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The project includes proposals from more than a dozen leading experts who have come up with practical, scalable proposals that will create more jobs for the U.S. economy.

Ideas had to meet the following criteria: The proposed programs should be designed for implementation by cities and/or states (with or without federal support) and should lead to net new job creation in a short-term framework (one to three years). They should be practical (implementation not requiring major political or institutional changes); sustainable (not requiring significant new investment and feasible at a relatively low cost per job); scalable (at least at the state level); and already tested. The jobs created should be accessible for low-skilled workers and offer some career opportunity.

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Rethinking Work Opportunity: From Tax Credits to Subsidized Job Placements

By Elizabeth Lower-Basch

The Work Opportunity Tax Credit (WOTC) was created in 1996 and has been modified and extended repeatedly since. A separate but similar credit for long-term welfare recipients was consolidated with the WOTC in 2006. Recent program expansions have caused the annual cost of this credit to exceed $1 billion in recent years. WOTC is not designed to promote net job creation, and there is no evidence that it does so. The program is designed to encourage employers to increase hiring of members of certain disadvantaged groups, but studies have found that it has little effect on hiring choices or retention; it may have modest positive effects on the earnings of qualifying workers at participating firms. Most of the benefit of the credit appears to go to large firms in high turnover, low-wage industries, many of whom use intermediaries to identify eligible workers and complete required paperwork. These findings suggest very high levels of windfall costs, in which employers receive the tax credit for hiring workers whom they would have hired in the absence of the credit.

Policymakers have expressed skepticism about the effectiveness of the WOTC for nearly as long as it has existed; it has continued in part because of the perceived lack of a viable alternative approach to promoting private sector employment among disadvantaged workers. This paper discusses an alternative approach to this goal, based on state and local experiences in operating subsidized jobs programs in recent years. During 2009 and 2010, 39 states and the District of Columbia operated subsidized employment programs using money from the TANF Emergency Fund (EF), a new temporary funding stream created as part of the American Recovery and Reinvestment Act (ARRA).[1] While the funding for these programs flowed through the Temporary Assistance for Needy Families (TANF) block grant, states were not required to limit their subsidized jobs programs to members of families receiving TANF cash assistance or services, and most chose to serve a broader population. By September 30, 2010, when the federal funding expired, states reported engaging approximately 260,000 low-income parents and youth in subsidized jobs.

While states had a great deal of flexibility in the design of subsidized jobs programs under the TANF EF, in most states the subsidies provided were much deeper than under the WOTC, in many cases covering 100 percent of wage costs for several months. Such deep subsidies have a greater potential to influence employer action. Moreover, while the WOTC is automatically available to any employer who hires a member of the target populations and who files the required paperwork, subsidized jobs programs are discretionary, with the administrating agencies able to select both employers and workers to participate. In many cases, agencies used the subsidies under the EF to encourage employers to expand employment during the recession; in other instances, agencies targeted employers who were already hiring, and used the subsidies to encourage them to hire disadvantaged workers whom they would not otherwise have considered.

The concept of subsidized jobs is not a new one. In the 1980s, a number of programs that used subsidies to encourage placement of disadvantaged youth and welfare recipients in private sector jobs were rigorously evaluated. In his 1998 review of the literature, Harvard economist Larry Katz (later Chief Economist of the U.S. Department of Labor) concludes that programs that combine training, job development, employment subsidies and support services "appear to be a cost-effective route to producing substantial and sustained earnings increases" for at least some populations. However, he goes on to write that it is "very much an open question" whether such programs could be brought to scale (pages 44-45). Similarly, prior to the enactment of ARRA, few TANF programs used subsidized employment programs, and many administrators were doubtful about whether enough employers and workers would be interested to support such a program. The experience of the subsidized jobs programs under the EF suggests that the answer is yes, at least under some circumstances.

Both the WOTC and direct subsidies reduce the cost of hiring certain disadvantaged workers. However, deeper and discretionary subsidies are likely to have greater influence on employer behavior and lower windfall costs. Therefore, in this paper I argue that the funds currently devoted to the WOTC should be redirected to support subsidized jobs programs, based on the experience of the TANF Emergency Fund. I recommend that this program be operated by the U.S. Department of Labor, and the state workforce system, using the WIA formula for state allocations, but that states be given flexibility over target populations, program design and allocation of funds at the local level. This flexibility allows states to decide whether to prioritize creation of temporary counter-cyclical jobs or placement in longer lasting positions based on an assessment of the immediate economic circumstances.

Subsidized Jobs under the TANF Emergency Fund

Although many advocates urged the inclusion of direct job creation, the 2009 American Recovery and Reinvestment Act (ARRA) did not include a large public job component. Rather, ARRA sought to boost the economy and promote job creation through Keynesian stimulus, including increased government investment in "shovel-ready" projects in transportation, energy, and health care, as well as by putting more money into consumers' pockets through tax cuts, and improvements to benefit programs such as the Supplemental Nutrition Assistance Program (SNAP) and Unemployment Insurance (UI). The one direct job subsidy component was buried in the section of the bill that provided a $5 billion "TANF Emergency Fund." States that increased welfare-related spending in one of three areas —cash assistance; short-term benefits, such as supplemental food or help with energy bills; and subsidized jobs—could receive 80 percent reimbursement of their increased costs, up to a cap for each state. This provision drew essentially no attention before ARRA was enacted, but enabled states to support the largest expansion of subsidized employment since the Comprehensive Employment and Training Act (CETA) of the 1970s.

While subsidized jobs programs have always been an allowable use of TANF funds and a countable work activity for TANF cash assistance recipients, states made little use of them prior to ARRA. Perceived barriers to use included the cost and lack of employer interest. Following enactment of ARRA, subsidized jobs programs got off to a slow start, as states were uncertain about the rules for the program and concerned about the 20 percent of costs that could not be covered by the Emergency Fund. A few states plunged ahead, including California and Tennessee. As they reported encouraging results, including high levels of interest from both employers and unemployed workers, and the U.S Department of Health & Human Services (HHS) clarified the rules, including making a ruling that effectively removed the need for states to come up with the 20 percent match[2], more states joined in.

