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**Testimony of Dan Bloom, Director, Health and Barriers to Employment, MDRC,
Before the U.S. House Committee on Ways and Means, Human Resources Subcommittee**

**Hearing on Subsidized Job Programs and Their
Effectiveness in Helping Families Go to Work and Escape Poverty**

July 30, 2014

Good afternoon Chairman Reichert, Ranking Member Doggett, and members of the Subcommittee on Human Resources. Thank you for inviting me to provide testimony about the research evidence on subsidized employment programs.

I am with MDRC, a nonprofit, nonpartisan research organization based in New York City. MDRC was founded 40 years ago to build reliable evidence on the effectiveness of programs for the disadvantaged and to help policymakers and practitioners use that evidence to improve policies and programs. MDRC is known for conducting large-scale evaluations and demonstration projects to test the impacts and cost-effectiveness of social and educational programs. Many of our studies use a random assignment research design, the most rigorous method for assessing such programs. I direct MDRC's work on programs for groups seeking to gain a foothold in the labor market, including recipients of public assistance, people returning to their communities from prison, disconnected youth, individuals with disabilities, and others.

Subsidized employment is broad term that covers a wide range of programs and models, with varying goals, target groups, and organizational structures. Thus, before describing research results, I will provide some background information on subsidized employment and briefly describe the kinds of programs that fall under this heading. I will then discuss key research findings, focusing first on the subsidized employment programs that states operated with funding from the Temporary Assistance for Needy Families Emergency Fund (TANF EF) in 2009 and 2010, and then on the results from rigorous evaluations of three specific types of subsidized employment models. Finally, I will discuss two important ongoing studies sponsored by the U.S. Departments of Labor (DOL) and Health and Human Services (HHS) that are testing the next generation of subsidized employment programs.

The Goals of Subsidized Employment

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. A variety of different subsidized employment models have been implemented or tested in the United States over the past 80 years, starting with the New Deal's Works Progress Administration (WPA), which employed more than 8 million people who were out of work owing to the Great Depression.

Some subsidized employment programs, such as the WPA, are designed primarily to provide work-based income support — that is, to put money into the pockets of unemployed workers in the form

of wages during periods of high unemployment. These are sometimes known as counter-cyclical programs. Since the New Deal programs ended in the early 1940s, there have been only two large programs of this type. The Public Service Employment program, operated under the Comprehensive Employment and Training Act (CETA), employed about 700,000 people at its peak in the late 1970s. Most recently, programs operated by states using funds from the TANF EF — part of the American Recovery and Reinvestment Act (ARRA) — employed more than 250,000 people in 2009 and 2010.¹ These relatively large programs usually target a fairly broad group of unemployed workers, not just welfare recipients or other specific disadvantaged groups.

While almost all subsidized employment programs aim to provide work-based income support, a subset of these programs also has another goal. These models, which usually operate on a much smaller scale, try to improve the employability of people who have limited work histories, often owing to personal or situational barriers, such as health problems or low levels of education or skills — in other words, people who tend to have difficulty finding and holding jobs even when the labor market is strong. By providing work experience in a supportive setting, these programs aim to teach participants how to succeed in a workplace and, thus, to increase the odds that they can get and hold regular, unsubsidized jobs. Specific target groups have included long-term welfare recipients, individuals returning to their communities from prison, disconnected youth, and individuals with disabilities. These programs have gone by many names over the years; today they are often called transitional jobs (TJ) programs.

When assessing the success of a particular subsidized employment program, it is critical to consider the program's goal. A large, broadly targeted counter-cyclical program might be judged on its ability to scale up quickly and provide meaningful work opportunities to large numbers of people who would not otherwise be working. In contrast, a transitional jobs program that is designed to improve participants' success in the labor market could be assessed, at least in part, based on the longer-term employment patterns of its participants, as well as other related measures like reduced recidivism for ex-prisoners or reduced reliance on public benefits for welfare recipients.

Subsidized Employment Models

There are many different kinds of subsidized employment programs. The models vary along several dimensions. For example:

- **Location of subsidized job.** Subsidized workers may be placed with private, for-profit businesses, with not-for-profit organizations, or with public agencies. Some programs are operated by social enterprises — entities that sell a product or service but have an explicit goal of employing disadvantaged workers.
- **Level of subsidy.** In some models, 100 percent of the worker's wage is subsidized with public funds. In other cases, the wage is partially subsidized, and the employer pays the rest. Some models use a graduated model in which the subsidy starts at 100 percent and then tapers off over a period of several months.

