

# LESSONS LEARNED FROM 40 YEARS OF SUBSIDIZED EMPLOYMENT PROGRAMS

CENTER ON POVERTY and INEQUALITY  
GEORGETOWN LAW

A FRAMEWORK, REVIEW OF MODELS, AND RECOMMENDATIONS  
FOR HELPING DISADVANTAGED WORKERS

## EXECUTIVE SUMMARY



## **GEORGETOWN CENTER ON POVERTY AND INEQUALITY**

The Georgetown Center on Poverty and Inequality works with policymakers, researchers, practitioners, and advocates to develop effective policies and practices that alleviate poverty and inequality in the United States.

The center's areas of work include national, state, and local policy and program recommendations that help marginalized girls, promote effective workforce and education policies and programs for disconnected youth, and develop policies to combat deep poverty.

Our strategies are to partner with federal agencies and non-profit organizations to host national conferences, produce and widely disseminate in-depth reports, engage in public speaking, and participate in national coalitions and working groups.

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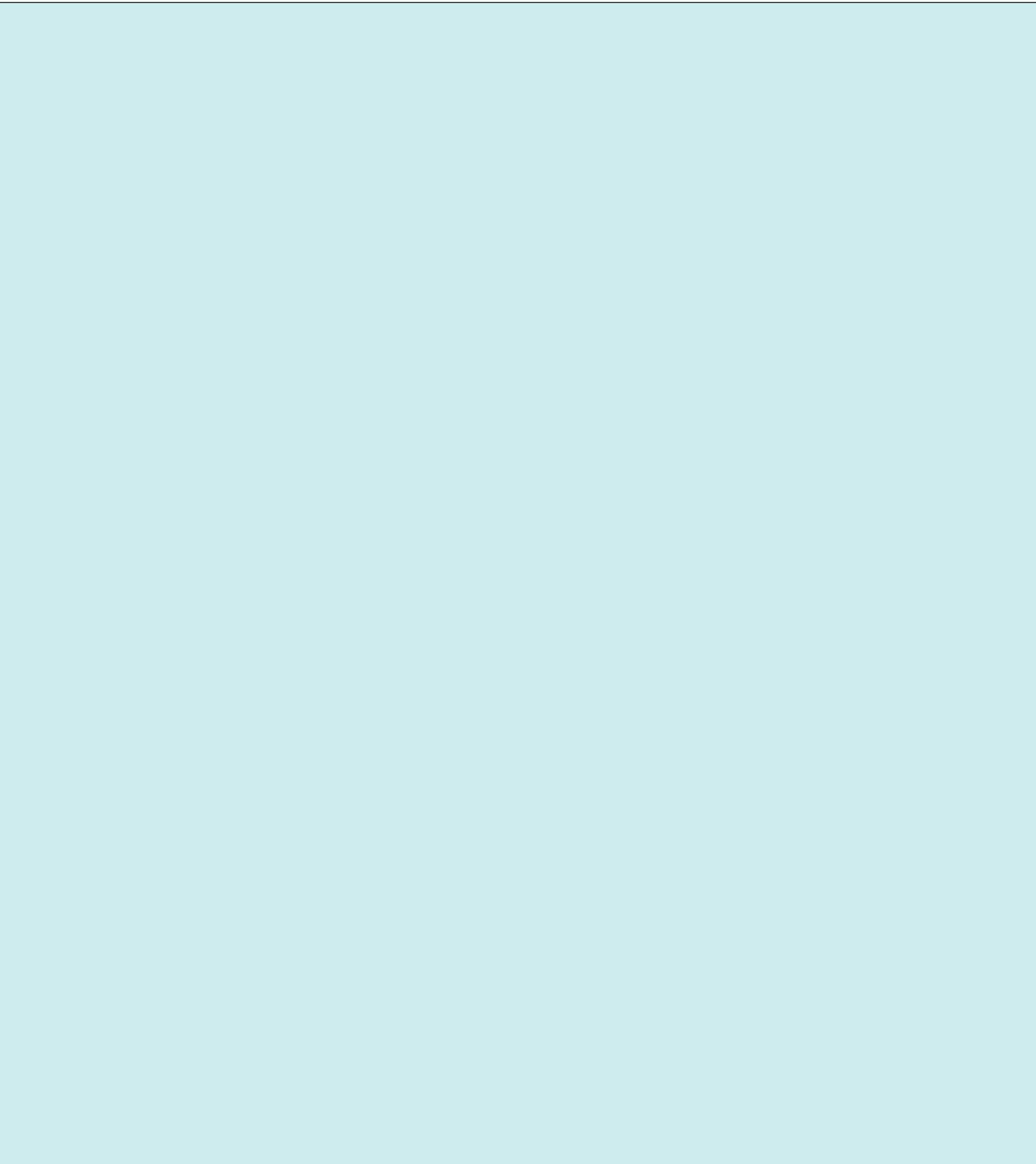
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DISADVANTAGED WORKERS

By Indivar Dutta-Gupta, Kali Grant, Matthew Eckel, and Peter Edelman  
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The Georgetown Center on Poverty and Inequality alone is responsible for the views expressed in this paper, as well as for any errors that remain.