By the time the EF expired on September 30, 2010, 39 states and the District of Columbia reported that they had placed more than 260,000 low-income individuals in subsidized jobs, at a total federal cost of $1.32 billion, approximately one-fourth of the total amount available under the EF.[3] Not all states chose to operate subsidized jobs programs —some states exhausted their maximum allotments based on their cash assistance and short-term benefits, leaving no funds remaining for subsidized jobs, while others found it impossible to develop a program within the very tight time constraints of the EF. (Funds needed to be spent by the September 30, 2010 deadline, not merely obligated.) However, the desire to create jobs and the fear of leaving money on the table was a potent political combination that motivated state administrators to develop creative approaches to implementing these programs and drawing down these funds.

Slightly less than half (124,000) of individuals in subsidized jobs were low-income parents (including non-custodial parents). States could decide how stringently to define “low-income” and many chose upper income limits from 200 to 300 percent of the federal poverty level. The remaining 138,000 were served in programs for low-income youth, which included young adults up through age 24 (Pavetti et al, 2011). Even within the programs for adults, there was a great deal of variation in program design, with some programs open to any unemployed low-income parent, while others were targeted to current TANF recipients or applicants, recipients of SNAP (food stamp) benefits, non-custodial parents, UI recipients or those who had exhausted UI. In contrast to previous countercyclical jobs programs such as CETA and the Works Progress Administration of the New Deal, most participants were placed in private sector jobs, in part due to state ideological choices, but mostly due to a technical funding issue.[4]

The EF subsidized jobs programs received widespread support from participating employers, workers, and states. Nearly 2,000 businesses across the country signed a letter of support for extending the program for another year. Liberals were overwhelmingly supportive of the program, seeing it as a partial substitute for a public jobs program, but some very conservative Republican Governors, such as Haley Barbour, were also quoted as supporting the program because of its benefits for business. The House of Representatives passed several bills that included one-year extensions of the program, but these bills were not able to clear the Senate, due to both concerns about the funding sources that had been targeted to offset the costs, and to Republican hostility to extending any spending from ARRA. Most of the subsidized jobs programs operated under the EF shut down after September 30th, or scaled back dramatically due to the lack of funding. While such programs are still eligible uses of TANF dollars, given the high levels of need in the states and the wide variety of competing uses, it is likely that these programs will serve only modestly more people in 2011 than they did prior to ARRA.

Work Opportunity Tax Credit

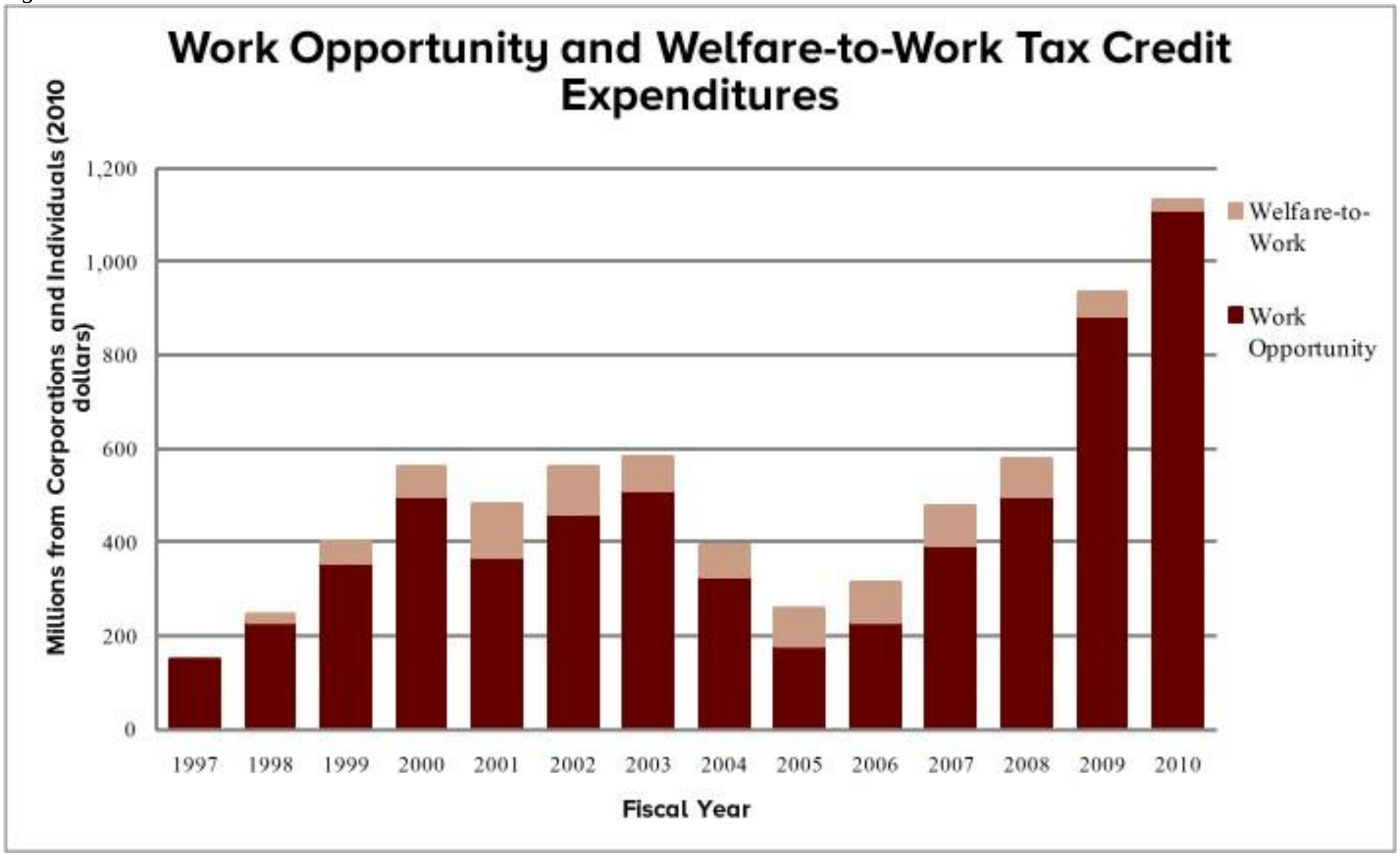
The WOTC allows for-profit employers to claim a credit against their federal income tax liabilities for hiring members of certain eligible groups, specified in federal law. For members of most of these groups, the maximum credit is 40 percent of the first $6,000 in wages paid during the worker’s first year of employment, or $2,400.

It was created in 1996 as a one-year measure, but has been extended repeatedly. The Welfare-to-Work (WTW) Tax Credit, which provided larger credits to employers hiring long-term TANF recipients, was created in 1997, and in 2006 was merged with the WOTC as a simplification measure (Scott, 2011).