¹The Emergency Fund provided up to \$5 billion in the 2009 and 2010 federal fiscal years to states that had experienced an increase in their TANF caseload or in certain kinds of TANF-related expenditures. Specifically, the federal government offered to reimburse 80 percent of the cost of increased spending on basic assistance, nonrecurrent short-term benefits, and subsidized employment. The increased spending could come from increased use of existing TANF funds, increased state spending, or a combination of the two. TANF rules define subsidized employment as “payments to employers or third parties to help cover the cost of employee wages, benefits, supervision, or training.”

- **Employer of record.** In some models, the subsidized worker is employed by a nonprofit employment program, sometimes called an intermediary. The participant may work directly in the intermediary’s office or facility, or he or she may work for another employer (public or private) but remain on the payroll of the intermediary. In other models, the subsidized employee works directly for a private employer who is reimbursed for all or part of the worker’s wages.
- **Possibility of rollover.** In some models, the goal is for the worker to “roll over” from a subsidized to an unsubsidized job with the same employer. In others, there is very little chance that the worker can become a permanent, unsubsidized employee of the entity where he or she works in a subsidized job — usually because the host worksite does not have funding to hire additional staff. In those cases, the worker typically gets help finding an unsubsidized job when the subsidized job ends.
- **Worksite supervision.** In some models, the subsidized worker is supervised by a staff person from the employment program or intermediary. In other cases, she or he is supervised by someone from the host worksite.
- **Level of support.** Some programs provide a rich array of “wraparound” social services. Others simply provide subsidies.

The model typically reflects a program’s goals. On one end of the spectrum are fairly simple programs that serve a broad range of unemployed workers and provide subsidies to employers who hire them. Some of the state TANF EF programs looked like this. On the other end are programs that target a specific group of disadvantaged workers, provide subsidized jobs in a special, supportive setting, and offer an array of social services.

What Was Learned from the TANF Emergency Fund?

Several studies looked at the operation of state and local subsidized employment programs funded under the TANF EF.² Key findings from these studies include the following:

- **While states and localities often had less than one year to create or expand their subsidized employment programs, many were able to mount relatively large-scale initiatives.**

The availability of funding for subsidized employment provided by the TANF EF spurred an extraordinary effort by states and localities to create or expand programs. Some states were able to build on existing programs that served TANF recipients, while others had to design and implement new programs. Many of the programs received strong support from elected officials from both parties.

²Mary Farrell, Sam Elkin, Joseph Broadus, and Dan Bloom, *Subsidizing Employment Opportunities for Low-Income Families: A Review of State Employment Programs Created Through the TANF Emergency Fund* (Washington, DC: U.S. Department of Health and Human Services, 2011); LaDonna Pavetti, Liz Schott, and Elizabeth Lower-Basch, *Creating Subsidized Employment for Low-Income Parents: The Legacy of the TANF Emergency Fund* (Washington, DC: Center for Law and Social Policy and Center on Budget and Policy Priorities, 2011).

Ultimately, about 280,000 individuals were placed in jobs through programs that were supported by the TANF EF in about 40 states. About half of this total was accounted for by youth who received summer jobs. While over half of all participants lived in four states — California, Illinois, Pennsylvania, and Texas, which each made more than 25,000 placements — many other states also placed thousands of individuals in jobs. Some 14 states and the District of Columbia placed over 5,000 individuals in jobs, and another 10 states and Puerto Rico made between 1,000 and 5,000 placements. While these numbers are impressive, particularly given how quickly states had to scale up to access the federal funding, this initiative was smaller than the federally funded programs described earlier.

- **Unlike many earlier subsidized and transitional employment programs, those created with funding from the TANF EF emphasized private sector positions.**

Earlier subsidized employment programs made most placements in nonprofit social service agencies or government offices. The programs that states operated using the Emergency Fund targeted a wider mixture of positions with public, private for-profit, and private nonprofit employers. State administrators cited a range of reasons for targeting the private sector, including a desire to help local businesses and a slower process of developing public sector placements because of union rules. In addition, because the participants in TANF EF programs tended to have fewer barriers to finding employment than those served by more narrowly targeted programs, placement in private sector jobs was thought to be more feasible.

- **Eligibility was limited to low-income parents or youth, but states defined “low income” in different ways; most states did not limit eligibility to TANF recipients.**

In about a third of the states, only TANF recipients could participate in the subsidized employment program. In the remaining states, TANF receipt was not a condition of eligibility. Many of the states that targeted a broader population limited eligibility to families with income below 200 percent of the federal poverty level. Some states targeted particular populations, such as unemployment insurance (UI) claimants, ex-prisoners, youth, and noncustodial parents.