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Subsidized employment is a promising strategy for boosting incomes and improving labor market outcomes and well-being, especially for disadvantaged workers. This report represents findings from an extensive review of evaluated or promising subsidized employment programs and models spanning four decades that target populations with serious or multiple barriers to employment in the United States. It includes a framework aimed at helping practitioners develop more innovative and effective programs by identifying key elements of program design and implementation; a review of relevant models from the past 40 years, including key findings from this research; and a set of recommendations for policymakers and practitioners for further utilization of subsidized jobs programs.

The goal of this paper is to promote subsidized employment policies and programs that are likely to increase quality opportunities for individuals with serious or multiple barriers to employment, during both economic expansions and contractions.

The report examines several types of programs that address in an integrated way both labor supply and demand to directly increase paid work among disadvantaged workers.<sup>1</sup> The main focus is on subsidized employment programs that offer subsidies to third-party employers—public, non-profit, or for-profit—who in turn provide jobs to eligible workers. As shown in the table below, subsidized employment programs are versatile tools that, depending on factors such as the timing of the business cycle and the target population, can be adapted accordingly. The employment they provide may be temporary and counter-cyclical, temporary and part of a strategy to help people shift to unsubsidized employment (regardless of the macroeconomic situation), or long-term for people who need long-lasting subsidies. The experiences offered by transitional (not long-term) subsidized jobs—in terms of what they expect of employees, how well employees are compensated, and the employment and labor rules the employers must follow—conform to or closely mimic competitive employment. This report focuses particularly on the second and

### Three Overarching Subsidized Employment Program Strategies

	DURATION OF SUBSIDIZED EMPLOYMENT	TIMING IN BUSINESS CYCLE	TARGET POPULATION	PRIMARY PURPOSE	DEMANDS ON WORKERS
<b>STRATEGY 1</b>	Transitional Employment	Anti-recessionary*	Long-term unemployed; low-income	Income support; increasing employment	Identical to unsubsidized employment
<b>STRATEGY 2</b>	Transitional Employment	Permanent	Disadvantaged workers with serious or multiple barriers	Increasing employment	Eventually approximating unsubsidized employment
<b>STRATEGY 3</b>	Long-Term Employment	Permanent	Disadvantaged workers with serious or multiple barriers	Income support	Significantly less than unsubsidized employment

\* Prospects for transitioning into unsubsidized employment may be small when the economy contracts, however, so longer-term subsidies may be appropriate.

Source: Georgetown Center on Poverty and Inequality.

<sup>1</sup> The report also discusses why this approach, which requires discretionary grant funding for intermediaries, is likely to be more efficient and effective in helping disadvantaged workers than tax credits for employers.

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third strategies, though the first strategy can provide important opportunities for disadvantaged workers, even if it is deployed more broadly.

In addition, this report examines some notable paid work experience programs, which may provide some compensation for training or work activities, but do not necessarily involve third-party subsidies, and may not conform to typical experiences in competitive employment. The report also reviews selected community service models, which are often not intended to mimic competitive employment but instead provide opportunities for modest work activity and nominal stipends, where appropriate. Finally, the report profiles several unsubsidized employment programs, which do not offer funding for third-party employers, as well as intensive youth-only employment programs that provide relevant lessons for subsidized employment models.

### SUBSIDIZED EMPLOYMENT AS A PROMISING TOOL

As this report outlines, there are multiple, interrelated rationales underlying subsidized employment, all of which lead to different program designs. First, subsidized jobs offer a vehicle for providing incomes in exchange for productive work. In addition, subsidized jobs can reduce the risk an employer perceives or the cost they may experience from hiring a worker or increasing a worker's earnings, employment, or income. These programs can also lead to even further-reaching gains for the well-being of participating workers and their families.

While aggregate labor demand policies—both fiscal and monetary—are essential to helping low-income workers secure and maintain sufficient employment, additional policies and programs would be valuable throughout the business cycle for those with serious or multiple barriers to employment.<sup>2</sup> Subsidized employment programs and policies are underutilized, potentially powerful tools for lifting up workers in or at risk of poverty and deep poverty in the United States. These job programs can provide income support, an opportunity to engage in productive activities, and, in some cases, labor market advancement opportunities. They can also offer a platform for connecting people to other needed services, resources, and networks.

