

# Improving TANF's Countercyclicality through Increased Basic Assistance and Subsidized Jobs

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## Abstract

The Temporary Assistance for Needy Families program (TANF) is a core part of our nation's economic security system, intended to assist families with children facing deep economic insecurity. Yet, TANF's effectiveness in supporting basic living standards—especially through cash assistance as well as job preparation, creation, and placement—has fallen considerably, particularly during recessions, which is when families most require assistance.

I propose policymakers immediately establish a TANF Community and Family Stabilization Program to meet families' basic needs while also acting as an automatic economic stabilizer. As an intermediate step to broader TANF reform, this program would offer a generous and open-ended match to state efforts to provide families with two specific types of support:

1. **Basic assistance:** Cash and vouchers, including emergency assistance, to meet the basic needs of families during recessions. This assistance will stimulate the economy, reduce immediate hardship, and likely lead to longer-term benefits for affected children.
2. **Subsidized jobs with wraparound support services:** Programs, administered throughout the business cycle, that offset the cost of employers hiring workers who likely would have not been otherwise hired (for positions that likely would not have otherwise existed). These programs would also partially match state spending on related job preparation and training as well as on wraparound support services.

## Introduction

The Temporary Assistance for Needy Families (TANF) program—a mix of state spending and a fixed (unadjusted for inflation) \$16.5 billion federal block grant to states—serves low-income families with children. As a rare source of cash support for working-age families without access to good jobs, disability benefits, or unemployment insurance (UI), TANF remains a core part of our nation’s economic security system. TANF also can provide holistic support services—in theory offering a multifaceted approach helping to address some of the barriers to decent employment that many families with very low incomes face.

Unfortunately, TANF suffers from widely recognized (Germanis 2018; Mathur 2015) and profound structural and other flaws (Edelman, Dutta-Gupta, and Grant 2015). Chief among them, TANF’s block grant structure has limited state accountability for access and outcomes, while also reducing both its responsiveness to changing economic needs and its usefulness as an automatic stabilizer. In addition, excessive flexibility for types of allowable state spending have led states to use TANF funds in ways that are not well-targeted to support the basic living standards of families with the greatest need (Brumfield et al. 2019). Its design has incentivized states to shrink family-stabilizing cash assistance, even while states spend little on job preparation, placement, creation, and supports (Schott, Floyd, and Burnside 2019).

As a result of these flaws, the TANF program has fallen considerably short in (1) reaching a sizeable share of very disadvantaged families with children, (2) keeping families and children out of deep poverty, and (3) responding to changes in need, particularly driven by economic crises, but also demographic or even environmental crises and changes (the latter two topics not covered here)—despite the existence of a TANF Contingency Fund created for such a purpose (Bitler and Hoynes 2016; Center on Budget and Policy Priorities [CBPP] 2018a; Mitchell 2017).

This paper focuses on changes in the demand for TANF driven by deteriorating economic conditions. During the Great Recession, the number of unemployed individuals increased by 7 million (Pavetti 2014) and official poverty among families with children rose by 1.3 million—from 15.0 percent in 2007 to 18.5 percent in 2010—yet the number of families participating in TANF grew by just 191,161 from December 2007 through December 2010 (U.S. Census Bureau [Census] 2018; U.S. Department of Health and Human Services [HHS] 2018d; author’s calculations).<sup>1</sup> Even that increase may be attributable largely to the temporary TANF Emergency Fund (Schott and Pavetti 2010a) created by the American Recovery

and Reinvestment Act of 2009 to provide basic assistance and one-time emergency assistance, and to support subsidized jobs—a provision that serves as an illustrative model for the proposal here.

As a step to a broad, structural TANF overhaul, I propose creating a new, permanent, and uncapped Community and Family Stabilization Program (Stabilization Program) within TANF. Targeting the most-expansive universe of plausibly eligible TANF participants, including some youths (Lower-Basch 2010) and even noncustodial parents for subsidized jobs, this program would create an effective countercyclical aspect to TANF through increased (1) cash and other basic assistance to families *during particularly poor labor markets* and (2) support for subsidized jobs programs with related support services *throughout the business cycle*.

- 1. Basic assistance:** The Stabilization Program would provide a federal match—rising with state and national unemployment rates—for additional TANF basic assistance spending. Increasing the availability of basic assistance—cash and, to a lesser extent, vouchers for specific services like child care, as well as one-time emergency assistance—is an important countercyclical measure that supports spending by families with very low incomes. It may also have positive impacts on health, student achievement, and earnings in adulthood for affected children (Hoynes and Schanzenbach 2018). It would reasonably be expected to stimulate a shrinking economy because it would be well-targeted to families who would almost assuredly immediately spend the money, addressing a serious flaw in current policy. In 2017 only 23 percent of TANF families with children received basic assistance—a far cry from the 68 percent of low-income families who received such assistance in 1996 (the year of TANF's enactment)—and a share that did not rise markedly during and in the aftermath of the Great Recession. The share of TANF's spending on basic assistance continues to decline even though it is often the sole source of such public support for struggling families who are ineligible for disability assistance (Floyd, Burnside, and Schott 2018a).
- 2. Subsidized jobs with wraparound support services:** The Stabilization Program would also provide subsidized jobs and wraparound services throughout the business cycle. Subsidized jobs programs offset the cost of public and private (for profit and nonprofit) employers hiring workers they probably would not otherwise have hired and in positions that likely otherwise would not have existed. Job preparation, on-the-job training, and wraparound support services—including assistance with transportation, caregiving, job searching, legal issues, and post-placement job search—are essential complements to help program

participants overcome some of the barriers to employment they face. Subsidized jobs can serve as an effective way to raise very low family incomes when workers participate. As with other income boosts, boosting incomes through jobs likely has sizeable long-term benefits for young children in these families (Sherman and Mitchell 2017).

As I detail in this proposal, the Stabilization Program is designed in light of evidence on the performance of TANF as well as past, existing, and proposed subsidized jobs programs (Dutta-Gupta et al. 2016; Dutta-Gupta et al. 2018; Lower-Basch 2011; Mitchell 2018; Office of Senator Tammy Baldwin 2016; United States Senate Committee on Finance 2019; West, Vallas, and Boteach 2015). In particular, the temporary TANF Emergency Fund created during the most-recent national recession provides both a useful model and lessons to be learned for the Stabilization Program. Its experience demonstrates that, with substantial federal support, states can design and implement countercyclical basic assistance and subsidized jobs programs at a reasonable cost, including through cost-sharing with employers. These lessons also indicate potential pitfalls. For example, states were reluctant to draw on uncertain funding from the 2009–10 TANF Emergency Fund and permanent TANF Contingency Fund to provide benefits, underscoring why the Stabilization Program must provide consistent, adequate, and responsive funding (throughout the business cycle in the case of subsidized jobs).

To support basic assistance during downturns, I project that the Stabilization Program would provide annual federal funds of \$44 billion at the peak of a deep recession. To support subsidized jobs throughout the business cycle, I project program spending of \$3.5 billion (outside of a recession) to \$10.8 billion (during a recession) in annual federal funds in current dollars.

Policymakers should establish the Stabilization Program immediately, before the next recession materializes and while states have the necessary time to build up their capacity to implement subsidized jobs programs. Such a program is harmonious with and is easily integrated into the current TANF program—and state and local agencies administering TANF—since TANF already supports (albeit inadequately) both basic assistance and subsidized jobs. The program could act as a stepping-stone to reforming TANF and establishing a stronger, farther-reaching, stand-alone, national subsidized jobs program (Dutta-Gupta et al. 2018).

