

# Effects of the Subsidized and Transitional Employment Demonstration on Earnings After Eight Years

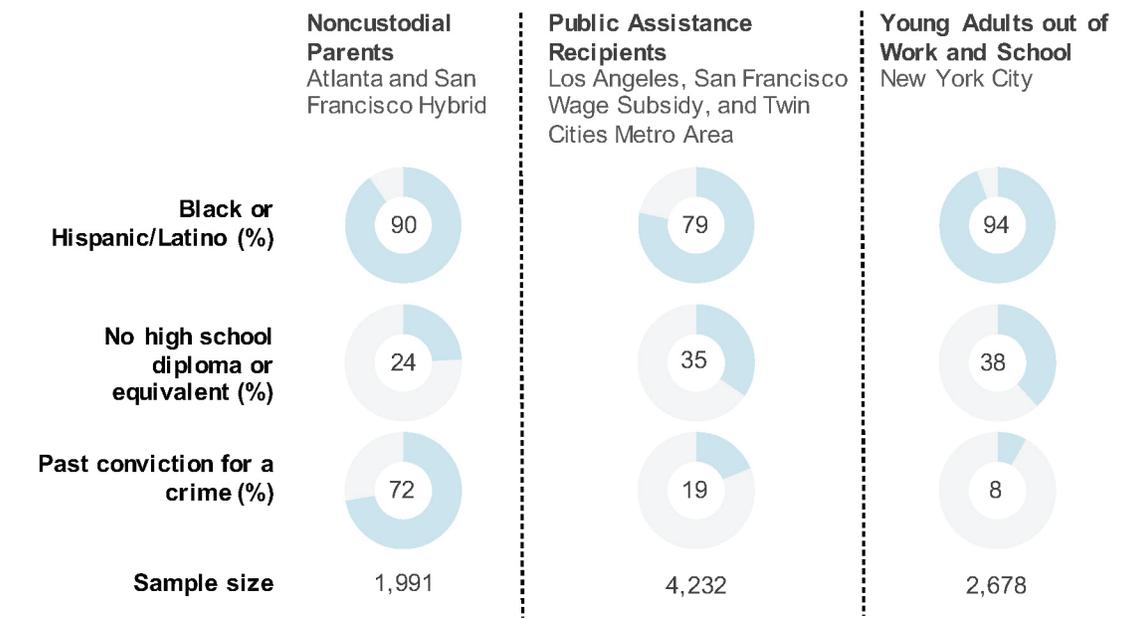
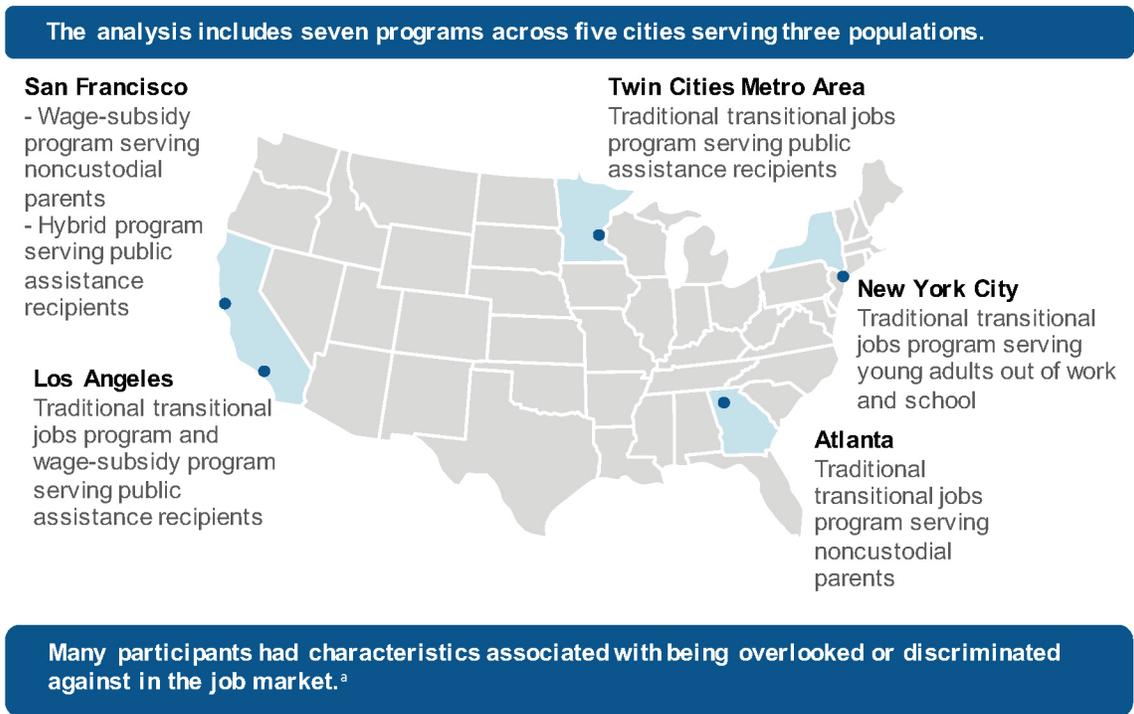
By Danielle Cummings