The potential benefits of these models provide a straightforward economic rationale for public investments. Insofar as increasing employment and work experience provides benefits to the individual and society (such as improved health, strengthened families, and reduced demand for public benefits and services) not fully captured by the compensation employers are willing to offer non-employed workers, there is a rationale for public subsidies. Employers by and large do not set compensation levels based on social benefits to hiring.

2 See for example, Baker, Dean, and Jared Bernstein. *Getting Back to Full Employment: A Better Bargain for Working People*. Center for Economic Policy Research, 2013. Available at [http://www.cepr.net/documents/Getting-Back-to-Full-Employment\\_20131118.pdf](http://www.cepr.net/documents/Getting-Back-to-Full-Employment_20131118.pdf).

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### PROGRAM DESIGN FRAMEWORK

This report includes a framework that describes key elements of subsidized employment programs. Programs can differ along a number of dimensions, each of which are likely to affect program effectiveness. These include program purpose (target populations<sup>3</sup> and barriers, competitive employment vs. income support, and scale); work placements (sector, employer size, long-term placement strategy, employer of record/payroll, and advancement opportunities); subsidy configuration (type, depth, and length of subsidy); work expectations (supervision, team environment, and graduated responsibilities); training (type and structure of training); and additional services (wraparound and employment search and retention services). The focus of this report is individuals with serious and/or multiple barriers to employment, which is often the target population of subsidized employment programs. For the purposes of this report, barriers to employment are broadly defined as limitations—real or perceived—that significantly reduce the likelihood of attaining competitive (unsubsidized) employment. These personal and institutional barriers reflect a complex mix of socioeconomic dynamics, which can manifest as skill limitations; physical and behavioral health issues, including disabilities; criminal justice system involvement; family obligations; limited resources; and discrimination based on characteristics such as race, gender, and age, among others.

### KEY FINDINGS

The following key findings from this report are especially relevant for policymakers and practitioners alike:

- ***The number of disadvantaged people willing to work consistently exceeds the number in competitive employment.*** The significant voluntary participation in sizeable subsidized jobs programs over the past 40 years underscores the fact that, regardless of wider economic circumstances, the labor market leaves out large numbers of disadvantaged workers desiring employment.
- ***Subsidized employment programs have a wide range of potential benefits.*** First, these programs provide an important source of income to participating workers. Second, a number of experimentally-evaluated subsidized employment programs have successfully raised earnings and employment, with some programs providing lasting labor market impacts.<sup>4</sup> Such programs have also decreased family public benefit receipt, raised school outcomes among the children of workers, boosted workers' school completion, lowered criminal justice system involvement among both workers and their children, improved psychological well-being, and reduced longer-term poverty. There may be additional positive effects, such as increased child support payments and improved health, which are being explored through ongoing experiments.

<sup>3</sup> Many of the models profiled in the report directly or indirectly target nine overlapping categories of people who often need wraparound services and supports—some temporary and some ongoing—to succeed in the labor market. The nine groups are as follows: disconnected youth; single mothers and non-custodial parents; people with criminal records; older workers who have been pushed out of the labor market due to economic dislocation; disadvantaged immigrants, especially refugees and asylum seekers; long-term unemployed workers; people in areas of particularly high unemployment; and people experiencing homelessness.

<sup>4</sup> For example, the AFDC Homemaker-Home Health Aide Demonstration resulted in positive labor market effects at the final follow-up survey, almost two years (on average) following program entry; the National Supported Work Demonstrations resulted in positive labor market effects for many targeted groups up to three years following program entry; and New Hope for Families and Children showed positive effects among some with moderate disadvantages *eight* years following program entry.

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- ***Subsidized employment programs can be socially cost-effective.*** Of the 15 rigorously evaluated (through experimental or quasi-experimental methods) models described in this report, seven have been subject to published cost-benefit analyses. Keeping in mind that more promising and effective models are more likely to lead to such analyses, all seven showed net benefits to society for some intervention sites (for models implemented at multiple sites) and some target populations. Four of these seven models were definitively or likely socially cost-effective overall.
- ***Subsidized employment programs with longer-lasting interventions and/or complementary supports may be particularly likely to improve employment and earnings.*** This pattern of high rates of effectiveness for programs with typical interventions lasting longer than 14 weeks—among rigorously evaluated programs—suggests that the role of benefit duration merits experimental evaluation. However, no research to date has isolated the impact of benefit duration within a subsidized employment program. Strong employer engagement, wraparound services, longer-term post-placement retention services, and other features of effective programs also appear promising as key ingredients and merit further (experimental) examination, as research thus far has shed little light on specific program features and their impacts. Other program design elements that may warrant additional testing include pre-training, program entry screening processes, job preparation services, matching processes, and peer support mechanisms.
- ***Subsidized employment programs require further innovation to more effectively target specific population subgroups.*** As this report documents, subsidized employment can help people with intellectual disabilities gain independence and earning power—and yet, the broader spectrum of disabilities remains understudied. Many efforts that have targeted youth and young adults have seen modest success with education and criminal justice outcomes, but have resulted in limited or no durable improvements in employment and earnings. In addition, even as policymakers grow concerned with shrinking labor force participation among older workers, few subsidized jobs models target or even reach older adults.