- **Generally, states reimbursed employers for all or part of participants’ wages, but there was substantial variation in the amount to be reimbursed, the length of the subsidy, the number of subsidized hours of work, and the nonwage costs that were reimbursed.**

In over one-third of the states with adult programs, employers were reimbursed for 100 percent of the wages they paid, although, in some cases, there was a limit on the total amount that could be reimbursed. The more common strategy was to pay employers for the number of hours a participant worked multiplied by a set wage, usually the state minimum wage or slightly higher, or to reimburse less than 100 percent of the wage. Employers could pay wages above this amount but would receive reimbursement only for the set wage. Less common strategies included a flat payment regardless of the wages paid and paying 100 percent initially and reducing the percentage over time. Most states limited reimbursement to a set number of months, somewhere between three and 12 months. States set different limits on the number of hours reimbursed (generally 30 to 40 hours per week) and decided which nonwage costs they would reimburse (for example, UI, workers’ compensation, FICA, and medical assistance).

- **Administrators reported that the programs’ benefits went beyond income gains to families to include local businesses and governmental agencies.**

While the overarching goal of the TANF EF subsidized employment programs was to provide income support to low-income families, state and local administrators who were interviewed by researchers mentioned other benefits of the programs. For example, some said that their program helped some struggling small businesses to continue operations, while other businesses were able to expand their labor pool.

- **After funding ended, many of the programs also ended, and others sharply reduced the number of families served.**

Once the Emergency Fund ended, only a few states continued to operate at the same levels as previously, and these were states that, for the most part, were operating programs using TANF funds before the Emergency Fund was enacted. More recently, as state and local budgets situations have improved, there appears to be some resurgence of interest in subsidized employment. For example, in 2013, programs were established or expanded in California, Colorado, Nebraska, and Wisconsin.

What Does the Research Say About the Long-Term Impacts of Subsidized Employment?

Over the past 30 to 40 years, three broad categories of subsidized jobs programs have been rigorously evaluated: private sector wage subsidy models, transitional jobs models, and unpaid work experience models. The strongest of these evaluations used random assignment designs. In these studies, a lottery-like process was used to decide which individuals applying for the program were given access to a subsidized job. The applicants who were selected formed a program group. Those who were not selected formed a control group. Researchers then tracked both groups over time to measure their employment rates, earnings, and other important outcomes. Because people were assigned to one group or the other using a random process, and because the studies included large numbers of individuals, one can be confident that the groups were comparable at the start of the study. Any significant differences that emerged over time are due to the fact that one group had access to subsidized jobs and the other did not.

Private sector wage subsidies. The first type of program subsidizes jobs with private employers. In one common model, called on-the-job training (OJT), employers hire participants onto their payrolls and are offered a subsidy worth about half of the employees' wages over a period of six months. Several OJT programs for welfare recipients and other disadvantaged groups were evaluated using random assignment in the 1980s, and the studies found that participants earned significantly more than control group members even after the subsidies ended. The positive results were mostly for women, and the programs tended to be fairly small and selective; they did not serve the least "job-ready" candidates.³

A recent study by Economic Mobility Corporation examined a much larger employer subsidy model that operated under the TANF EF, Florida's Back to Work program, as part of a broader study of several Emergency Fund programs. The Florida program targeted unemployed parents with income below 200 percent of the federal poverty level and placed more than 5,000 people in jobs. Each subsidized worker was placed on the host employer's payroll, and the employer received a subsidy amounting to 80 to 95 percent of the employee's wages. For-profit employers were asked to make a commitment to retain the employee after the subsidy ended. The study did not use a random

³Dan Bloom, *Transitional Jobs: Background, Program Models, and Evaluation Evidence* (Washington, DC: U.S. Department of Health and Human Services, 2010).

assignment design, but the researchers were able to identify a comparison group consisting of demographically similar individuals who sought help and were deemed eligible for the program but were not placed in subsidized jobs. The study found that, in the year after the end of the program, Back to Work participants earned about \$2,000 more, on average, than individuals in the comparison group.⁴

One key question for any program that subsidizes private employers is whether employers are receiving a “windfall” for hiring the same kinds of people they would have hired anyway. This is a very difficult question to answer with any certainty. Studies can test whether providing subsidies for a particular group of job seekers improves the odds that they will find work, but it is almost impossible to know for certain whether this ends up displacing other, similar workers.

A survey conducted as part of the Economic Mobility study found that 63 percent of employers reported that they generated jobs that would not have existed otherwise, though it is hard to verify the accuracy of these reports. In general, employers’ responses to subsidies may be sensitive to economic conditions. For example, in the midst of a deep recession, employers may be reluctant to hire new workers without subsidies.