## The Challenge

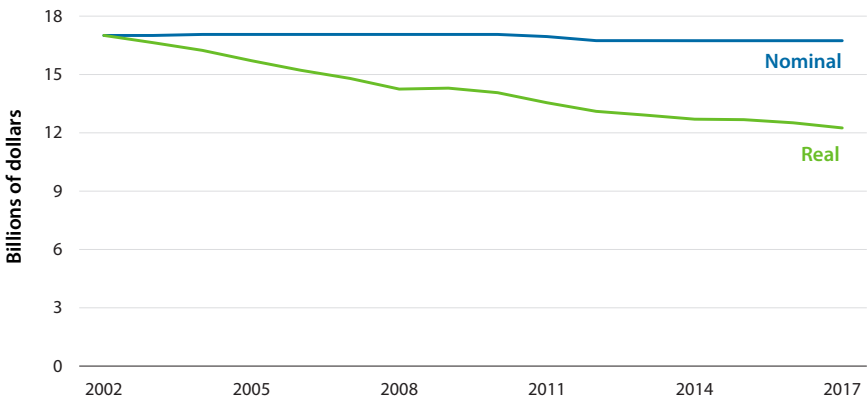
In August 1996 President Clinton signed into law the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, creating TANF, among

numerous other changes. TANF replaced Aid to Families with Dependent Children (AFDC), which was a 60-year old cash assistance and work program for families with children when they have very low incomes (HHS 2009). Under AFDC, states could access unlimited matching federal funds to subsidize their own spending (HHS 1998), which meant that increased countercyclical state spending necessarily increased federal funding (HHS 2009; Ziliak 2016). Any family eligible to receive assistance under AFDC could receive assistance, though cash assistance levels varied from state to state and were typically modest (Page and Larner 1997).

TANF, by contrast, is a capped, nominally fixed (i.e., unadjusted for inflation; see figure 1) block grant program that gives states significant discretion in designing their TANF programs. This flexibility in determining eligibility and in allowable state spending, combined with the capped funding structure, has limited participation even as need has grown (HHS 2009). To receive federal TANF block grants, states must demonstrate a maintenance of effort (MOE) by spending at least 75 percent of their 1994 AFDC spending (unadjusted for inflation) (HHS n.d.a).

States use TANF funds to provide participants with basic assistance (cash and vouchers) as well as other supports like child care, early childhood

FIGURE 1.  
Real and Nominal Temporary Assistance for Needy Families (TANF) Funding, 2002–17



Source: Adapted from Schott, Pavetti, and Finch 2012 using data from U.S. Department of Health and Human Services (HHS) 2002–17; author's calculations.

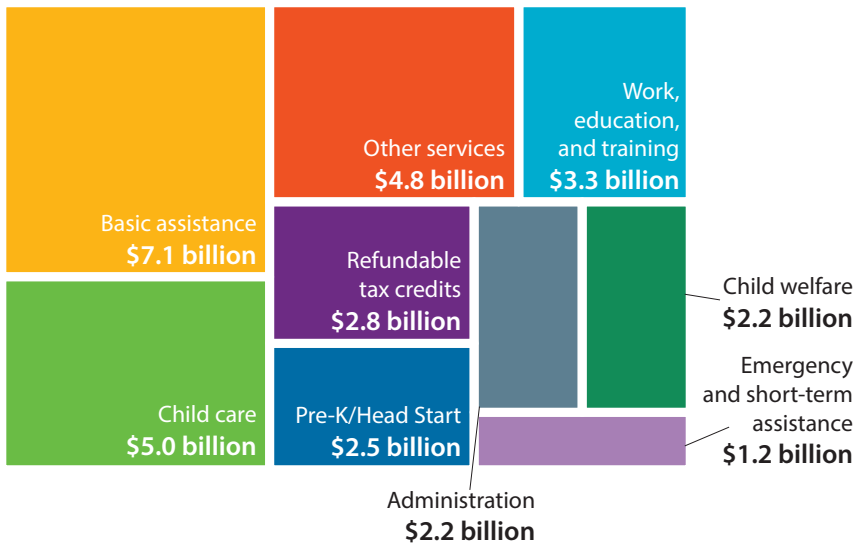
Note: Years are fiscal years. Total budget authority includes State Family Assistance Grants, Family Assistance Grants to Territories, Matching Grants to Territories, Supplemental Grants, Healthy Marriage Grants, and the Tribal Works Program. It excludes the Contingency Fund and Emergency Contingency Fund. Real dollars adjusted using Consumer Price Index Research Series Using Current Methods (CPI-U-RS), not seasonally adjusted.

programs, work education, training activities, and subsidized employment (Falk 2017). In 2017 states spent only around half of state and federal TANF funds in core programmatic areas—basic assistance, work supports and activities, and childcare (see figure 2)—with nine states spending less than 30 percent in these areas. Basic assistance totaling \$7.1 billion represented less than 23 percent of total spending (Schott, Floyd, and Burnside 2019). Subsidized jobs spending by state TANF programs likely falls under the “Work, education, and training” spending category, which represented \$3.3 billion in fiscal year 2017 (see figure 2). But estimating spending on these programs is challenging given that each state has different programs and may categorize their spending in different ways.

When compared to AFDC, TANF lifts fewer children and families out of poverty—and particularly few out of deep poverty—as a result of limited access and weak benefit generosity. According to CBPP, 68 families received TANF for every 100 families in poverty in 1996; in 2017 only 23 families received TANF for every 100 families in poverty (Floyd, Burnside, Schott 2018a). Those who do participate in TANF generally receive small benefits: as of July 2016, the maximum TANF cash payment for a family of three ranged from \$170 (Mississippi) to \$923 (Alaska) per month, and was below 50 percent of poverty-level income in all states (CRS 2019). Looking at all

FIGURE 2.

## TANF Spending, by Category



Source: Congressional Research Service (CRS) 2019.

Note: Figures may not add to total due to rounding. Data are for fiscal year 2017.

TANF spending, average real federal TANF dollars spent have dropped 32 percent from 1997 to 2016, from \$1,860 per child in poverty to \$1,273 per child in poverty (in 2016 dollars; Brumfield et al. 2019). Whereas AFDC lifted more than 2 million children out of deep poverty in 1995, TANF lifted only 635,000 children out of deep poverty in 2010 (CBPP 2018a).

### **TANF FAILS TO ADJUST TO CHANGES IN NEED AND RESPONDS POORLY TO SHRINKING ECONOMIES**

TANF both falls short of meeting need and fails to *adjust* appropriately in response to *changing* need. In fact, it sometimes shifts counter to growing need, having procyclical effects. As a fixed block grant program, federal TANF funds are capped and have remained at around \$16.5 billion since 1996, eroding their value (by approximately one-third), impact, and responsiveness over time (CRS 2019). Since spending is fixed and capped, and since states do not increase spending during poor economic conditions, block grant programs like TANF struggle to respond adequately to economic downturns, yet these are precisely the times when securing and maintaining stable and decent employment is toughest.

Despite the existence of a TANF Contingency Fund (HHS 1997) for the very purpose of responding to economic distress (HHS 2010), the TANF program has proven itself increasingly ill-suited as an automatic stabilizer for families, communities, and state and national economies (Pavetti, Schott, and Lower-Basch 2011). This is due to structural and programmatic features—such as the fixed block grant, work participation rate, and caseload reduction credit—discussed below (Pavetti, Schott, and Lower-Basch 2011).<sup>2</sup>

#### *The TANF Contingency Fund Is Poorly Designed to Respond to a Weak Economy*

Congress has persistently underfunded the TANF Contingency Fund: its original \$2 billion allocation from 1996 was depleted by December 2009 (Schott and Pavetti 2011). This initial depletion took more than a decade because of the triggers and spending requirements. However, the baselines for the triggers are frozen and all states now meet them. As a result, states can qualify for funds amidst an economic expansion because of the outdated triggers that sometimes reflect little about growing economic hardship and distress in the state (Schott and Pavetti 2011). In fiscal year 2018, though 17 states qualified for and requested resources from the Contingency Fund for 12 months, the Fund's \$608 million in available funding had been depleted by May 2018 (HHS 2018b). The situation was similar for fiscal years 2014–17 (HHS 2014b, 2015a, 2016, 2017): State requests exhausted the Fund well before the end of the year.<sup>3</sup>

Beyond its lack of funding, the design and eligibility structure of the TANF Contingency Fund is complicated and outdated. States can access the TANF Contingency Fund based on two economic-need triggers: (1) changes in the Supplemental Nutrition Assistance Program (SNAP, formerly the Food Stamp Program) caseloads relative to 1994–95 or (2) increasing unemployment relative to the prior two years (Schott and Pavetti 2011). The first trigger leads to poor targeting not only because it is based on a now-irrelevant measure, but also because SNAP participation has been affected by far more than economic conditions (e.g., including legislated expansions) especially prior to the Great Recession (Schott and Pavetti 2011). The second measure is also flawed since states with persistent high unemployment—as was the case in many states during and following the Great Recession—may not qualify for contingency funds simply because their unemployment rate fell slightly below that of the prior two years (Schott and Pavetti 2011). In another chapter in this volume, Gabriel Chodorow-Reich and John Coglianesse (2019) discuss the problems with such look-back periods in the context of extended unemployment benefits.