Because the WOTC is available to all employers who hire workers meeting the qualifications, the cost of the WOTC is determined not by appropriations, but by the number of certifications issued each year.[5] In turn, the number of certifications is driven by size of the pool of potentially eligible individuals, the share of them who start a new job in a given year, and by the share of employers who actually request certification and tax credits. The number of certifications has been climbing steadily in recent years. In fiscal year (FY) 2008, the most recent year for which data are available, there were 692,421 certifications, up from 633,964 in FY 2007, and 598,101 in FY 2005. (Certifications were lower in FY 2006, due to a 13 month gap in the program's authorization.) (Scott, 2011) The official budget estimates for the cost of the program have climbed sharply from $490 million in FY 2008 to $1.1 billion in FY 2010 (U.S. Office of Management and Budget [OMB], 2009, 2011). For comparison, the total Program Year 2010 allocation for adult activities under the Workforce Investment Act (WIA) was $861.5 million.

The most plausible explanation for the increased use of the WOTC in recent years is the 2006 expansion of the eligibility group for "food stamp youth" from youth ages 18-24 in families receiving SNAP (food stamp benefits) to cover individuals aged 18-39 in such families.

Figure 1



Source: Office of Management and Budget, Analytical Perspectives, Budget of the United States Government, FYs 1996-2012.

With the combination of this expansion and the overall growth of the SNAP caseload during the recession, a significantly increased number of workers are potentially eligible to be certified for the WOTC credit. This group thus accounted for 45 percent of WOTC certifications in FY 2007 and 61 percent in FY 2008. By contrast, in earlier years, TANF recipients had accounted for the majority of certifications (Scott, 2008, 2011).

In spite of this growth, WOTC certifications remain very low compared to the potential number of eligible participants. Because of the complicated eligibility rules and split administration of the program between state agencies and the federal Internal Revenue Service, it is not simple to determine the number of potential participants. In FY 2008, the number of certifications for food stamp youth was equal to less than 6 percent of the number of individuals aged 18-39 who received SNAP benefits in an average month.[6] Hamersma (2003) used data from the Survey of Income and Program Participation (SIPP) to estimate national 1999 certification rates of 1-17 percent of individuals meeting the eligibility criteria for food stamp youth (using the older more narrow eligibility criteria) and 9-32 percent for welfare recipients (combining the WOTC and welfare to work (WTW) tax credits).[7] Similarly, using linked administrative data from Wisconsin, Hamersma (2010) estimated that in 2001 employers left approximately 80 percent of the potential tax credits for welfare and food stamp recipients unclaimed.

Lack of information about the WOTC may be one reason that employers do not participate in the program, but even among firms that are aware of the program, participation is far from universal. In a 2005 survey of temporary help firms in Wisconsin, Hamersma and Heinrich (2008) found that 26 of 73 firms that reported that they knew about the WOTC and WTW credits did not participate, saying that they did not have enough eligible workers, or that their workers did not stay on the job long enough to generate a credit worth the hassle of applying. Hamersma (2010) finds firms with higher projected benefits are more likely to participate, but even among the firms with the largest potential benefit, participation never gets above 60 percent. Employers that do participate often use third-party consulting firms that process the paperwork for them, typically in return for a portion of the leveraged credits.

WOTC was originally enacted as a one-year credit, but Congress has continued to extend it and the WTW credit (albeit sometimes after allowing them to lapse for a while), and even expanded them to cover additional populations. Tax credits are often held to less rigorous outcome standards than direct expenditures, and these credits further benefit from being politically attractive to a wide stretch of the political spectrum, appealing to both those who wish to help the disadvantaged, and to those who wish to help employers by reducing taxes. The consultants that help companies claim the credits lobby also strongly for their extension (Scott, 2011) while there is no organized opposition to the credits.

Comparison of Subsidized Job Programs and WOTC

Purpose

Subsidized jobs programs and the WOTC share the goal of providing an incentive for employers to hire people whom they might otherwise not have hired. Even if this does not increase the total number of jobs in the economy, this can be desirable for promoting equity, relieving hardship, reducing welfare costs, and combating social exclusion of certain disadvantaged groups. There is reason to believe that individuals who are unemployed or out of the labor market for extended periods of time—even if due to economic circumstances rather than their personal characteristics — can be permanently “scarred,” experiencing persistently lower rates of employment and lower wages when employed. Thus, it can be beneficial for society to encourage employment of members of disadvantaged groups, even if these efforts do not increase overall employment.

The WOTC is not targeted at newly created jobs, and it is highly unlikely that the quite modest subsidy it offers will cause employers to create new jobs. In fact, the overwhelming majority of subsidies are claimed by employers in high turnover occupations. By contrast, in

Table 1: Program Design Comparison of WOTC and EF Subsidized Jobs		
	WOTC	**TANF EF Subsidized Jobs**
Eligibility	Targeted groups defined by Congress; Individuals aged 18-39 in SNAP families are now the largest group of participants	Members of low-income (as defined by states) families with children. States may target specific populations within this broad eligibility category
Subsidy structure and cost	40% of first $6000 of wages paid during first year of unemployment, if worker is on payroll for at least 400 hour, for a maximum of $2,400. 25% of first $6000 if workers are employed for 120-399 hours. Higher subsidies for disabled veterans and long-term welfare recipients	Varies by state/county, but most often 100% of wages; sometimes covered other payroll expenses. Per participant cost varied from approximately $2,000 to $25,000 depending on design of program.
Benefiting employers	For-profit entities with income tax liability (corporate or individual). If credit exceeds 90% of income tax liability, may be carried forward or back.	Open to for-profit, nonprofit, and public entities.
Administrative structure	Certifications are issued by state Departments of Labor. Credits are authorized by Internal Revenue Service.	Funds flowed through state TANF agencies, which could subgrant to counties, or contract with workforce agencies, nonprofit intermediaries, or other entities.
Total cost	Projected FY 2010 cost of $1.1 billion. Credit is available to all employers who hire certified workers, so cost is not capped. Scheduled to expire on December 31, 2011.	Estimated $1.32 billion total over FYs 2009-2010. Not currently funded.