## NEXT STEPS

Forty years of experience suggests that subsidized employment programs warrant significantly greater attention from policymakers and practitioners. Despite their track record and promise, available funding for subsidized employment programs is meager when compared to the potential efficacy of and need for these programs. While there is still a need for more experimentation with subsidized jobs programs, especially for subpopulations with multiple and/or serious barriers, much experimentation is currently underway; moreover, enough is known today for a significant, national effort to expand subsidized employment programs.

This report concludes with five recommendations (summarized on the following page) for policymakers and legislators at the federal, state, and local levels to take into account when designing, modifying, or furthering subsidized employment policies and programs:

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### 1. Make Subsidized Jobs Programs a Permanent Part of U.S. Employment Policy

Despite nearly a half-century of supportive evidence, subsidized employment today is significantly under-recognized and underutilized as an effective anti-poverty tool. Policymakers should prioritize making such programs a permanent part of U.S. employment policy. Such programs could and should make up a core component of a broad-based, ongoing strategy to combat poverty, reduce inequality, and ensure that every person wanting to work has access to a decent job at any point in the business cycle. Having a program in place during an economic expansion also likely improves the ability to scale it up to meet growing need during the next recession.

### 2. Establish Substantial, Dedicated Funding Streams

Many previous and current subsidized employment programs have drawn funding from existing federal programs not primarily dedicated to subsidized employment. The lack of substantial, dedicated funding streams likely has severely limited the scale and scope of these programs, as well as needed innovation. Dedicated subsidized employment funding streams may allow for greater flexibility, help encourage administrative and programmatic innovation, and provide the resources necessary for such programs to make meaningful headway against poverty.

### 3. Ensure Opportunities for Advancement

For workers likely to eventually succeed in the competitive labor market, subsidized employment should offer meaningful career ladders, a chance to develop skills through educational and training opportunities, and the possibility for advancement through increased responsibility and compensation over time. With the goal of supporting robust career paths in mind, subsidized employment should be developed in parallel with education and training initiatives that forge meaningful and sustainable connections between participants and the labor market. Multiple paths (as well as multiple entry and exit points within each path) with the ability to tailor specific programs and supports to particular participants should also be considered.

### 4. Promote Program Flexibility

This report documents an array of key program design parameters, including whether to subsidize transitional jobs or potentially permanent positions; whether and how to engage the for-profit, non-profit, and public sectors; and which portfolios of wraparound services to offer to which participants. The greatest takeaway is that the best answer will vary across place, target population, and other factors. Therefore, program funding should be sufficiently flexible to allow programs to adjust to local dynamics and changing circumstances while keeping the needs of participants and employers paramount.

### 5. Facilitate Greater Innovation

Despite the proven success of many programs under an array of economic circumstances and for many diverse populations, continued exploration in the forms of pilot programs, demonstrations, cross-sector collaboration, and studies is necessary in order to most effectively target subpopu-

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lations and communities. For workers with especially long paths to competitive employment and those whose ultimate goal is something short of competitive employment, strategies should include and encourage experimentation with programs that provide part-time paid work experience options. Combining subsidized jobs and paid work experience programs with other interventions, such as those that focus on executive function<sup>5</sup>, financial coaching and savings, behavioral health, and vocational rehabilitation may further improve economic outcomes for participants.

To be sure, subsidized employment programs are neither silver bullets for all labor market challenges nor fully mature yet for every reasonable target population of disadvantaged workers. In addition to strong macroeconomic policy, there is no substitute for worker empowerment or strong labor standards such as well-enforced employment protections that prohibit discrimination, especially when it comes to very disadvantaged workers. At the same time, more thinking and action is clearly needed to develop more effective subsidized employment and paid work experience programs for a wide range of populations. However, the record as it stands already indicates that such programs, by increasing employment opportunities, can be effective tools to combat poverty, persistent unemployment, and other undesirable social outcomes. The research in this paper confirms this and points to the need for subsidized employment to become a key component of a broader agenda promoting quality and sufficient employment for all who are willing and able to work.

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5 The term “executive function” generally refers to a range of cognitive processes related to self-regulation, working memory, and the ability to focus, plan, and switch tasks. See for example, Babcock, Elizabeth D. “Using Brain Science to Design new Pathways Out of Poverty.” Crittenton Women’s Union, 2014. Available at <http://www.liveworkthrive.org/site/assets/Using%20Brain%20Science%20to%20Create%20Pathways%20Out%20of%20Poverty%20FINAL%20online.pdf>.



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