If a state is eligible under either of these triggers in a particular month, it can qualify for funds only for that month and the following month, making planning difficult (Schott and Pavetti 2011). To be sure, states can use their own funds or base federal funding (not Contingency Fund dollars) in preparation for downturns. However, the possibility of abrupt discontinuation of eligibility means that states receiving Contingency Fund money do not necessarily increase total TANF spending when economic conditions warrant doing so. For example, Arizona did just this, requesting and spending Contingency Fund dollars during and immediately following the Great Recession, while cutting its TANF benefits and program (Schott and Pavetti 2011).

### *The Overall TANF Program Has Performed Poorly in Each Recession since Its Enactment*

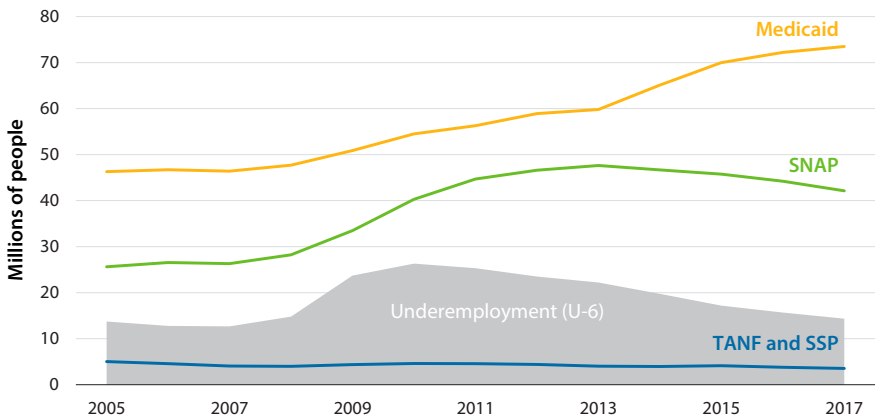
In fact, TANF has fallen short during the two recessions since its inception: the 2001 recession and the Great Recession of 2007–9 (Bitler and Hoynes 2010). During and following the 2001 recession, which saw the number of unemployed individuals rise by more than 3.2 million people (Bureau of Labor Statistics [BLS] 2001–03; author's calculations) and the number of families with children experiencing poverty rise by nearly 1 million, the number of participating families actually declined (Zedlewski 2008), continuing a downward trend that began in the final years of AFDC (CBPP 2018b).



TANF's failure to respond to growing need was starker still during the Great Recession, especially in comparison to other government programs that serve families living in poverty such as Medicaid and SNAP (see figure 3; Germanis 2016). While the number of unemployed individuals increased by 7 million during the Great Recession (Pavetti 2014) and official poverty among families with children rose by 1.3 million—from 15.0 percent in 2007 to 18.5 percent in 2010—the number of participating families grew by just 191,161 (Census 2018; HHS 2018d; author's calculations). Even that increase may be attributable largely to congressional action temporarily establishing a new \$5 billion TANF Emergency Fund (Schott and Pavetti 2010a).

The poor performance of TANF as an automatic stabilizer is also reflected in its inability to respond to extreme weather events (Mitchell 2017) and other crises, which are increasingly likely (Melillo, Richmond, and Yohe 2014) in light of the rapid rise of global temperatures. Fixed block grant funding without supplemental and responsive mechanisms stand in contrast to the ability of better-structured programs (e.g., Medicaid and SNAP) that have both historically and recently responded automatically and more robustly to changes in need, including after extreme weather events and other crises. Similarly, the Medicaid block grant in Puerto Rico has posed challenges in response to hurricanes and public health crises when compared to the

FIGURE 3.  
Participants in Medicaid, SNAP, and TANF, FY 2005–17



Source: HHS 2018d; U.S. Department of Agriculture 2019; Statista 2019; U.S. Department of Labor [DOL] DOL 2005–17; Bureau of Labor Statistics (BLS) 2005–17; author's calculations.

Note: The "TANF and SSP" series refers to the number of TANF participants based on average annual participation in a given fiscal year and includes those from separate state program (SSP)-MOE. Annual UI participants are the average of weekly participants based on the fiscal year calendar.

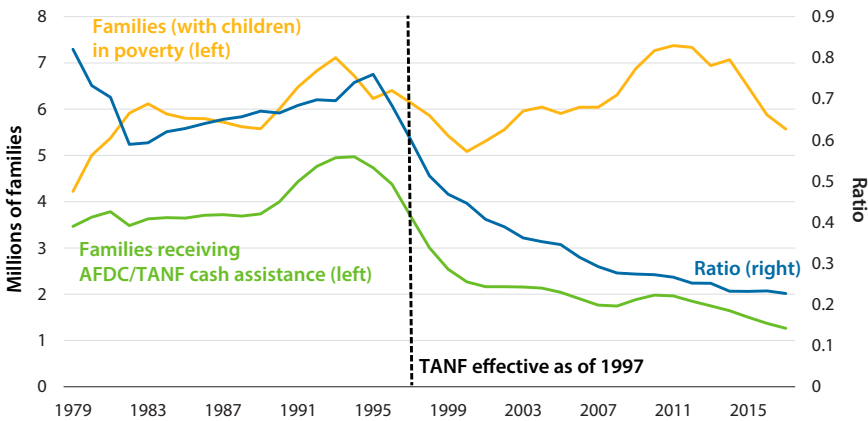
open-ended match-based Medicaid program in 50 states and the District of Columbia (Brumfield et al. 2019).

As shown in figure 4, the number of families receiving cash assistance under TANF has not substantially increased during recessionary periods (March–November 2001 and December 2007–June 2009); it covered just 15 percent of the growth in families with children experiencing poverty during the Great Recession (Census 2018). While TANF cash assistance participation grew by barely 12 percent (Floyd, Burnside, and Schott 2018b; author’s calculations), SNAP participation grew by 81 percent (Greenstein, Keith-Jennings, and Rosenbaum 2018). Overall access to TANF cash assistance has declined substantially since TANF’s inception. In 1997 states spent \$14 billion on cash assistance—67 percent more than 2017 levels after adjusting for inflation (Schott, Floyd, and Burnside 2019).

**THE UNITED STATES NEEDS ROBUST SUBSIDIZED JOBS SPENDING**

Reducing involuntary unemployment to its minimum requires changes in monetary, exchange rate, regulatory, and fiscal policy throughout the business cycle (Bivens 2018). Within this framework, I have elsewhere called for substantial fiscal investments that would lead to net job creation at all times, which would help us meet our nation’s substantial and unmet

FIGURE 4.  
Families (with Children) Experiencing Poverty and Families Receiving AFDC/TANF Cash Assistance, 1979–2017



Source: Floyd, Schott, and Burnside 2018b; author’s calculations.

Note: The “Ratio” series refers to the number of families (with children) receiving AFDC/TANF cash assistance divided by the number of families (with children) in poverty. Poverty figures use the official poverty measure. TANF was enacted in August 1996 and took effect in early 1997.

caregiving needs (Dastur et al. 2017). (See also Bernstein [2018] for a general discussion of and a proposal for maintaining full employment to encourage wage growth.) Even with all these reforms and even during periods of strong economic growth, some workers with serious or multiple barriers to employment (e.g., caregiving responsibilities, disabilities, or criminal records)<sup>4</sup> would remain involuntarily unemployed or underemployed without efforts focused on addressing the barriers they face (Dutta-Gupta et al. 2016). Subsidized jobs can target precisely these workers and thus are likely an essential component to ensuring job opportunities for all who want them.

Subsidized jobs could help many of these workers, potentially in a cost-effective way that is more beneficial than alternatives, yet subsidized jobs continue to be underutilized (see box 1; Dutta-Gupta et al. 2016). These jobs offer critical income in exchange for productive work; reduce the risk an employer perceives (e.g., when hiring someone with a criminal conviction) or the cost an employer may incur from hiring a worker or increasing a worker's pay; and improve the well-being of participating workers and their families (Dutta-Gupta et al. 2016).

