major, multisite projects run by MDRC — the Department of Labor's Enhanced Transitional Jobs Demonstration and the Department of Health and Human Services' Subsidized and Transitional Employment Demonstration — are currently testing the next generation of subsidized employment models, which are distinctly different from older TJ programs. These programs aim to increase the long-term employment of a variety of hard-to-employ populations, including welfare recipients, former prisoners, and low-income noncustodial parents. They also have additional goals specific to the target population, such as reducing welfare receipt, reducing recidivism, and increasing child support payments.

Larger-scale counter-cyclical initiatives may be needed as well, particularly for certain groups that have been most dramatically affected by the Great Recession and the slow recovery — for example, non-college-bound youth, whose employment rates have seen a marked decline in the last decade. Without early work experience — an important form of human capital formation — their future lifetime earnings could be severely affected.

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