Many people struggle to compete in the job market even when unemployment is low. These individuals often have relatively low levels of formal education, training, or work experience, as well as other obstacles to employment such as criminal records. For decades, organizations have created programs that aim to lower obstacles to employment for them by offering job seekers temporary work experience, education, training, support services, or some combination of these opportunities.

Subsidized and transitional employment programs are two such programs; they aim to offer participants temporary jobs in which wages are at least partially paid by public or philanthropic funds, often coupled with additional services to support the transition to unsubsidized work. Dozens of rigorous studies have tested the effects of subsidized and transitional employment models, finding strong evidence that these programs usually dramatically improve employment outcomes during the subsidy period, with some programs sustaining positive effects on employment and earnings long after the subsidized job ends.<sup>1</sup> These findings mean that, at a minimum, subsidized and transitional employment programs can help people start working faster than they otherwise would, and that these programs have the potential to improve participants' long-term employment and earnings.

In 2010, the U.S. Department of Health and Human Services launched the Subsidized and Transitional Employment Demonstration (STED), a large-scale research project designed to build rigorous evidence on the effectiveness of the latest generation of subsidized employment models. Led by MDRC, STED included random assignment studies of eight subsidized employment programs in seven locations, as shown in Figure 1.<sup>2</sup> In these studies, individuals were randomly assigned to either a program group who had access to the subsidized jobs program or to a control group who did not, but who may have sought out other services. Because of this random assignment, systematic differences in outcomes between the two groups can be attributed to the program. Nearly all the programs studied improved employment rates and earnings in the short term, and three of the programs saw employment effects that lasted through the end of the available data, which was up to five years after participants first enrolled in these programs.

**Figure 1. Overview of STED Sites and Participants Included in This Analysis**



SOURCES: MDRC calculations based on data from MDRC’s random assignment system, the programs’ management information systems, the U.S. Department of Labor ETJD management information system, and criminal justice administrative records.

NOTE: <sup>a</sup>Desta Fekedulegn, Toni Alterman, Luenda E. Charles, Kiarri N. Kershaw, Monika M. Safford, Virginia J. Howard, and Leslie A. MacDonald, “Prevalence of Workplace Discrimination and Mistreatment in a National Sample of Older U.S. Workers: The REGARDS Cohort Study,” *Social Science and Medicine - Population Health* 8 (2019): 100444.

This brief uses data from the National Directory of New Hires (NDNH) to extend this analysis through July 2022 for seven of those programs, examining how study participants' formal earnings and employment are faring up to eight years after study enrollment.<sup>3</sup> This is one of the longest follow-up periods studied in rigorous evaluations of subsidized and transitional jobs programs to date.