Subsidized jobs programs have had varying success in boosting post-participation labor market outcomes, but many have demonstrated sustained positive impacts, including well after workers complete participation, and several have been socially cost-beneficial for some populations (Dutta-Gupta et al. 2016). Impacts range from higher employment and earnings, to reduced rates of depression and criminal justice system interaction, to improved psychological well-being and outcomes for children in participating families (Dutta-Gupta et al. 2016).

Subsidized jobs, which range from partial- to full-wage subsidies, also enable nonprofit and for-profit employer placements, thus expanding the range of opportunities for disadvantaged workers while taking advantage of an expansive hiring and employment infrastructure to meet changes in need as rapidly as possible. Allowing placements with for-profit (and nonprofit) private employers can help stabilize communities. Notably, there is also evidence that workers are more likely to benefit in the long-term from placements with private employers (Card, Kluve, and Weber 2015). In contrast to direct public hiring, however, subsidized jobs will directly improve the profitability of some for-profit firms, creating concern about whether the public sector should provide such support. (Please refer to the Questions and Concerns section of this chapter for additional discussion of this issue.)

## BOX 1.

**Basic Assistance and Subsidized Jobs Are Underutilized**

TANF likely led initially to increases in employment and earnings among single mothers through some combination of work requirements, a larger initial spending level, and other aspects of the TANF reform. However, these beneficial employment and earnings impacts are far smaller than those generated by the combination of a tight labor market, Earned Income Tax Credit (EITC) expansions, and increased child-care assistance (Ziliak 2016). Even so, these increased earnings were largely canceled out by decreased TANF benefits and, in some cases, benefits were lost without gains in employment, pushing families deeper into poverty (Moffitt 2015). As noted above, states have redirected some of their assistance to higher-income TANF participants and used the TANF block grant to substitute for existing state programs, leaving behind those with the most challenges, including people with disabilities and mental health challenges.

For TANF to effectively meet families' and children's needs, it must increase the support that families most require—basic assistance and subsidized jobs with wraparound support services. These strategies are underutilized in part because of the incentives set up by TANF's capped, block grant structure that allows states to instead use federal TANF dollars to fill budget gaps. Case in point: one of the program's only accountability measures—the required work participation rates—creates powerful incentives to avoid enrolling families with the greatest need, while doing little if anything to promote positive medium- to long-term labor market outcomes. At the same time, TANF's provision of cash assistance has shrunk considerably, despite evidence for persistent (unmet) need (Hoynes and Schanzenbach 2018).

Adding a subsidized jobs program would address states' general failure to use their TANF programs to increase disadvantaged parents' employment and earnings. This shortcoming may be unsurprising given the lack of accountability and the actual incentives that states face. Each state is subject to federal work participation rates that require a share of TANF participants to be engaged in formal employment or approved work-related activities. TANF's programmatic requirements limit its ability to reach parents, to

promote positive labor market outcomes throughout the business cycle, and to adjust (minimally or not at all) in response to recessions.

While promoting work (including through child-care assistance) and job preparation (including through education and training) is among the core purposes of TANF beyond basic assistance, CBPP found that “states spent only about 30 percent of their federal and state TANF dollars on the other core areas combined: child care, and work activities and supports” (Schott, Floyd, and Burnside 2019). In some cases, this spending simply replaced existing spending, freeing up state funds for unrelated purposes (Schott, Floyd, and Burnside 2019). The focus of this proposal is to ensure that TANF plays its part through subsidized employment, until and unless TANF is dramatically reformed and a stand-alone national subsidized jobs program is established. The experience of this proposed Stabilization Program could help with both of those longer-term policy change goals.

Part of the challenge is that ill-designed work participation rate schemes have encouraged states to apply for caseload reduction credits that reduce their overall program enrollment (aside from changing eligibility requirements) (Schott and Pavetti 2013). Statewide work participation rate requirements begin at 50 percent for families with adult participants (90 percent for two-parent families) that have a member who meets these work requirements, but few states meet these thresholds (CRS 2017; Hahn, Kassabian, and Zedlewski 2012). During the first 12 years after TANF's inception, the national average work participation rate for non-two-parent TANF families typically hovered between 31 and 35 percent (Hahn, Kassabian, and Zedlewski 2012). To meet even these lower requirements, states redirected assistance to relatively better-off families (which improves state work participation rates), especially following enactment of the Deficit Reduction Act of 2005 (Hahn, Kassabian, and Zedlewski 2012). For example, states have gone out of their way to retain families with employed adults and have focused on job-ready families, serving those with the greatest barriers to employment (if at all) through solely state-funded programs (Hahn, Kassabian, and Zedlewski 2012).

In recent years, work participation rates have increased substantially, reaching a 53 percent all-family rate in fiscal year 2017, largely due to increased state spending on earning supplement programs that benefit higher-income working families (CRS 2017, 2019). In other words, the increase does not stem from greater employment or work-related engagement of typical TANF participants (CRS 2019). Even so, states spend less than one-eighth of total TANF dollars on work activities and supports, and the available evidence indicates little or no improvement in

employment outcomes for participants that is attributable to the program (CBPP 2018a; Germanis 2015; Pavetti 2015).

## The Proposal

I propose a new Community and Family Stabilization Program (the Stabilization Program) within TANF to meet the growing need for (1) basic assistance (e.g., ongoing cash assistance, vouchers, and one-time emergency assistance) during recessionary periods and (2) subsidized jobs with related support services throughout the business cycle. States would be able to decide which purposes they want to put funds toward, and federal funding would be consistent, generous, and responsive to meeting participants' needs. Because TANF is a federal-state partnership, the Stabilization Program would be run as an extension of that partnership, ideally with universal state participation. For the subsidized jobs component, the Stabilization Program and participating states will also leverage financial contributions by public sector, nonprofit, and especially private sector employers. Both the basic assistance and subsidized jobs components would expand to meet increased need during economic downturns.

The proposal contains the following core features:

1. Two unemployment-based triggers—one at the national level and one at the state level—that would increase federal spending during economic downturns. In combination, the triggers would allow TANF to respond to a national recession as well as regional economic weakness.
2. A countercyclical federal match rate on additional TANF basic assistance spending, ranging from 0 to 100 percent as national and state triggers are activated.
3. A countercyclical federal match rate on subsidized employment spending, ranging from a state-specific base match rate (never lower than 75 percent) to 100 percent.
4. Sufficient funding to offset the vast majority or even all of the cost of each job, subject to state policy and implementation decisions.
5. In order to maintain eligibility, states would be required to demonstrate an increase in enrollment and costs relative to baseline (i.e., pre-trigger) periods. In the case of subsidized jobs, states would be asked to show that their programs targeted jobs that would have otherwise not existed.

Below, I outline the proposed program's structure and countercyclical features, administration, eligibility and funding process, and accountability measures. Then I discuss the Stabilization Program's expected costs. Much

of this proposal and its features are drawn from the TANF Emergency Fund experience (see box 2), which should give policymakers confidence that the Stabilization Program can be well implemented by the federal and state governments alike, to the direct benefit of workers and communities devastated by poor economic conditions. At the national level, the Stabilization Program would constitute an automatic stabilizer, supporting consumption and employment for low-income individuals and families during downturns.

### **PROPOSED STRUCTURE AND COUNTERCYCLICALITY FEATURES**

The proposed Stabilization Program should be funded such that it covers all those who apply for and receive benefits and is fully able to match state spending. Unlike the base TANF program, it would be funded through an uncapped federal match of state spending on allowable spending (discussed below). The basic model is akin to a more generous and more automatically countercyclical version of the federal-state Medicaid partnership, which similarly funds a wide range of services and supports through intermediaries (e.g., health-care providers in the case of state Medicaid spending). For the proposed Stabilization Program, the intermediaries would be community-based organizations and employers. This structure ensures that states will be able to access generous, consistent, and predictable funding that is responsive to economic changes and will be able to adequately serve the needs of program participants.