Transitional jobs. TJ programs give participants fully subsidized temporary jobs, typically with nonprofit organizations (in some cases, participants work directly for the program sponsor). The jobs usually are designed to teach participants how to function in a work environment (rather than teaching specific occupational skills), and there is usually no expectation that the subsidized job will transition into a permanent position. Participants receive a variety of supports while they are working in the TJ, and then get help finding an unsubsidized job.

MDRC conducted random assignment studies of six different TJ programs, five targeting (mostly male) former prisoners and one targeting (mostly female) long-term TANF recipients. The general pattern of results was the same in all six studies. As we followed the two groups over time, we found that, initially, the program group was much more likely to be employed than the control group. These early differences in employment rates between the groups were very large — sometimes 40 or 50 percentage points — indicating that the programs succeeded in identifying and employing people who would have otherwise been very unlikely to work.

However, the early differences in employment rates between the groups were driven almost entirely by the subsidized transitional jobs themselves. Once those jobs ended, the employment rates for the two groups converged, and, overall, individuals in the program group were no more likely to work in unsubsidized jobs than those in the control group in most programs.⁵

Although the long-term impacts of these programs on employment outcomes are somewhat discouraging, the studies found several positive results:

- One program targeting former prisoners, the New York City-based Center for Employment Opportunities, produced significant decreases in recidivism. The public savings that resulted

⁴Anne Roder and Mark Elliott, *Stimulating Opportunity: An Evaluation of ARRA-Funded Subsidized Employment Programs* (New York: Economic Mobility Corporation, 2013).

⁵Bloom, 2010; Cindy Redcross et al., *Work After Prison: One-Year Findings from the Transitional Jobs Reentry Demonstration* (New York: MDRC, 2010); Erin Jacobs Valentine, *Returning to Work After Prison: Final Results from the Transitional Jobs Reentry Demonstration* (New York: MDRC, 2012).

from preventing some participants from returning to prison or jail were large enough to more than offset the cost of running the program.⁶

- The Philadelphia-based Transitional Work Corporation, which targeted TANF recipients, had some positive impacts on unsubsidized employment and substantially reduced welfare receipt early in the study's follow-up period, though these impacts did not persist.
- Several of the studies suggested that the programs were more effective for less job-ready participants, individuals who were the least likely to find jobs on their own.

One other study bears mentioning, though it did not directly study a TJ program. The New Hope Project, a demonstration program that operated in the 1990s, offered earnings supplements, child care, and health benefits to full-time workers in two high-poverty neighborhoods in Milwaukee, Wisconsin. The program also offered subsidized community service jobs to those who could not find employment in the regular labor market after several weeks of job searching. New Hope was evaluated using a random assignment design, and about one-third of the program group members worked in a community service job at some point. New Hope had positive effects on employment, income, and child well-being, and the availability of community service positions was important in generating those effects.⁷

Unpaid work experience. The third type of program that has been tested is unpaid work experience, sometimes called community work experience or workfare. In these models, welfare recipients are required to work as a condition of receiving benefits. The recipients do not receive wages, but their required work hours are often calculated by dividing their welfare grant by the state minimum hourly wage. For example, if a recipient receives \$560 per month in benefits and the state minimum wage is \$8 per hour, she would be required to work 70 hours per month, or about 15-20 hours per week. Recipients who do not show up to work without a valid excuse could see their welfare benefits reduced or canceled depending on the state's rules and practices.

In principle, workfare programs could place participants in worksites that are similar to those used in TJ programs. However, one key difference between the models is that workers in TJ programs are typically paid wages that count in calculating the Earned Income Tax Credit, while those in work experience programs do not receive wages. Some have also argued that wage-paying positions are more similar to "real" jobs and thus provide better preparation for unsubsidized work than work experience positions, though this has not been tested directly.

Although much discussed, workfare has only been implemented on a large scale in a few places. The few studies that were designed to isolate the impact of unpaid work experience (which were conducted in the 1980s) found little evidence that it led to increases in employment or earnings, though some advocates argued that the main purpose of workfare was to enforce a reciprocal obligation — that is, to transform welfare into a work-based income support program — not to prepare recipients for unsubsidized employment.⁸ One more recent study tested a New York City program that targeted public assistance recipients with work-limiting disabilities. The program

⁶Cindy Redcross et al., *More Than a Job: Final Results from the Evaluation of the Center for Employment Opportunities Transitional Jobs Program* (Washington, DC: U.S. Department of Health and Human Services, 2012).