This extended analysis period includes the time that the COVID-19 pandemic dramatically changed the employment landscape, particularly for workers earning low wages and people of color—populations that comprise most of the STED study population.<sup>4</sup> A complementary brief examines study participants' employment, earnings, and unemployment insurance receipt during the two years before and two years after the onset of the COVID pandemic.<sup>5</sup>

## What Are Subsidized and Transitional Employment Programs?

Subsidized employment programs use public or philanthropic funds to create temporary jobs for people experiencing unemployment. Policymakers have used this type of program to stimulate employment during recessions for nearly 90 years, beginning with the Works Progress Administration, a massive New Deal project that created over eight million public works jobs during the Great Depression.<sup>6</sup>

Transitional employment programs are a subset of subsidized employment programs that go a step further, offering additional services to help participants attain unsubsidized employment after the programs end. These programs aim to serve people who face obstacles in their job searches—from formerly incarcerated people who face discrimination in the job market to young adults who did not complete high school and struggle to compete with applicants who hold high school credentials. The programs hope to help participants overcome obstacles to employment by offering opportunities to build more skills, participate in more training and education, or simply get an initial opportunity with an employer, all while gaining work experience through subsidized jobs.

The programs studied all lasted under a year and fell into three broad categories:

- 1. Traditional transitional jobs programs** provided temporary, fully subsidized jobs to participants and offered job-search assistance to facilitate participants' transition to unsubsidized employment.
- 2. Wage-subsidy programs** placed participants in jobs with subsidies that tapered off, with the expectation that their employers would hire participants in unsubsidized positions after the subsidy period.
- 3. Hybrid programs** combined elements of both models above according to participants' assessed job readiness or performance in the program's initial, subsidized job placements.

## Who Participated in the STED Studies?

The programs included in this analysis spanned five cities and four states, as shown in Figure 1. The programs served young adults who were neither working nor attending school, adults who were unemployed and had recently received public assistance, or noncustodial parents who were out of work and owed child support to their children’s primary custodians.<sup>7</sup> Many people in the programs had relatively low levels of formal education and training compared with the general population, which may have made their job applications less competitive.<sup>8</sup> Further, many study participants had criminal records or were Black or Hispanic/Latino, groups who are frequently discriminated against in the hiring process and who often face other structural barriers, such as reduced access to transportation, that make it challenging to get and keep jobs.<sup>9</sup> Any of these characteristics may lead employers to skip over job applications before applicants have had an opportunity to show their strengths, and a combination of these characteristics can leave applicants profoundly disadvantaged in the job-search process.

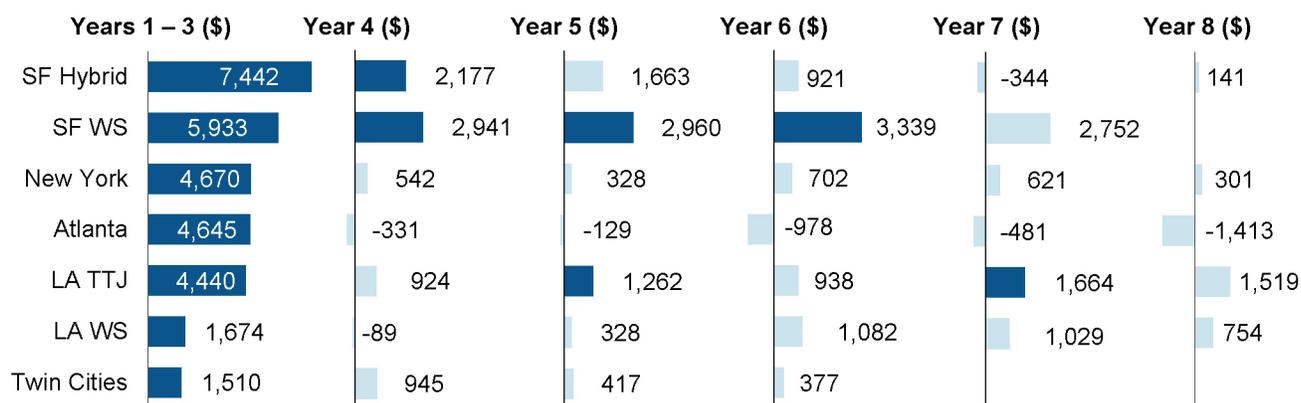
## Do Subsidized Employment Programs Improve Earnings over an Extended Follow-Up Period?