The TANF Emergency Fund and TANF Contingency Fund experiences bring to light the importance of long-term predictable funding in any basic assistance and/or subsidized jobs program. States were reluctant to provide more cash assistance in case they would have to pay for it themselves when Emergency Fund funding expired (Hall 2015b). The temporary Emergency Fund was allowed to expire despite clear and persistent need. The TANF Contingency Fund is particularly vulnerable to cuts: the Trump administration's budget for fiscal year 2018 proposed eliminating the Contingency Fund altogether (First Focus 2018). While contingency funds could be designed to work better, nothing will be as responsive and effective as permanent, open-ended, guaranteed federal funding that automatically aligns spending with state and national need.

Historically, states have managed their finances in a manner that would deepen rather than counteract recessions, in part due to state laws and state constitutional restrictions on borrowing. The federal government's historic ability to borrow affordably allows it to offset this tendency. Expansive eligibility standards (encouraged by the generous federal match) and automatic growth in federal cost-sharing would ensure that this

## BOX 2.

## The TANF Emergency Fund Points a Way Forward

The TANF Emergency Fund, created as part of the American Recovery and Reinvestment Act of 2009, provided \$5 billion over 20 months to help states boost basic assistance, including cash, one-time emergency benefits, and subsidized employment for low-income parents and youths (HHS 2012). Federal funds could be used by states to cover up to 80 percent of increased costs in these three areas relative to 2007 or 2008 levels (Pavetti 2011). Notably, states could cover the remaining 20 percent in increased costs not just through additional state spending and TANF block grant funds, but also through employer contributions, allowing states to ramp up subsidized jobs programs with minimal budgetary commitment (Pavetti 2011).

Much of the TANF Emergency Fund was used for subsidized employment. Using \$1.3 billion in federal funds, 39 states and the District of Columbia placed 260,000 low-income adults and youths in temporary jobs before the Emergency Fund expired on September 30, 2010 (Pavetti 2011).<sup>5</sup> Some state programs focused on securing subsidized jobs for workers who were recently laid off, while others focused on supporting individuals who have the most-substantial employment barriers (Farrell et al. 2011). Around half of the placements were summer jobs for youths (Farrell et al. 2011). Many states placed a majority of participants with private employers, with some states hoping for the win-win result of also easing small business burdens during the recessions (Farrell et al. 2011).

Research on, and evaluation of, the TANF Emergency Fund's overall impacts on recipients, employers, and local economies is limited. However, from anecdotal evidence and a detailed analysis of five jobs programs (Roder and Elliot 2013), we can glean important considerations for the design of future subsidized jobs programs.<sup>6</sup>

1. States had less than one year to either create or expand existing subsidized jobs programs, demonstrating that it is possible to rapidly create a subsidized jobs program within TANF (Farrell et al. 2011), and to do so at a reasonable cost, including through cost-sharing with employers (Pavetti 2011).



2. Subsidized jobs can have significant impacts on employment and earnings, especially for those experiencing long-term unemployment. Program participants in Florida experienced a \$4,000 increase between the year before and the year after the program—\$3,000 more than a plausible control group that did not participate, according to a nonexperimental evaluation (Roder and Elliot 2013).
3. Employers faced challenges in working with program participants with respect to basic job skills and dependability (Schott and Pavetti 2010b), underscoring the need for wraparound support services and preplacement training as a complement to placements.
4. Subsidized jobs may reduce other public benefits spending, including other TANF spending. Following the closing of an auto parts shop employer in Perry County, Tennessee, the county arguably reduced its soaring unemployment rate by one-third by using TANF Emergency Funds (Schott and Pavetti 2010b). South Carolina's rising TANF participation dropped after the state launched its subsidized jobs program (Schott and Pavetti 2010b). These are far from definitive findings, given that the subsidized jobs were not provided in a way that facilitates rigorous evaluation, but the stories are suggestive and were consistent across the country.
5. Participating small and large business owners found subsidized labor helpful at a time when profit margins and sales were squeezed by the recession (Roder and Elliot 2013; Schott and Pavetti 2010b). For example, a San Francisco-based dry cleaning company, Laundry Locker, told interviewers that the JobsNOW! subsidized jobs program helped the company hire additional staff and thus helped them avoid being a casualty of the recession (Schott and Pavetti 2010b).
6. Private employers generally did not find participating in subsidized jobs programs administratively burdensome (Farrell et al. 2011).

program avoid the pitfalls of the fixed TANF block grant. The increase in basic assistance would raise recipient spending, thereby improving local economies. Similarly, supporting subsidized jobs also injects money into local economies and can help keep businesses and nonprofits afloat.

The new program would include two transparent and easily administered triggers for increased federal funding (see table 1). One trigger would be national and the other would be state-specific, and both would be updated at least every calendar quarter by HHS. The national trigger would be based on a three-month average of the U-6 alternative measure of labor underutilization. That measure counts as underutilized those workers who are unemployed, part time for economic reasons, and marginally attached to the labor force. The state trigger would be based on the three-month average state unemployment rate.

When activated, each trigger would lead to either a national or a state-specific percentage increase in the federal match rate (see table 1). A given state would receive the more generous of the match rate increases provided for under the two triggers.

After activation, the trigger would remain on through the current and subsequent fiscal year, allowing for necessary state planning and for a 12-month wind down of the higher match rate.<sup>7</sup> To ensure that increased federal expenditures would result in increased TANF spending, state recipients of increased match rates would be required to raise both enrollment and their own spending. In addition, during periods of full federal matching, I propose that states be subject to a cap of 110 percent of federal spending per participant when compared to the most-recent period during which a relevant state received less than full federal funding.

Rather than specifying the details of how to deliver subsidized jobs with wraparound support services to varying populations, the program would allow a wide range of expenses to be eligible for federal funding, as long as the spending is tied to a specific job placement for a specific participant. Requiring state contributions helps to avoid low-quality state spending, while encouraging better integration of state-subsidized jobs programs with state TANF programs and state workforce systems.

When the economy deteriorates, state finances will also suffer, and states will typically find it challenging to increase spending. Third party (often employer) spending will be allowed to count toward state spending requirements when any trigger is hit. Though there generally will be no third party whose contributions will count toward basic assistance, states will be incentivized to provide cash assistance, which draws a similar or more-generous federal match. They will likely substantially expand basic

TABLE I.  
**Proposed Economic Triggers for TANF Community and Family Stabilization Program**

<b>Triggers</b>		<b>Subsidized jobs</b>			<b>Basic assistance</b>
National trigger (3-month average U-6 underemployment rate)	State trigger (3-month average total unemployment rate)	Federal match	Federal match example A	Federal match example B	Federal match
less than 8.0%	less than 6.00%	Base FSEM (never lower than 75%)	75%	85%	0%
8.0% to <9.0%	6.00% to <6.25%	Rises by 1/8 of the gap between base FSEM and 100%	78%	87%	20%
9.0% to <10.0%	6.25% to <6.50%	Rises by 1/4 of the gap between base FSEM and 100%	81%	89%	40%
10.0% to <11.0%	6.50% to <6.75%	Rises by 3/8 of the gap between base FSEM and 100%	84%	91%	60%
11.0% to <12.0%	6.75% to <7.00%	Rises by 1/2 of the gap between base FSEM and 100%	88%	93%	80%
12.0% to <13.0%	7.00% to <7.25%	Rises by 5/8 of the gap between base FSEM and 100%	91%	94%	85%
13.0% to <14.0%	7.25% to <7.50%	Rises by 3/4 of the gap between base FSEM and 100%	94%	96%	90%
14.0% to <15.0%	7.50% <7.75%	Rises by 7/8 of the gap between base FSEM and 100%	97%	98%	95%
15.0% and up	7.75% and up	Full federal funding: Mandatory state participation	100%	100%	100%

Note: "FSEM" refers to the federal subsidized employment match, which varies by state. For all scenarios above base FSEM, states must increase participation and spending to qualify for increased federal funding. States qualify for the more generous trigger if more than one trigger is hit. In the full federal funding scenario, federal spending is set at 110 percent of state per participant spending when most recent trigger was hit.



assistance in part because the administrative costs will be rather modest when compared to subsidized jobs.

The Stabilization Program will offer sufficient funding to offset the vast majority of the cost of each job, subject to state policy and implementation decisions.