some, but not all, states, the EF subsidized jobs programs also included temporary job creation as one of their goals. Summer jobs programs for youth typically fill temporary positions that would not exist in the absence of the program and are not expected to last beyond the duration of the program, and the EF summer jobs programs were not an exception. Some of the adult programs placed individuals in temporary public sector jobs, which were unlikely to continue long term given the dire conditions of most state budgets and the hiring freezes (or cutbacks) that many agencies were facing, and others encouraged private sector employers to create new positions for subsidized job program participants. However, in other cases, employers were encouraged to use the subsidy for positions that they were going to fill anyway. [8]

In part, this variation reflects differences in local economic condition. In places with extremely high unemployment, such as Perry County, TN, the focus was on immediate job creation. However, the variation also reflects different choices regarding the tradeoff between creating additional jobs and placing people in jobs that will continue past the end of the subsidy period. To the extent that jobs were newly created, it is less likely that they would continue beyond the end of the subsidy. This tension is reflected in the results of a survey of employers participating in Putting Illinois to Work. Many of the employers reported that they were experiencing financial challenges due to the recession prior to participating in the program, and would not have hired in the absence of the program. Thus, the program was highly effective in temporarily boosting employment. However, only 13 percent of employers reported that they expected to be able to permanently hire the majority of their trainee workers, even though more than half said that they would do so if they were financially able (Social Impact Research Center, 2010).

Realistically, the best case scenario for creating new permanent jobs is when the availability of the subsidy encouraged employers to fill jobs sooner than they might have otherwise (due to uncertainty about the economy or credit unavailability) or to experiment with whether additional employees could pay for themselves (by improving customer service, or by allowing a small business owner to focus on developing new customers rather than day-to-day operations). While such examples can be found, it is not realistic to expect that the temporary subsidy resulted in the creation of a significant number of permanent jobs. This is consistent with the findings from Brodsky's 2000 review of public service employment in OECD countries, in which he concludes that such programs "have not been effective in reducing the general level of adult unemployment" but can help severely disadvantaged workers stay economically active and should be considered as part of a portfolio of services aimed at such populations.

Subsidy Structure and Cost

The structure of the WOTC is specified by federal law. For employers of individuals in most eligible groups, the maximum credit is 40 percent of the first $6,000 in wages paid during the worker's first year of employment, or $2,400. To qualify for this credit, the worker must remain on the payroll for at least 400 hours. If workers are employed for at least 120 hours, but not 400 hours, the credit drops to 25 percent, for a maximum credit of $1,500. Larger credits are available to employers of eligible veterans with a service related disability and of long-term welfare recipients, and smaller credits are available to employers who hire youth living in certain high-poverty communities for summer jobs. However, only a small fraction of certified workers are retained on their jobs long enough to qualify for the maximum credit, with only about one-third even reaching the 400 hour threshold in the Wisconsin study (Hamersma, 2010).

Under the Emergency Fund, states had full control of the design of the subsidy, including the maximum wage and benefits eligible for reimbursement, the number of hours per week subsidized, the fraction of the wage subsidized, and the duration of the subsidy. States made widely varying choices (including devolving the choices to the substate level, leading to even more variation, as in California, where counties were given full discretion in program design) leading to a range of program costs, as illustrated in Table 1. These choices are described in detail by Pavetti et al (2011), but summarized briefly here.

Many programs required employers to pay the market wage for the position, and reimbursed wages up to a cap. In other states, such as Illinois, all participants were paid a fixed hourly wage regardless of the type of work. Most states subsidized full-time jobs, but others set lower caps in order to reduce the cost of the program. For example, South Carolina kept costs low by limiting the subsidy to the applicable minimum wage of $7.25 per hour, and a maximum of 20 hours per week, for a maximum cost for a 6 month placement of $4,432, including costs of unemployment and other payroll taxes. Employers could pay higher wages or employ participants for more hours, but did not receive additional subsidy when they did so. Texas provided a flat subsidy of $2,000 over four months, leading to a relatively low cost per placement. Mississippi and Oklahoma were notable for providing subsidies that gradually decreased, or "stepped down" over time.

In addition, states varied in what ancillary costs were charged to the program. Some states claimed reimbursement for the full costs of operating the program, including recruiting participants and employers, matching workers with jobs, processing payroll, and providing training to participants. In some cases, the operation of the program was contracted to a private entity, and administrative fees were built into the contracts. In other cases, TANF agencies or workforce boards ran temporary programs with existing staff and did not claim reimbursement for the full operating costs.

Target Population

There are currently nine categories under which a worker may be certified for the WOTC, as detailed in Box 1. Three of them are based on receipt of public assistance, either TANF or SNAP, although the SNAP category is limited by age. Two cover youth or young adults living in designated high poverty communities, and the remaining ones apply to certain veterans, people with felony convictions, and individuals with disabilities. As discussed above, SNAP recipients ages 18-39 constitute the largest eligibility category and account for the majority of the certifications.

Table 2: Illustrative Examples Of The Costs Associated With Subsidizing Wages

State	Maximum wage eligible for reimbursement	Amount of wage subsidized	Coverage of payroll costs: FICA, Unemployment Tax (UT) and Worker's Compensation (WC)	Maximum hours per week	Total cost (6 month placement with maximum wage)[c]	Total cost (6 month placement with maximum wage of $10)
Alabama	$15	100%	Employee portion of FICA	40	$16,780	$11,187
Florida	$19.51	100%	FICA, UT and WC	40	$23,849	$12,226
Illinois	$10	100%	FICA and WC	40	$11,551	$11, 551
Mississippi	$17.92[a]	100% in month 1 & 2 75% in month 3 50% in month 4 & 5 25% in month 6	FICA	40	$13,365	$7,457
Oklahoma	$12[b]	100% in month 1 50% in months 2-4 (balance of subsidy for months 2-4 paid to employer if employee still working in month 10)	None	40	$8,313 with incentive $5,196 without incentive	$6,928 with incentive $4,330 without incentive
Pennsylvania	$13	100%	None	40	$13,510	$10,392
South Carolina	$7.25[b]	100%	FICA, UT and WC	20	$4,432 (20 hours)	$4,432 (subsidy capped at $7.25 per hour)
Texas	No maximum specified	Flat subsidy of $2,000 over four months	Employer can use $2000 or a portion of it to cover payroll costs	No maximum specified	$2000	$2000
Washington	$8.55	100%	FICA, UT, and WC	20	$5,227 (20 hours)	$5,227 (wages at $8.55)

[a] The state pays up to the average wage plus 11 percent to allow for wage increase for the specific job classification. This wage amount is the average wage for all workers for all occupations plus the 11 percent.
[b] Participants may be placed in jobs that pay more than the maximum wage eligible for reimbursement. When this is the case, employers pay the difference between the wage paid to the employee and the amount reimbursed by the program.
[c] I use 4.33 weeks per month to calculate the total cost for the 6 months. Most states planned for subsidy durations of between 6 and 12 months; however, in practice, many reached scale so late that the duration was limited by the ending of the Emergency Fund in September 2010 rather than by the state's policy.