Figure 2 shows annual effects on earnings—the differences between program group earnings and control group earnings—for each year of NDNH earnings data available for each program.<sup>10</sup> Although all programs improved formal earnings over the first three years of the evaluation, most programs’ effects on earnings tapered off over the course of the follow-up period. Still, though the effects are not often statistically significant (that is, large enough that it is statistically unlikely they could have occurred by chance), there is a clear pattern of positive effects on earnings through at least Year 6 for six of the seven programs studied.

The San Francisco hybrid program’s effects on earnings were steady through Year 4 before starting to decline, while the San Francisco wage-subsidy program showed consistent effects through Year 7, and those effects are generally statistically significant. The Los Angeles traditional transitional jobs program also maintained relatively consistent effects through Year 8, and those effects are sporadically statistically significant. The longer-term effects of these three programs are notable given the short duration of these programs, with each lasting a maximum of six months.

Table 1 shows cumulative formal earnings for each study’s program and control groups, as well as effects on earnings, across all available years of follow-up data. The table shows that the New York program, Los Angeles traditional transitional jobs program, and San Francisco wage-subsidy program saw statistically significant increases in cumulative earnings. Because the programs vary in location, population, and years of follow-up data, it might be more appropriate to compare the percentage gain in earnings across programs rather than the dollar gain in earnings. For that reason, percentage earnings gains are also shown in Table 1.

**Figure 2. Annual Effects on Formal Earnings Since Random Assignment**



SOURCES: MDRC calculations based on program records and employment and earnings data from the National Directory of New Hires. Random assignment began in 2012

NOTES: ■ = statistically significant ( $p < 0.10$ ). □ = not statistically significant ( $p \geq 0.10$ ). This figure displays all of the follow-up data available for each program. Some programs have more years of effects shown because of differences in study enrollment end dates and project contract periods.

There were two programs in San Francisco and two programs in Los Angeles. The programs are differentiated in this figure based on their type: hybrid, wage subsidy (WS), or traditional transitional jobs (TTJ).

The San Francisco wage-subsidy program stands out among the others as having particularly consistent, large effects on earnings over time. The program saw a 17 percent increase in cumulative earnings compared with the control group, and annual earnings increases were steady for seven years after study enrollment. Effects on earnings were not always accompanied by effects on employment, which suggests that longer-term effects on earnings may be due in part to program group members earning higher hourly wages than control group members, working more hours per week, or working more consistently.

It is impossible to know which elements of the San Francisco wage-subsidy program contributed to its success. The program placed fewer people into subsidized jobs than other programs: Only 25 percent of participants ever worked in a subsidized job, compared with between 34 percent and 97 percent of participants across all other programs. Generally, programs' effects on earnings reflect placement rates: Those programs that placed higher percentages of participants in subsidized jobs had larger effects on earnings. The San Francisco wage-subsidy program is the exception. However, implementation research suggests it may have placed participants in higher-quality jobs than other programs, landing participants in better-paying jobs with more potential for stability and growth. In interviews conducted as part of the evaluation's implementation study, some participants noted that the program helped them get jobs that otherwise they might not have been able to get.<sup>11</sup>

**TABLE 1. Cumulative Effects on Formal Earnings Since Random Assignment**

Outcome (\$)	Program Group	Control Group	Difference (Effect)	90 Percent Confidence Interval	Earnings Gain Relative to the Control Group (%)
<b>Cumulative earnings over eight years</b>					
San Francisco hybrid	106,538	94,536	12,001	[-254, 24,256]	13
New York	96,286	89,122	7,164 **	[1,924, 12,404]	8
Atlanta	126,511	125,199	1,312	[-9,757, 12,381]	1
Los Angeles traditional transitional jobs	113,822	103,075	10,747 **	[3,295, 18,199]	10
Los Angeles wage subsidy	107,854	103,075	4,779	[-2,660, 12,218]	5
<b>Cumulative earnings over seven years</b>					
San Francisco wage subsidy	123,775	105,850	17,925 **	[6,063, 29,788]	17
<b>Cumulative earnings over six years</b>					
Twin Cities metro area	74,619	71,371	3,248	[-4,479, 10,976]	5

SOURCES: MDRC calculations based on program records and employment and earnings data from the National Directory of New Hires. Random assignment began in 2012.