### **PROPOSED PROGRAM ADMINISTRATION**

TANF's serious flaws notwithstanding, it is the most-appropriate home for a countercyclical basic assistance or a quickly implemented national subsidized jobs investment. Most importantly, there is already administrative capacity to implement the proposal. Policies, especially those requiring as sophisticated a delivery system as is needed for subsidized jobs, ultimately must be well implemented by real people and institutions in a wide variety of settings. Potential alternative host programs are less well equipped (see Questions and Concerns for a detailed discussion) or, in the case of UI, risk being undermined by being shifted away from its insurance and earnings replacement role through a robust, new subsidized jobs component.<sup>8</sup>

TANF is already a major part of our workforce development system, which would make it easier for the Stabilization Program to integrate into already-existing systems. In fiscal year 2017 states spent \$3.3 billion of state and federal TANF dollars on work activities, supports, and services (Schott, Floyd, and Burnside 2019). To put this figure in perspective, state spending under the Adult, Youth, and Dislocated Worker titles of the Workforce Innovation and Opportunity Act of 2014 (WIOA)—the U.S. Department of Labor (DOL)-administered law governing and funding our nation's primary public workforce development system—summed to \$3.0 billion in program year 2016 (DOL 2016; author's calculations).

Federal law already allows TANF funds to be used for wage subsidies for public and private employers' allowable expenses (Falk 2017). Similarly, wraparound support services, ranging from work-related transportation and child-care assistance to education and training (e.g., including on-the-job training) are valid uses of TANF dollars and would be important components of the proposed Stabilization Program. Though it is unclear how much TANF funding is used for subsidized jobs currently, the TANF Emergency Fund gave the vast majority of state TANF programs experience in designing and administering such a program (e.g., the necessary relationship development with service providers and employers) and in programming (e.g., preplacement skills development, job search and development assistance, and mentorship and counseling).

In addition, TANF stands alone in its direct provision of and potential connections to wraparound support services. These often begin before a job placement and continue throughout and following job placement and may be particularly important for subsidized jobs programs to engage disadvantaged workers.<sup>9</sup> Finally, initial guidance for the TANF Emergency Fund took months to develop. Should economic conditions deteriorate soon, TANF administrators at HHS would be best able to quickly stand up a national program. (See the Questions and Concerns section for a broader discussion of alternative program homes.)

One disadvantage is that, in general, federal law limits TANF to low-income families with dependent children and foster youths (Falk 2014; HHS 2014a). Further, state programs often include far-more-restrictive eligibility provisions, including extreme income targeting that limits access to families in deep and very deep poverty (Falk 2014). These are serious limitations because subsidized jobs may be a constructive strategy for helping many other workers and their families, including people leaving prisons who do not have custodial children, refugees without dependent children, and the millions of families with very low incomes and children under age 18 who are excluded by state TANF laws. These considerations argue strongly for a stand-alone subsidized jobs program eventually, rather than one that is attached to any current program. Until then, TANF is likely the most-appropriate home for a robust subsidized jobs program, especially given the little notice that may precede the next recession.

Similar to TANF and the expired Emergency Fund, HHS would administer the Stabilization Program. Program administration would be funded through annual appropriations for HHS (as is the case with the current administration of the TANF program). The DOL's pieces of the program also would be funded through appropriations and the agency would be mandated to work with HHS and states in providing technical assistance and support, especially with regard to job development and placements. Similarly, HHS would be mandated to work with DOL. DOL and HHS would issue joint guidance to states and other entities describing how relevant DOL and HHS programs can work together to ensure the success of subsidized jobs. Evaluations of program effectiveness would similarly require involvement of both agencies. The two agencies have experience with subsidized jobs programs, including a recent partnership testing out several subsidized jobs strategies through the Enhanced Transitional Jobs Demonstration and the Subsidized and Transitional Employment Demonstration programs.

This proposal would likely interact with several programs beyond TANF, including WIOA, SNAP, and UI. First, like other similar proposals, this

one would prohibit employer receipt of the Work Opportunity Tax Credit for workers participating in a subsidized jobs program funded by this new fund. Second, by increasing earnings of participating families, this proposal could reduce SNAP expenditures, and, to a lesser extent, UI participation. This proposal also could trigger increased receipt of the EITC and the Child Tax Credit—neither of which are included in the cost estimates in this paper. It could expand overall funding for child care to enable job search, job placement, and employment until child-care assistance is funded adequately to meet need (at which point child-care assistance could be removed as an allowable expense). Currently, child-care assistance is dramatically underfunded—with far fewer people receiving assistance than are eligible—and long waiting lists (Brumfield et al. 2019). This proposal also could help offset any reduction in employment from minimum wage increases that are achieved faster than those known to have no such effects.

### **PROPOSED ELIGIBILITY AND FUNDING PROCESS**

As an uncapped, permanent, and countercyclical program, the Stabilization Program's size would vary depending on need and economic conditions (see the Expected Costs section for additional details). While I outline potential guidance of the Stabilization Program's eligibility and funding process below—much of it drawn from the TANF Emergency Fund experience—HHS would ultimately make many of the more-detailed decisions.

As in the case of the TANF Emergency Fund, states would use the Stabilization Program funds to defray their costs related to basic assistance, emergency short-term assistance, and subsidized jobs. For the basic assistance component, to ensure countercyclicality, the states must demonstrate an increase in enrollment and costs relative to baseline periods. These costs could include one-time cash assistance for rent, food, or utilities; domestic violence services; short-term education and training; or other activities (HHS n.d.b). For the subsidized jobs components, states may include expenditures up to 125 percent of wages to account for employer supervision and training costs, thereby subsidizing worker advancement (HHS 2012). The Stabilization Program would allow third-party (primarily employers) spending toward state match requirements for subsidized jobs or basic assistance (likely community foundations), though such costs would not count toward state MOE spending requirements.

Similar to the TANF Emergency Fund experience, I propose that HHS adopt expansive eligibility definitions for basic assistance and subsidized jobs,<sup>10</sup> allowing states to provide these benefits to current TANF participants, including teenage parents,<sup>11</sup> as well as to noncustodial parents and other family members, who often are excluded from TANF but whose successes

very directly affect the well-being of their children.<sup>12</sup> Because this proposal does not attempt to restructure the base TANF program and it assumes integration with that program, states would continue to be responsible for determining income levels for eligibility; the generous match should encourage expanded individual eligibility for the Stabilization Program.

A key question is what kinds of jobs should be subsidized. I propose that states demonstrate that their programs prioritize funding subsidized jobs that: (1) target employment and partnerships with industries that are likely to expand in the future, with the goal of creating long-term job opportunities so that participants gain experience in sectors where there are more likely to be future employment opportunities; (2) meet specific unmet community and national priorities, for example addressing the climate crisis or helping meet our growing caregiving needs; and (3) reduce racial and gender inequities, especially in labor market outcomes. Further, the Stabilization Program will encourage states to focus on small employers because practitioners and evaluators indicate that they have a stronger track record of providing more-valuable opportunities.

Under the TANF Emergency Fund, states were reimbursed for 80 percent of increased spending for basic assistance, including emergency assistance, and subsidized employment (HHS 2012). For the Stabilization Program, I recommend the federal government match state spending through a proposed federal subsidized employment match (FSEM) that would rise (never above 100 percent) and fall (never below 75 percent) with economic conditions. The FSEM would vary by state and be based on the most-recent Federal Medical Assistance Percentage (FMAP) for Medicaid funding, which is based on the relative per capita income of a state compared with national per capita income. The FMAP currently varies from 50 to 82 percent and is limited by a statutory maximum of 83 percent (HHS 2015b). Each state would receive a minimum (regardless of macroeconomic conditions) FSEM equal to its FMAP plus half the gap between the state's FMAP and 100 percent. FSEMs would thus range from 75.0 percent in the wealthiest states to 91.5 percent in the poorest (See also Dutta-Gupta et al. 2018).

For example, a state with a minimum FMAP under the Medicaid program of 50 percent—California, for example—would have a minimum FSEM of 75 percent. In this example, California's FSEM could rise to 100 percent during a recession. When the FSEM reaches 100 percent, the program would become mandatory. (The Supreme Court has indicated that anything short of that level of federal funding would make the program optional for states. Should that jurisprudence change, this program should be compulsory for all TANF-participating states, territories, and tribal entities at all times.)