⁷Greg Duncan et al., *New Hope's Eight-Year Impacts on Employment and Family Income* (New York: MDRC, 2008).

⁸Thomas Brock, David Butler, and David Long, *Unpaid Work Experience for Welfare Recipients: Findings and Lessons from MDRC Research* (New York: MDRC, 1993).

included unpaid work experience among other components, and the evaluation found that, overall, it generated increases in participants' employment and earnings. However, there is no way to isolate the impact of the work experience component.⁹

What's Next?

DOL and HHS are both conducting multisite evaluations of the next generation of subsidized employment programs. The DOL project is called the Enhanced Transitional Jobs Demonstration (ETJD), and the HHS project is called the Subsidized and Transitional Employment Demonstration (STED). MDRC is fortunate to be leading both projects. Although the projects were developed separately, DOL and HHS are collaborating closely in carrying them out and established a formal Memorandum of Understanding. For example, two sites are shared across the two projects, and MDRC is using the same surveys and other research instruments in both projects.

DOL's ETJD project provided grants to seven programs, selected through a competition, to serve either low-income noncustodial parents (usually fathers) or individuals returning to the community from prison. Each program was required to enroll 1,000 people into the study, with 500 randomly selected to receive services and the other 500 forming a control group. All seven sites met the goal before enrollment ended in December 2013.

HHS's STED project is not associated with a grant program; rather, the study is testing programs that are mostly funded by states or localities. Like ETJD, it uses a random assignment research design. There are seven programs in the study, two targeting TANF recipients, two targeting disadvantaged youth, one targeting a broad group of low-income people, and two targeting noncustodial parents (those are the two programs that are shared with the ETJD project). At this point, four of the seven sites have finished enrolling participants, with sample sizes ranging from 1,000 to 2,700 per site.

Both projects were explicitly designed with the earlier TJ studies in mind. They are aiming to test a new generation of subsidized employment programs that may achieve stronger results than those that were tested in the past. Here are three examples:

- The **Los Angeles** STED site is targeting TANF recipients who completed an initial job search activity but were unable to find employment. It is testing two different kinds of subsidized employment side by side: paid work experience (PWE) and on-the-job training (OJT). PWE provides fully subsidized jobs with public or nonprofit employers. OJT is a hybrid model: participants are placed with private employers but remain on the program payroll for the first two months of employment. They then move to the employer's payroll, and the employer receives a partial subsidy for four additional months. Employers are expected to retain participants after the subsidy ends.
- The **Minnesota** STED site, targeting TANF recipients, is also using two models. Structured paid work experience provides fully subsidized jobs in nonprofit or public agencies for up to eight weeks. Subsidized employment focuses on private sector employers and provides a full subsidy for eight weeks and a partial subsidy for eight additional weeks. Program operators

⁹David Butler et al., *What Strategies Work for the Hard to Employ?* (Washington, DC: U.S. Department of Health and Human Services, 2012).

can choose to place participants in work experience positions initially, but the expectation is that those individuals will move to either a subsidized or an unsubsidized job.

- The **Atlanta** site, which is in both projects, is testing a staged model for unemployed noncustodial parents who are identified by the state child support agency. The program is operated by a local Goodwill Industries affiliate, and participants start out working for Goodwill, usually in a retail store. Those who perform well graduate to a fully subsidized temporary job with a local private employer. In the third stage, staff help recipients find permanent, unsubsidized jobs.

All of these models are aiming to address the limitations of earlier TJ programs, in part by using subsidies to help participants get a foot in the door with private employers. A key question is whether these private sector-focused models can be effective for less job-ready participants. Results from the STED and ETJD projects will start to become available late next year. At this point, preliminary analysis suggests that at least one of the ETJD sites targeting former prisoners is significantly reducing recidivism. Employment and earnings results are not yet available.

Conclusion

Subsidized employment is a valuable tool for providing work-based income support during periods of high unemployment. The recent experience with the TANF EF shows that states can quickly scale up programs and employ large numbers of unemployed workers. To date, the results from programs that attempt to use subsidized employment to improve long-term employment outcomes for very hard-to-employ groups are mixed. On the one hand, these programs dramatically increase employment rates initially, and at least one program for former prisoners paid for itself through reductions in recidivism. On the other hand, most of the programs that have been tested have not produced sustained increases in unsubsidized employment. The most effective programs tended to provide subsidies to private employers, though it is not yet clear whether this model can be effective with less job-ready participants.

There is great hope for the next generation of subsidized employment models, developed specifically to address the limitations of earlier programs. Both HHS and DOL are testing such models and results will start to emerge late next year.