The placement of the EF subsidized jobs program under TANF drove the eligibility parameters. All funds needed to be spent on behalf of members of needy families with children; this meant that childless adults could not be served unless they were young enough to qualify as "children" themselves. At one point Congress considered expanding the program to cover individuals who were exhausting unemployment insurance benefits, regardless of their family status, but that proposal did not go anywhere. Other than the family composition requirements, states had a great deal of discretion regarding what populations to serve, and could establish their own income limits. In some cases, they were quite specific: ex-offenders, youth aging out of foster care, individuals applying for TANF cash assistance, but in other cases they were much broader, going up to 200 or 300 percent of the federal poverty level or even higher. Some states or counties operated multiple variants of the program simultaneously, offering subsidized jobs in the private sector to a broad range of low-income parents, while providing non-competitive placements, often with nonprofit organizations, to individuals identified as having additional barriers to employment.

WOTC Eligible Groups, through December 31, 2011

- Members of families receiving benefits under the TANF program for any nine months during the 18-month period ending on the hiring date (members of families receiving TANF benefits for 18 months, or who are terminated due to time limits, qualify for an additional credit)
- 18 to 39-year-olds who are members of families receiving food stamp (SNAP) benefits for at least six months prior to the hiring date, or who were cut off by the time limit on able-bodied adults without dependents;
- 18 to 39-year-olds who live in an area that has been designated an empowerment zone (EZ), enterprise community (EC) or rural renewal county (RRC).
- Youth ages 16 or 17 who live in an EZ, EC or RC, and who are hired for summer jobs;
- Qualified veterans who are members of families receiving food stamp (SNAP) benefits for at least three months during the 12 month period ending on the hiring date, or who are entitled to compensation for a service related disability, and meet additional criteria;
- Ex-felons with hiring dates within one year of the last date of conviction or release from prison;
- Individuals with disabilities referred to employers by a vocational rehabilitation agency, including individuals who are working with employment networks and have individualized work plans under the Ticket to Work Program.; and
- Supplemental Security Income (SSI) recipients.

Recovery Act Temporarily Covered Groups (for hires during 2009 and 2010)

- Unemployed veterans discharged or released from active duty within five years of their hiring date and who received unemployment compensation for at least four weeks during the year before the hiring date.
- Disconnected youth, ages 16-24, who are not regularly attending school or regularly employed during the six-month period preceding the hire, and who are not "readily employable" because of lack of skills.

In the past, Congress has also temporarily expanded the WOTC to respond to specific circumstances, including the destruction of the World Trade Center and dislocation of nearby businesses and Hurricane Katrina.

Scott (2011)

Effectiveness of Subsidy

A key question in evaluating these efforts is whether the availability of the tax credit or subsidy has an effect on hiring or retention of members of the target population, or if it is simply a windfall to employers for doing what they were planning on doing anyway. The WOTC was designed to try to minimize this windfall effect, by requiring employers to complete a one page IRS screening form prior to making a job offer, and to mail it to the state's WOTC coordinator within 28 days after the employee starts working. This addressed a concern about the predecessor Targeted Jobs Tax Credit (TJTC), which employers were able to claim retroactively after hiring. However, completion of the form prior to hiring does not guarantee that the credit is affecting employers' choices.

In fact, direct surveys of employers find little evidence that the WOTC drives employers' hiring behavior. An early study of the tax credits conducted on behalf of the Department of Labor found that they played "little or no role" in the recruitment policies of 16 firms interviewed (Westat, 2001, cited in Scott 2011). The more recent survey of temporary agencies found only one firm that reported whether or not prospective employees were eligible for the tax credit would affect their hiring decisions (Hamersma and Heinrich, 2008). In many cases the person making the hiring decision does not actually know whether the individual applying for the job qualifies for the tax credit. Similarly, there is no evidence that employers are paying attention to maximizing credit in assigning hours to workers, or making retention decisions (Hamersma and Heinrich, 2008, Hamersma 2010).

Finally, one study attempts to measure the effects of WOTC eligibility certification on workers' employment and earnings. Hamersma (2008) found that workers who became eligible based on their histories of welfare receipt had about a 10 percent increase in employment compared to similar but ineligible workers in the 2nd quarter after they qualified, but that there was no difference between the groups by the 4th quarter.[9] Looking at the effect of actual certification for the WOTC, she found that certified workers had 9 percent higher earnings than eligible but non-certified workers, but no longer job tenure. She estimates that about 38 percent of the value of the credit is passed to the worker in the form of increased earnings. Her primary results find no long term effects on tenure, or long-term earnings, but with alternative samples she finds suggestions of modest gains.

States did not attempt to assess whether the EF subsidized jobs programs were subsidizing placements that would have occurred otherwise. Anecdotally, there were some programs in which employers could pre-select an employee they wished to hire, and then have that worker apply for the subsidized job program. The operators of these programs were aware of the potential windfall costs, but given the very tight timeframe under the EF and the desire to maximize use of available funds, they decided that avoiding such windfalls was a lower priority than minimizing the burden on employers and bringing the program to scale. In a permanent program with more time to plan and implement and capped funding, it seems likely that agencies would choose to impose more requirements to limit windfall profits for employers.

A more common scenario was that employers were either assigned a specific participant or offered a limited pool of pre-qualified job seekers from which to hire. Under such a design, it seems unlikely that there was much windfall cost to the EF programs. In general, more targeted programs, such as those limited to clients who were receiving TANF, Unemployment Insurance, or other public benefits, or who were participating in specific training programs, are likely to have a smaller share of windfall costs.

As noted above, most states did not structure their EF subsidized jobs programs to promote retention, and Oklahoma is the only program that I am aware of that paid retention bonuses. Several states and counties have nonetheless attempted to determine whether participants remained in their jobs following the end of the subsidy, and have reported retention rates ranging from 10 to 50 percent. Because states did not collect data with regard to the same time frame or use the same methodology, it is not possible to attribute the differences in retention rates to program design.