Though it will expand or contract based on need, the Stabilization Program should not be set up as a temporary program. First, as noted earlier, some need for basic assistance and subsidized jobs exists even during relatively strong labor markets. Second, subsidized jobs programs in particular will more quickly and effectively address labor market weakness during a recession if they are already in place when it begins. Having experience and an infrastructure in place—including relationships with employers and service providers—likely will be highly consequential.<sup>13</sup> This proposal does not call for an increase in federal support for basic assistance during relatively strong economies. Because basic assistance is a consistent and ongoing—if under-resourced—activity in all states under the current block grant and the delivery infrastructure is relatively easily expanded as needed, there is less *countercyclical* rationale for increasing federal subsidies for basic assistance when the economy is not as weak. To be sure, as argued elsewhere in this chapter, there are other compelling reasons for increasing basic assistance that are beyond the scope of this proposal.

#### **PROPOSED ACCOUNTABILITY MEASURES**

A major shortcoming of TANF is that the federal government does not hold itself or the states accountable for access to benefits and effects on families. The Stabilization Program should attempt to avoid these errors, and the clearest way to do so is to avoid the block grant structure. Other accountability measures for each stakeholder are described next:

**Federal government:** The Stabilization Program will incorporate independent evaluations by the Government Accountability Office, experimental and nonexperimental evaluations of state programs by independent evaluation entities, and the production of annual public reports and shareable data that provide detailed information about access, participation, outcomes, and impacts to the extent possible.

**States:** This program would limit supplantation of state and local spending through new state MOE requirements on basic assistance and subsidized jobs programs during recessionary periods. In the case of subsidized jobs, states would have to prove that their programs targeted jobs that would have otherwise not existed, ensuring that employers are not displacing existing workers and are in fact creating new jobs. States should prioritize employers or worksites smaller than a certain size that they determine. In addition, the number of placements per employer or worksite should be limited, and employers should be turned away if they abuse the program. Placement durations should be limited in part to prevent employer use of the program as a long-term substitute for unsubsidized employment.



Wraparound support services must also be tied to a specific participant and a specific job, though services can begin and follow job placements, within a reasonable timeframe. State MOE requirements would be harmonized with existing TANF state MOE mandates.

Federal technical assistance from HHS, in partnership with DOL, will include funding for continuous national and state learning, including through data collection as well as experimental and nonexperimental evaluations that consider impacts on workers and their families, local communities, employers, and the greater economy. State data collection and participation in learning and evaluation would be mandatory.

**Employers:** Eligible employers could come from all sectors—public, private non-profit, and private for-profit. As noted earlier, private for-profit employment placements appear to be more likely to lead to durable labor market gains for workers. Realistically, experiences with dozens of subsidized jobs programs over the past half century suggest that private for-profit employers would most likely participate during a recession, and nonprofit and public employers would represent the bulk of placements during an expansion. For-profit employers' participation at any time risks providing windfall profits and substituting subsidized placements in place of unsubsidized placements. This risk cannot be eliminated but can be minimized. The Stabilization Program would limit private for-profit placements to smaller employers, encourage subsidy designs and placements that promote rollover into unsubsidized placements at the same employer,<sup>14</sup> limit placement durations, restrict the number of placements at a firm or worksite, require union approval for placements where union representation exists, and require sworn attestation that no worker is displaced and that the position would not exist as such without the subsidy.

### **EXPECTED COSTS**

TANF's 2017 \$7.1 billion in basic assistance spending (23 percent of total TANF spending) constitutes a baseline from which to project additional countercyclical basic assistance spending.<sup>15</sup> Assuming the highest recorded AFDC or TANF participation rate of 85.7 percent, basic assistance could approach \$44 billion annually (in projected 2020 dollars) in the nadir of a deep recession (HHS 2018c; author's calculations).<sup>16</sup>

Estimating spending and likely participation for subsidized jobs programs is challenging and involves substantial uncertainty due to limited comparable national experiences, the complexity of developing job openings, and the potential for substantial behavioral responses by states to new federal incentives. Some prior research indicates that the participation rate for disadvantaged workers might fall between 10 and 50 percent, assuming

that the availability of subsidized job placements were not a limiting factor (programs that are more limited typically have waitlists) (Collyer et al. 2019; Dutta-Gupta et al. 2016). Analysis of a major subsidized jobs proposal introduced by U.S. Representative Khanna, and with some programmatic similarities to this proposal, indicates an annual per-participant cost of \$9,000 to \$9,300 in 2016 dollars (likely around \$10,000 by 2020, based on projected inflation; CBO 2018, author's calculations). If just 20 percent (higher than 10 percent, due to incentives states will face with the federal match) of the 1.6 million families receiving cash assistance in 2015 (HHS 2018c) participated, subsidized jobs spending would equal approximately \$4.4 billion in projected 2020 dollars. Applying a 50 percent participation rate to TANF's 2009–10 recessionary peak cash assistance participation of 1.85 million families suggests that costs could rise to more than \$10.8 billion (in projected 2020 dollars), though the generous federal match could lead to still higher participation, since states likely would expand eligibility in response.

## Questions and Concerns

### *1. Why not just rehaul the TANF Contingency Fund?*

The TANF Contingency Fund relies on ineffective and outdated measures that do not help refocus TANF funding on its core purposes, particularly since the Contingency Fund is a capped fund like the broader TANF program. Legislatively, it would be simpler to eliminate the Contingency Fund entirely, and then use its budgetary allocation to help pay for this new, uncapped Stabilization Program.

### *2. Why should the public sector subsidize private sector jobs?*

As noted earlier, allowing private placements can improve outcomes for workers and allow for more rapid scaling up for jobs programs. Still, subsidized jobs directly increase the financial well-being of for-profit firms. This outcome may be unacceptable to some; however, many different public policies have this effect—and even direct public hiring indirectly contributes to private profits. For-profit placements can be limited to smaller and less-profitable firms and run through intermediaries to ensure that these placements are hires that otherwise would not have been made. The number of placements per firm and worksite can also be limited to ensure that these positions would not have otherwise existed. These restrictions likely will constrain the potential number and speed of placements. That said, a separate public employment option without time limits on worker participation (which is beyond the scope of this proposal), but with strong features to limit worker displacement and supplantation

of local and state funding, would help workers who are not in a position to pursue or maintain stable, unsubsidized employment in the long run and would serve as a final backstop against involuntary unemployment.

### *3. Why should subsidized jobs be funded throughout the business cycle?*

As I have written elsewhere with other experts, “The U.S. economy does not produce enough employment opportunities for all those who are able and want to work and who could contribute to the economy” through formal employment (Dutta-Gupta et al. 2018, 64). Alongside a 4.0 percent unemployment rate as of January 2019, 8.1 percent of the civilian labor force plus marginally attached workers (or 13.3 million people) were either unemployed, employed part time for economic reasons, or were marginally attached to the labor force (BLS 2019; author’s calculations). This broader alternative measure of underemployment indicates a strong desire among workers for employment beyond what is available even in what otherwise may seem to be a full-employment labor market to some.

Furthermore, many communities of color continue to face recession-like circumstances despite a lengthy period of economic growth. For example, the January 2019 unemployment rate for black workers was 6.8 percent, a figure that for some states could be high enough to trigger Extended Benefits under the federal-state UI program (BLS 2019; CRS 2018). This high unemployment rate for black workers comes more than 115 months into an economic expansion, the second longest in U.S. recorded economic history (National Bureau of Economic Research n.d.). Subsidized jobs do not address root causes of these inequities, including historical and current racial discrimination, but historically they have helped and can continue to help people most harmed by these systemic and structural injustices.

### *4. Are other programs better suited to housing the Stabilization Program?*

Other plausible candidates to host the Stabilization Program—such as the UI program, SNAP, and WIOA—have weaker experience, infrastructure, and/or targeting relative to TANF. The federal-state UI program has been used to fund subsidized jobs programs in a limited fashion (Prah 2012), allowing employers to pay workers through funds that otherwise would have been used to pay UI benefits to those workers. This approach risks undermining rather than improving the UI system—a system that has established its usefulness and effectiveness over 80 years and especially during the Great Recession (West et al. 2016). Though UI programs engage in employment and other services extending beyond the payment of benefits, state programs often exclude the most-disadvantaged workers and have relatively little experience helping workers with serious or multiple barriers to employment.

