

# Subsidized Employment: An Investment in America's Workers & Small Business

Subsidized Employment Benefits Workers, Small Businesses, Nonprofits, & the Public

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An illustration featuring several lightbulbs. One lightbulb on the right is glowing yellow and has a heart shape drawn inside its glass. Other lightbulbs are sketched in black and white, some with spiral filaments. The background is a textured, light brown color with some yellow and orange splatters.

**Evidence and experience tell us that economically-marginalized workers, small businesses, and divested communities benefit the most from subsidized employment, not big corporations.**

## INTRODUCTION

Extensive research has shown subsidized employment to be a highly successful strategy for rapidly helping large numbers of people who would not otherwise be working access employment and earned income. Subsidized jobs have been successfully used during times of high unemployment to help displaced workers earn income and to support small businesses impacted by recession. Equally important, subsidized jobs also offer jobseekers facing structural barriers to employment—such as homelessness, a record, or chronic unemployment—a critical opportunity to access work opportunities from which they would be otherwise excluded.

In spite of its well-documented benefits to workers, the practice of subsidizing workers' wages sometimes raises questions about whether employers—particularly large corporate employers—capture too much of the value of these programs. This is an understandable concern: how can we be sure that big businesses are not reaping a windfall of “free labor” while a third party pays the wage? In fact, evidence and experience tell us that economically-marginalized workers, small businesses, and divested communities benefit the most from subsidized employment, not big corporations.

Evaluations of large-scale subsidized employment programs, such as those implemented during the Great Recession, clearly show that the primary beneficiaries of these programs are the workers who would not have been earning income were it not for the subsidized job. Other beneficiaries include small business partners, nonprofits, and local economies.



#### **SUBSIDIZED EMPLOYMENT PROGRAMS FAVOR SMALL BUSINESS.**

The overwhelming majority of private sector employer partners in subsidized employment initiatives are small businesses. For example, in Put Illinois to Work (PITW), one of several state-led subsidized employment programs funded through the American Recovery and Reinvestment Act, 32% of participating employers had fewer than five employees, and another 35% had between five and 14 employees. Overall, 86% of PITW employer partners had fewer than 50 employees, and only 1.6% had more than 500 employees. Likewise, across states that implemented subsidized employment under ARRA, over half had fewer than twenty employees.



#### **SUBSIDIZED EMPLOYMENT PRIMARILY BENEFITS DISADVANTAGED JOBSEEKERS.**

The subsidized workers who benefited from the opportunity to earn income and work experience through PITW were primarily women of color who had been excluded from economic opportunity: 60% were female, 81% were Black, and another 10% were Latinx. Thirty-nine percent had not worked at all in the prior two years, and 32% reported having no income at all in the month preceding PITW. Average monthly income for these households was only \$710 prior to enrolling in PITW. This is consistent with ARRA-funded subsidized employment initiatives in other states, which showed particular benefits for the long-term unemployed and people with significant barriers to employment.



#### **LOW-INCOME COMMUNITIES ALSO BENEFIT FROM SUBSIDIZED EMPLOYMENT PROGRAMS.**

The bulk of the investments made in subsidized employment programs flow directly to low-income households and communities in the form of wages. In addition to bolstering household income, these wages can provide significant economic ripple effects in poor communities. An analysis of another Illinois subsidized employment program, Chicago Neighborhood JobStart, found that every \$1 spent on subsidized employment yielded \$1.78 in economic activity as subsidized workers spent their earnings with local businesses.

**There are a few reasons why subsidized employment, when designed and implemented well, does not allow big business to capture very much of the benefit.**



#### **THE VALUE PROPOSITION OF SUBSIDIZED EMPLOYMENT FAVORS SMALL EMPLOYERS AND NONPROFITS.**

For a large corporate employer, the availability of a few subsidized workers—or even a few dozen—doesn’t make a dent in their bottom line. Anecdotally, many program providers share that large employers are generally not interested in partnering with subsidized employment programs. This is because large employers are wary of the perceived obligations and liabilities and because corporate bureaucracy makes it difficult for them to enter into such a partnership.

Conversely, a small employer is likely to see a noticeable effect on staff capacity by adding one or two subsidized workers. In addition, small business owners are better able to make changes in company policies to accommodate subsidized workers, such as amending hiring prohibitions for workers with a record.

Finally, small employers tend to be closer to the communities in which they do business and may be more willing to partner based on a desire to serve the community. Likewise, nonprofit community-based organizations with limited budgets may benefit more from the availability of subsidized workers and often see hosting subsidized workers as aligned with their organizational mission.



#### **SUBSIDIZED EMPLOYMENT IS FOCUSED ON PEOPLE WHO WOULD NOT OTHERWISE BE WORKING.**

If an employer were able to use wage subsidies to pay for workers that they would have hired anyway, it would be easy for employers to misuse a subsidized employment program. A subsidized employment program can prevent that kind of employer misuse by targeting subsidized employment opportunities to people who would not be able to access work without a subsidized job, whether due to an economic recession or structural barriers to employment such as having a record or experiencing homelessness. As a bonus, employers who participate in subsidized employment initiatives often report positive changes in their attitudes and beliefs regarding the employability of jobseekers facing barriers to employment.



## THE PUBLIC SECTOR HAS AN IMPORTANT EMPLOYER ROLE.

Small businesses and nonprofits have made excellent employer partners, and the benefits they gain through partnership are important. However, in order to take subsidized employment to scale, the public sector has an important role to play. By directly offering low-barrier, high-quality subsidized employment opportunities, federal, state, and municipal government entities can perform critical functions that benefit communities such as infrastructure development, elder care, and neighborhood beautification, while using their capacity to ensure that a subsidized job is available to every jobseeker who wants one. Additionally, by offering high-quality, living-wage public sector employment, governments can help establish standards for job quality and wages and incent private employers to follow suit.

### **Designing for Equity: Subsidized Jobs & Small Business**

An equity-centered national subsidized employment program can be designed to prioritize partnerships with employers that are small, minority-owned, and women-owned business that operate in and serve low-income communities. A program can also be structured to limit the size of eligible employer partners to favor small and local businesses. Through intentional design choices, a subsidized employment program can be structured to help ensure that program dollars reach the businesses and jobseekers who need them most.

## CONCLUSION

Although concerns about subsidized employment functioning as “corporate welfare” are well-meaning, decades of experience and research demonstrate that the greatest beneficiaries are not corporations but rather jobseekers facing structural barriers and exclusion from labor markets, especially opportunity youth and BIPOC jobseekers. The benefits that flow to employers are primarily going to small businesses and nonprofits, and ultimately supporting economies in low-income communities and communities of color.

As we approach a critical window to take action on an equity-focused federal subsidized employment initiative, it is essential that advocates, decision makers, and the public understand who truly benefits from subsidized employment. A national subsidized employment initiative is supported by President Biden in the Build Back Better agenda—now is the time for Congress to act on these priorities. Failure to do so will result in an inequitable recovery in which too many workers are left behind.