NOTES: Some programs have more years of effects shown because of differences in study enrollment end dates and project contract periods.

Rounding may cause slight discrepancies in sums and differences.

Results in this table are regression-adjusted, controlling for pre-random assignment characteristics.

Statistical significance levels are indicated as: \*\*\* = 1 percent; \*\* = 5 percent; \* = 10 percent.

There were two programs in San Francisco and two programs in Los Angeles. The programs are differentiated in this table based on their type: hybrid, wage subsidy, or traditional transitional jobs.

“In the end, the outcome is I got a job that I wouldn’t have got without a subsidy. I got interviews I wouldn’t have gotten without the subsidy. I didn’t have to deal with the emotional hurdles ... that it takes to prepare and get that interview.”

Thus, it is possible that this program helped people get an initial opportunity with employers that might have otherwise skipped over their applications, or that they perhaps would never have applied to, allowing participants to show their strengths on the job during the subsidy period. Overall, this analysis adds three years of evidence showing continuing long-term effects of the San Francisco wage-subsidy model.

## What Can Be Learned from These Findings?

Three of the seven programs included in this analysis improved participants’ earnings more than three years after program enrollment, which is notable given the short duration of these interventions (less than six months). San Francisco’s wage-subsidy program and Los Angeles’s traditional transitional jobs program maintained consistent, positive effects on earnings through the end of the available data (seven and eight years after study enrollment,

respectively). Those two programs, along with the New York program, saw positive, statistically significant effects on cumulative earnings. And although effects on earnings tapered off after Year 4 for the San Francisco hybrid program, the program showed a positive pattern of earnings increases for six years after study enrollment.

Taken together, these results strengthen the evidence that subsidized and transitional employment programs, which are best known and most widely used for their ability to get people back to work quickly, can also improve participants' earnings well after the program ends. There is no consistent pattern in which types of subsidized employment programs work best and for whom, but an earlier report synthesizing results from these studies offers more insights that may help inform future research and policy related to subsidized employment.<sup>12</sup>

The most successful program—the San Francisco wage-subsidy program—appears to have succeeded in part through its ability to help applicants gain access to higher-quality jobs that they might not have been able to get without the program. It may be that the subsidy gave employers an incentive to take a chance on applicants who tend to face discrimination in the hiring process, though it is impossible to know. Further research may help clarify whether programs like these can help increase equity in hiring and employment.

## Notes and References

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2. For more background on these studies, see Danielle Cummings and Dan Bloom, “Can Subsidized Employment Programs Help Disadvantaged Job Seekers? A Synthesis of Findings from Evaluations of 13 Programs” (Washington, DC: Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services, <https://www.mdrc.org/publication/can-subsidized-employment-programs-help-disadvantaged-job-seekers>, 2020).
3. This extended analysis is part of the Building Evidence on Employment Strategies (BEES) Project, which is funded by the Office of Planning, Research, and Evaluation within the Administration for Children and Families at the U.S. Department of Health and Human Services to evaluate the effectiveness of innovative programs designed to boost employment and earnings among individuals with low incomes. One STED program based in Chicago was not included in this extended analysis due to missing data. See Office of Planning, Research, and Evaluation, “Building Evidence on Employment Strategies (BEES) Project” (website: <https://www.acf.hhs.gov/opre/project/building-evidence-employment-strategies-project-bees>, n.d.). The NDNH is a national employment database maintained by the federal Office of Child Support Enforcement within the Administration for Children and Families.

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6. U.S. Library of Congress, “Today in History — April 8, Works Progress Administration” (website: <https://www.loc.gov/item/today-in-history/april-08/>, 2022).
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10. The NDNH data used for this analysis include jobs that are covered by unemployment insurance, or “formal” employment, but do not include jobs in the informal economy, such as domestic work, day labor, and babysitting.
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