Just one state, Oregon, uses SNAP for a small subsidized jobs program—JOBS Plus (Oregon Department of Human Services n.d.)—and even that program is actually incorporated into the state TANF program. Similar to the UI scenario, SNAP benefits can be paid out in the form of wages for participating workers and employers (Dutta-Gupta et al. 2016). Notably, no other state has taken up this option, likely because of the administrative challenges in doing so through the SNAP program and the relative ease with which such a program can instead be integrated into the state TANF program. Like UI, SNAP has delivered powerfully on its main purpose: providing food assistance through near-cash direct subsidies to households. SNAP does have a meaningful Employment and Training program and connects workers with other services. It also has a dramatically wider reach than TANF, though it still targets struggling individuals and families, including many workers between and during employment. The SNAP program easily could connect eligible workers to an external subsidized jobs program.

A final potential home for a countercyclical subsidized jobs program is the WIOA system, including American Job Centers. Subsidized jobs are an allowable use of funds under WIOA (Hall 2015a), though spending on these initiatives is unclear. WIOA historically has failed to serve large shares of disadvantaged populations (Greenstein 2015), though that may be improving under the latest reauthorization. Still, the WIOA-funded workforce system has relatively less capacity and experience in addressing barriers unrelated to skills and training.

##### *5. Is expanding the Work Opportunity Tax Credit a more-effective approach to subsidized jobs?*

The government could expand the Work Opportunity Tax Credit (WOTC)—a tax credit to employers for hiring individuals from targeted groups that face employment barriers (Internal Revenue Service n.d.)—or otherwise create a similar entitlement for employers who hire workers with serious or multiple barriers to employment. One concern with that approach is that it could provide substantial windfall profits to firms for hires they already would have made and for positions that already would have existed. In addition, such an approach would do little to address the other barriers such workers may face in the short and long run. The wraparound support services that are often integrated into subsidized jobs programs can help address those barriers. In other words, subsidized jobs programs typically combine a labor demand strategy (subsidy) with a labor supply strategy (wraparound support services), while WOTC offers only a demand-side strategy.

## 6. Are there any economy-wide benefits to supporting incomes above and beyond the automatic stabilization benefits?

A growing body of evidence suggests that boosting resources to children, especially young children, in families with very low incomes has positive effects in the short, medium, and long term, including into adulthood (Grant et al. 2019; Sherman and Mitchell 2017). These remarkable effects appear regardless of the source of the increase—employment, additional resources associated with membership in a particular community, or transfers like SNAP benefits—with particular evidence of positive effects on educational, health, and labor market outcomes (Duncan and Magnuson 2011). As a result, increasing cash assistance and well-designed vouchers can reasonably be expected to have positive benefits including and extending beyond reductions in immediate hardship for some of our most-disadvantaged children.

The benefits of additional resources occur against a backdrop of clear deficits created by poverty. Children who experience poverty in early childhood are more likely to have lower school achievement, to work and earn less during their lifetimes, to rely more on SNAP, to be incarcerated (males, specifically), to report poor health, and to have reduced life expectancy (Duncan and Magnuson 2011; Hoynes and Schanzenbach 2018). Research also shows that the conversion of AFDC (as well as Job Opportunities and Basic Skills Training Program [JOBS] and Emergency Assistance) to TANF, including the gradual reduction in cash benefit outlays, has had negative outcomes on maternal employment, family income, and health (Heilman 2017). Beyond these measurable outcomes, increased assistance may have positive impacts on the interactions between children and their caregivers (Duncan and Magnuson 2011).

Despite the importance of basic assistance in meeting children and families' needs, CBPP finds that, on average, states spent \$7.1 billion (less than a quarter of federal and state TANF funds) on basic assistance; nine states spent *less than 10 percent* of their funds on basic cash assistance in 2017 (Schott, Floyd, and Burnside 2019). CBPP also found that black children are particularly at risk because black families are more likely than white families to live in states with less basic assistance.

## Conclusion

Limited by its block grant structure and other policy design features, TANF is not currently an effective automatic stabilizer because it cannot respond to increases in need that occur during recessions. Policymakers should substantially strengthen TANF's ability to provide basic assistance and

create subsidized jobs, especially during recessions. In fact, establishing a permanent, robust TANF Stabilization Program that responds appropriately to recessions could serve as an important stepping-stone to eventually establishing an impactful and wider subsidized jobs program as well as much-needed broader TANF reform.

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## Endnotes

1. Using a different measure of the number of families participating in TANF cash assistance, CBPP data indicate an increase of 214,203 from 2007 through 2010 (Floyd, Burnside, and Schott 2018b).
2. In addition to its inadequacy as an automatic stabilizer, TANF is also ill equipped to respond to growing needs due to demographic and environmental causes. Increased need from migration or population growth are not matched with increased funding. A Center on Budget and Policy Priorities analysis finds that states with the greatest rises in child poverty generally had the largest drops in inflation-adjusted TANF grants per child in poverty (Floyd, Pavetti, and Schott 2017). For example, Nevada saw a 68 percent drop in the inflation-adjusted block grant amount per child, twice the national average, while the state's child poverty rates more than doubled.
3. The Congressional Budget Office (CBO) baseline assumes a fixed nominal (unadjusted for inflation) \$608 million level of annual funding in perpetuity (CBO 2016), though TANF and its Contingency Fund require periodic reauthorization.
4. As I have written previously, "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" (Dutta-Gupta et al. 2016, ix).
5. Most state programs did not limit eligibility to participate in subsidized jobs programs to TANF recipients.
6. This evidence was collected by the Center on Budget and Policy Priorities through interviews of recipients, administrators, and partners.
7. This basic structure has been developed previously (Dutta-Gupta et al. 2018).
8. UI plays an unmatched role in providing involuntarily unemployed workers with income security. If UI programs were encouraged to focus too heavily on subsidized jobs, some state programs could discourage constructive job search and improved matching among workers who would benefit more from income support than immediate reemployment.
9. For the limited suggestive evidence on the effectiveness of wraparound services, see examples and program impact summaries in Dutta-Gupta et al. (2016). Though no experimental evidence is available on the impacts of specific services as part of a subsidized jobs program, substantial literature indicates that some services, such as child care, improve outcomes on their own.
10. TANF has no explicit definitions nor requirement related to which families may participate in it. States have thus adopted varying definitions when determining eligibility. In the case of the TANF Emergency Fund, HHS allowed states to use relatively expansive definitions to determine eligibility, including youths and noncustodial parents as potential participants (HHS 2012).
11. For a discussion of how TANF can serve minor parents, see Lower-Basch (2016).
12. For a discussion of how and why states should serve noncustodial parents through TANF, see HHS (2018a).

13. MDRC Researchers Dan Bloom and Cindy Redcross observe that at least for one particular population, people exiting prison, some subsidized jobs programs appear to be more likely to produce “sustained decreases in recidivism” (Bloom and Redcross 2018).
14. One option is to exclude or add waiting periods for private employers who do not retain some share of workers in subsidized placements upon the end of the placement. See for example Neumark (2018). Because displacement may be less of a concern during recessions, recessions can be lengthy, and the number of available placements can limit the scale of subsidized jobs programs, this requirement should be carefully designed to avoid substantially limiting employer participation and slowing hiring and selection when they do initially participate.
15. The TANF cash assistance participation rate is likely 26.3 percent (a 2015 estimate) or less—since this trend has been in secular decline and there is no reason to think the decline has reversed (HHS 2018c).
16. I assume that average monthly TANF cash assistance benefits would equal \$750 nationally, as a sizeable share of current recipients live in states with maximum benefits that are already markedly higher and likely would be higher still at the time of the next recession. I also assume that the number of eligible families equals that of the peak of the Great Recession, 5.7 million. In addition, I assume that states would shift basic assistance from their unmatched block grant to matched funding under the Stabilization Program when a match is available. All projected 2020 dollars rely upon the latest Congressional Budget Office Budget and Economic Outlook baseline.

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