Given the tight time pressure for implementing these programs, none were evaluated with a comparison group, so it is not possible to make a rigorous statement of whether the subsidy increased participants' employment compared to what it would have been in the absence of the programs. Evaluations of previous efforts provide mixed answers. In a review of recent experimental evaluations of transitional jobs programs, a version of subsidized employment aimed at highly disadvantaged workers, Bloom (2010) found that while these programs had significant short-term impacts on employment, these effects did not last beyond the period of employment in the subsidized jobs. However, he notes that a longer history of evaluations of subsidized jobs, dating back to the 1970s and 1980s, found positive effects on long-term employment when individuals were placed directly into regular work environments, rather than temporary positions with the program operator or nonprofit organizations. While program design varied greatly across the subsidized jobs programs under the Emergency Fund, in many cases, participants were employed in positions that had the potential to continue beyond the subsidy period. This offers some basis for thinking that the employment effects of the subsidized jobs programs might continue beyond the period of the subsidy.

Stigma

Some have raised the concern that a subsidy could actually be harmful as it will signal to employers that workers are less productive. In particular, one study found that the TJTC had a negative effect because it forced workers to present a voucher and therefore identify themselves as members of a disadvantaged group. The WOTC does not require participants to pre-certify themselves and, as discussed above, there is little evidence that employers take workers' eligibility for the credit into account during the hiring process. Moreover, it is not clear that the large group now covered by the SNAP young adult certification category is perceived as less productive than other workers applying for similar jobs.

Most of the EF subsidized jobs programs did require individuals to identify themselves to employers as eligible for the subsidy, which raises the possibility of stigma. However, states that operated EF funded subsidized jobs programs did not identify stigma as a major concern, in that they had more employers willing to hire the target populations than they could accommodate. In fact, at least one area used the EF to support a very short-term subsidy that was designed to overcome employers concerns about employing individuals with criminal records by allowing them to "try-out" the employee for a limited time on a no-cost, minimal risk basis. Another workforce area is now using private funds to support a similar model aimed at encouraging employers to try out individuals who have been unemployed for long periods. It is possible that the high rates of unemployment during the Great Recession lowered the stigma associated with being unemployed or receiving public assistance.

In addition, in many programs, the employers were given an additional layer of protection by having nonprofit intermediaries or the workforce agency serve as the employer of record. This reduced employer concern about the effect of participating in a temporary program on their state unemployment insurance tax rating, and other possible legal liabilities. This is a feature that might be used to increase the appeal of on-the-job training (OJT) programs to employers. Under this WIA component, an employer receives a partial wage subsidy in order to offset the costs of training a newly hired worker who does not have the skills needed to perform in the position. This has accounted for only a small part of WIA training—just 7 percent in 2009, the most recent program year for which data are available (Department of Labor, 2010)—although evaluations suggest that it is among the most effective forms of training. For example, workers could be started in a four week subsidized job, during which time they were on the payroll of the WIB or an intermediary. Only after this initial try-out period would employers be asked to commit to hiring the participant and developing a full training plan.

Displacement and Churning

One concern that is often raised about both tax credits and subsidies is the fear of displacement or churning. Displacement is when current workers are fired in order to create a hiring opportunity for someone who qualifies for a credit. Churning is when workers are kept long enough to qualify for the maximum credit or subsidy and then let go. Both of these have negative social effects and increase the total program costs. In a discretionary program, operators have the power to exclude employers who are seen as abusing the system. For example, administrators of Erie County, New York's PIVOT program report that they are fine with employers telling them that a participant isn't working out after a few months, but if an employer keeps the participant for the full duration of the subsidy and then refuses to hire him or her, the agency is "never going to do business with you again" (Dvorak, 2010, page 15).

The WOTC does not have such protections; however, in practice, there seems to be little evidence of employers manipulating workers' duration of employment in order to maximize credits. A General Accounting Office (GAO, now the Government Accountability Office, 2001) study found that 93 percent of employers reported that displacement or churning would not be cost effective, as the tax credit only covers about half of their costs of recruiting, hiring, and training certified workers. Both that study and subsequent ones (Hamersma 2010) found no evidence that workers were more likely to exit jobs shortly after reaching the earnings level associated with the maximum credit.

Characteristics of Employers Reached

As a credit against income taxes, the WOTC cannot be claimed by public agencies or nonprofit organizations. The credit is non-refundable (and cannot exceed 90 percent of a company's annual income tax liability), but employers can carry the credit back one year or forward up to 20 years in order to apply it to a year in which they do have a tax liability.

In practice, participation in the WOTC is concentrated among large employers in industries that employ many low-skilled workers and have high turnover rates. In its 2001 study the GAO also analyzed administrative data from California and Texas for 1997 through 1999 and found that just 3 percent of participating employers were responsible for 83 percent of all hires of WOTC-certified employees. Two-thirds of the total credit claimed went to large companies, with gross annual receipts of $1 billion or more, and more than half of the total credits went to employers in retail trade. Given that most claiming firms use consultants to submit the forms, and that they typically operate on a commission basis, it is not immediately clear why small employers would be particularly under-represented; it may have to do with information costs, or something about the way the consultants structure their contracts.

The structure of the WOTC, with its relatively low cap on claimable earnings, means that it has the most value for industries that have many employees among the target populations and high turnover rates. For example, the website of one of the major WOTC consultants offers a "WOTC calculator" that projects estimated credits of $14,962.50 for a retail employer that hires 100 individuals annually, $11,115.00 for a restaurant, and $6,669.00 for a construction firm (Maximus, 2011). In particular, Hamersma and Heinrich (2008) note that among employers in Wisconsin, three of the six firms with the largest number of WOTC applications were temporary help agencies, with temp agencies accounting for 26 percent of applications for certification in 2002. This raises concerns about the effectiveness of the WOTC in connecting participants to jobs with long-term potential. A subsidized jobs program — or a discretionary tax credit, as proposed by Bartik (2009) — could allow the benefits to be targeted to employers who offer better jobs, rather than those who simply have the human resources and accounting capacity to apply for the WOTC.

While national data on EF subsidized jobs are not available, a study of employers in Illinois found that two-thirds had fewer than 15 employees when they began participating in the subsidized jobs program. Program administrators in many states noted that small businesses were especially supportive of the program, as the extra resources gave them much-needed help in weathering the economic downturn. Wage subsidies were of particular help to small businesses that were not certain when they would be able to fully support the costs of hiring new workers and that faced particular difficulties in obtaining credit during the recession. This is consistent with Bartik's (2009) suggestion that small businesses are generally more responsive to the incentives of subsidies, possibly because they face more credit constraints. This could be politically advantageous to supporters of subsidized jobs programs, as legislators are often interested in helping small businesses.

Table 3 summarizes what is known about the effects of the WOTC and subsidized job programs. WOTC is not

Table 3: Impact Comparison of WOTC and EF Subsidized Jobs		
	WOTC	**TANF EF Subsidized Jobs**
Does the program create new temporary jobs?	No	Yes, but not all positions are new jobs
Does the program create new permanent jobs?	No	Rarely
Does the program incentivize employers to hire disadvantaged workers rather than other possible employees?	Program is designed to do so, but little evidence of effectiveness	Yes
Does the program increase participants' short-term earnings and employment?	Yes, modestly	Yes, based on studies of similar programs
Does the program increase participants' long-term earnings and employment?	No	Possibly. Studies of similar programs have mixed results

designed to create new jobs, and does not. Subsidized jobs programs often lead to the creation of new temporary positions. Both are designed to incentivize employers to hire more disadvantaged workers and to increase such workers' employment and earnings. While the subsidized employment programs under the Emergency Fund were not directly evaluated, based on the record of similar, smaller programs, it appears that they are more effective than the WOTC at this goal. Policy makers hope that both programs will improve the long-term employment outcomes of participants. The evidence for subsidized jobs in this regard is mixed, but there is reason to hope that targeted placements could improve this outcome. There is no evidence that the WOTC improves participants' long-term outcomes, which is not surprising, as most placements are in the types of high turnover, low quality jobs that disadvantaged workers are typically able to obtain on their own.

Proposal to Redirect WOTC Funding to Subsidized Jobs

For these reasons, I recommend redirecting the cost of the WOTC into formula grants to states to support subsidized jobs, modeled on the experience under the TANF EF. Such a transformation could increase both short- and long-term employment of disadvantaged workers, assist small businesses, and reduce the windfall benefits going to low-wage, high turnover employers.

Estimated scope of program that could be created

As discussed above, the cost per placement of a subsidized job varies quite widely, depending on the program design. A program that provides 100 percent subsidy of market wages, and that includes non-wage costs such as payroll taxes will have higher costs than one that provides only a partial or graduated subsidy, or that caps the subsidized wage. Table 1 shows illustrative costs for a six month placement ranging from $2,000 (in Texas, which had a flat subsidy amount) up to $23,849 (in Florida, based on the maximum reimbursable wage of $19.51 an hour). The cost of a 100 percent reimbursement of 40 hours per week of a minimum wage job ($7.25 an hour, except in states with minimum wages above the national floor) is $7,540 for six months.

These figures do not include the costs of recruiting employers, screening and placing participants, monitoring participation and issuing paychecks, etc. For example, in Illinois, the nonprofit intermediaries were paid on a fee-for-service basis, with the lead contract and the contractors each receiving $600 per placement (Jennifer Hrycyna, personal communication, June 6, 2011). For most states, I do not have information about the administrative costs for the programs operated under the Emergency Fund. It appears that in at least some cases, these costs were absorbed out of existing funding for TANF or WIA programs rather than assigned to the subsidized jobs programs. For simplicity's sake, I assume a total cost range of $2,500 to $25,000 per placement, with $12,500 a plausible cost for a mid-range program design.

With limited exceptions, the subsidized jobs programs operated under the Emergency Fund did not provide wrap-around supportive services to participants, although some workers did receive such services based on their receipt of TANF cash assistance or through other programs. Because the need for and cost of such services varies so greatly depending on the target population for the program, I have not attempted to account for these costs. However, it must be recognized that low-income parents will in most cases require child care subsidies in order to obtain quality care for their children while they participate. Similarly, these estimates do not account for any reductions in public benefits that may result from participation in the program. These costs are quite significant compared to other work and training activities which is the primary reason why so few states operated subsidized jobs programs in the past. In FY 2008, only about 7,000 TANF adults had any reported hours of subsidized employment (U.S. Department of Health and Human Services, 2010). Similarly, only a handful of states have continued their subsidized jobs programs after the end of the Emergency Fund, in spite of positive experiences in operating these programs. The states that have continued their programs, or developed new ones, have in many cases reduced the level of subsidy, in order to reduce the cost of operating the program. For example, North Carolina provided a 100 percent subsidy of wages under the subsidized jobs program it operated under the EF, and did not cap the wages that could be subsidized. The state is now launching a successor program, JobBoost, funded with a combination of TANF and private foundation dollars. Under this program, the subsidized wages cannot exceed $10 an hour, and the subsidy rate is 75 percent for up to 20 weeks (Dean Simpson, personal communication, June 6, 2011).

Assuming that the full amount of current WOTC costs ($1.1 billion) could be redirected to subsidized jobs programs, these figures imply that between 44,000 and 440,000 individuals could be served, with a midrange estimate of 88,000 if costs averaged $12,500 per participant. Note that the midrange estimate is significantly less than the 260,000 people who actually participated in subsidized jobs under the Emergency Fund from 2009-2010, which had a total cost of $1.3 billion over the two years. The major reason for the low average cost under the Emergency Fund is that more than half of the participants were youth in summer jobs, which typically last only 6-8 weeks, have lower average wages, and therefore significantly lower average costs. Moreover, because some of the adult programs did not start until the spring of 2011, many participants were subsidized for less than 6 months.

Even the low-end estimate of the per-placement cost of a subsidized jobs program is higher than the cost of the WOTC. While the maximum value of the WOTC is close to the low-end estimate, in practice, the average value of the credit per certification is much lower, around $1,000 (Hamersma, 2003). Neither the WOTC, as currently operated, nor a subsidized jobs program comes close to reaching all employers of disadvantaged workers.

Suggested design of program

A key feature of the TANF Emergency Fund was its flexibility: states decided how best to use the funds to serve families in need, such as how best to structure their subsidized employment programs. This made it possible for states to operate large statewide countercyclical programs, as well as smaller programs targeted to population groups or geographical areas that face particular labor market challenges, such as non-custodial parents and rural communities with high rates of unemployment. Similarly, Brodsky (2000) notes that European countries have trended toward giving more local discretion and control in the operation of public service job creation programs, with the idea that they are more likely to be aligned to local labor market conditions and to result in transitions back to unsubsidized employment. I recommend incorporation of this flexibility into the new program.

The tradeoff of flexibility is less federal control, and possibly less targeting toward the most disadvantaged. One can certainly imagine a scenario in which recently unemployed workers would have greater political salience than the long-term disconnected. However, given the lack of an evidence base to say what the best program design is, it seems reasonable to allow states significant discretion initially. In order to avoid abuses, and the corresponding negative publicity, it may be appropriate to set a cap on the income of individuals who may be served. A cap of 200 percent of the poverty level seems reasonable; however, if such cap is imposed, states should be given authority to deem eligibility based on participation in other means-tested programs, such as SNAP or Medicaid, in order to minimize the need for additional documentation. Congress could also choose to continue or even expand the current WOTC for certain groups, such as individuals with disabilities and employment plans or veterans, if they are concerned that states will not give them priority. Another way to give flexibility within boundaries would be to set a limit on the maximum subsidy per person, with the specific design left up to the states.

The Emergency Fund was part of the TANF program, and was operated at the federal level by the Administration for Children and Families, HHS. At the state level, only the agencies that operate the TANF program could apply for and receive funds, although they could then transfer the funds to other state agencies, counties, or even private organizations. States used all of these configurations, although the most common administrative structure was some form of partnership between TANF and workforce agencies. Workforce agencies typically recruited eligible participants and employers to participate, matched participants with jobs that were suitable for their experience and skill level, and provided employer reimbursements (Pavetti et al, 2011). In many cases, these partnerships were driven by the exigencies of the situation, as states had to develop and implement programs under extremely tight timelines.

While no particular arrangement stands out as particularly effective or challenging, it seems reasonable that if a new subsidized jobs program were created, it should be operated at the federal level by the Department of Labor and at the state level by the workforce agencies, which seem the most likely entities to have both the administrative capacities to process reimbursements and the needed relationships with employers. In order to ensure that programs serving the most disadvantaged workers are engaged in the planning process, consultation with the agencies that operate the TANF program or the Employment and Training (if they are not the same as the workforce agency) should be required as a condition of funding. Governors would also have the option to elect for the funds to flow through these programs instead.

In the interests of simplicity, it seems plausible to use the current WIA formula for adult funds to allocate the funds to the states. This also has the advantage of being based on current levels of need, rather than historical spending levels. However, I would not recommend mandating these funds be distributed by formula to local agencies, as is required with WIA formula grants, but allow states to decide whether to operate statewide programs with standardized rules, or to give localities discretion to develop their own programs. States could open eligibility to all interested workforce areas, or target resources to selected localities based on an assessment of need, interest, and capacity. Should states decline to use the funds, their share could be reallocated to other states. Given the low levels of overall funding for workforce activities, it might be appropriate to allow a portion of these funds to be transferred to other WIA programs.

Conclusion

Subsidized jobs have recently shown promise, even if they are not a panacea to our unemployment issues. Under the most generous estimates, the number of jobs created is still dwarfed by the approximately seven million jobs that have been lost since the start of the recession. While programs could serve more people if they were given more time and additional funding, it is difficult to imagine them scaling up at a level that would significantly affect the total levels of employment in the economy. But these programs were effective in providing low-income parents and youth an opportunity to earn badly needed income in a socially valued way, to reconnect with the world of work, and learn skills that might lead to future employment. While there is flexibility to operate such programs within the TANF block grant, state and local budget constrains make it unlikely that they will be continued at scale without additional federal funding. And, given today's federal budget environment, new spending without an offset is highly unlikely. The WOTC is a well-intentioned program that has little, if any, effect on its desired outcomes. These funds should be redirected to a more targeted program that has the potential to have a significant impact.

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End Notes

[1] In the statute, this is referred to as the Emergency Contingency Fund, but was usually called the Emergency Fund in order to distinguish it from a previous Contingency Fund.

[2] Under the EF, states were reimbursed for 80 percent of increased spending in the applicable categories. Countable spending included funding from the TANF block grant or spending that could be claimed towards the states' maintenance of effort (MOE) requirement. Third party expenditures can be claimed as MOE under some circumstances, and HHS issued guidance allowing states to claim the employers' cost of supervising and training participants in subsidized jobs programs as an in-kind donation equal to 25 percent of the wage costs, without requiring additional documentation.

[3] Of the $5 billion, $1.6 billion went to basic assistance and $2.07 billion to short-term non-recurrent benefits. States were authorized to draw down funds from the TANF Emergency Fund on the basis of their projections of the funds that they would spend. Therefore, these figures reflect these projections rather than actual expenditure data, which have not been finalized.

[4] As noted above, employer costs were claimed as in-kind donations toward meeting the MOE requirements. However, funds originating in other federal programs cannot be claimed as MOE. This meant that states could not use public sector placements unless they could either come up with the 20 percent match from other sources or demonstrate that the supervision and training costs were not coming from another federal program. This was not a deliberate policy choice at the federal level, but rather the result of the interactions of existing policies. However, at the state level, some states clearly found it more politically attractive to subsidize private-sector jobs.

[5] Technically, there is not a direct relationship between the number of certifications and the cost of the program because not all certified eligible workers are retained for long enough for the employer to claim the credit. In addition, certifications one year may lead to credits that year or the following years because of the retention requirements, and employers' ability to carry forward excess tax credits.

[6] Of course, not all of these individuals could be claimed under the WOTC, as some may not meet the duration requirements, and only a fraction of those who do will start a new job in a given year. (In the average month, one-third of the SNAP recipients in this age group had earned income.) (Personal communication with K. Wong, based on analysis of FNS SNAP Quality Control Data for FY 2008.)

[7] The large variation in possible estimates is due to high rates of non-response about welfare and food stamp receipt and the fact that the SIPP questions do not line up exactly to the WOTC/WTW tax credit requirements.

[8] Subsidized jobs under the EF were covered by the standard non-displacement language under TANF, which says that adults may not be placed in a vacancy when another individual is "on layoff from the same or any substantively equivalent job" or when an employer has fired another worker in order to create a vacancy (Section 407(f) of the Social Security Act).

[9] For data reasons, this analysis is limited to individuals who qualify based on welfare receipt. While welfare recipients are a decreasing portion of the WOTC groups, older studies of subsidized employment programs found the strongest impacts for welfare recipients versus other low-income populations (Bloom 2010), so it is probably reasonable to think of these findings as high end estimates of the overall impact of the credit.