

## WORKFORCE FIRST

A practical and affordable path toward a strong  
Minnesota economy and a decent standard of living for all

**T**he Minnesota economy has had a very strong run. In 2002, Minnesota ranked 7<sup>th</sup> among the 50 states in per capita income, after outperforming the nation for four straight decades. The state's real economic output grew 50% from 1991 to 2001, while the U.S. economy grew 41%.

Despite this success, a very substantial number of Minnesotans do not earn enough to support a family on a basic-needs budget. Half the jobs in Minnesota don't pay enough to cover the needs of a family with one worker and two children, and a third don't pay enough even with two parents working full-time. More than 330,000 Minnesota children (about one in four) live in families with annual incomes below \$35,000, which is below what it takes for most families with two children to meet a basic-needs budget.

Why should all Minnesotans care? Because there is a high public return on investment for moving people up the wage ladder. People who earn more pay more state income taxes and are much less likely to commit crimes or end up in prison. Their children are likely to perform better in school, stay healthier, and become law-abiding and economically successful adults. Based on a state analysis, moving 50,000 low-wage workers with dependents to a wage \$5 an hour higher, a wage they could live on, could save the state a quarter of a billion dollars a year. And businesses benefit from lower turnover, more productive employees, and more consumers able and willing to buy what they sell. Finally, the children of financially self-reliant parents do better, compounding all these benefits into the next generation.

### A Unifying Goal

At a time of deep partisan division in Minnesota and the nation, here is a unifying goal: a Minnesota economy that is strong and growing, creating a decent standard of living for all. It is a goal that can appeal to Minnesotans concerned about economic justice and

equal opportunity for the next generation. And it's a goal that can appeal to Minnesotans concerned about economic growth, the virtue of work, and reducing reliance on government services.

But what if the best route to economic growth and the best route to higher wages were the same route? And what if state government could have a major impact on moving Minnesota along that route, at a modest cost, by investing more in what has been proven to work and less in what hasn't? That would be a highly desirable route to take.

Growth & Justice has spent a year reviewing the academic literature about what works, talking to experts and more than 200 interested citizens around the state, exploring various policy ideas. Our conclusion: While many problems need to be addressed at the federal level, including immigration policy and the impact of global trade on jobs, the research evidence on what the state should do is clear. The best route for Minnesota's economic growth is indeed also the best route for growth in Minnesota workers' wages. That route is a better educated, more skilled workforce. The state with the best workforce prospers most.

### The Case for Education and Skills as the Drivers of Growth

What is the evidence?

The link between education and higher earnings is dramatic and growing. In 1975, a college graduate earned 1.5 times more than a high school graduate; that's now up to 1.8 times. Minnesotans with more education are also far less likely to be unemployed.

There is strong evidence that more postsecondary education not only benefits the individual but drives the growth of a state's economy. A recent study of America's

250 largest cities, “The Changing Dynamics of Urban America,” found that the best predictor of economic growth from 1990 to 2000 was the city’s proportion of adults in 1990 that had college degrees.

Minnesota already ranks fairly high in postsecondary attainment. In 2002, we ranked 8<sup>th</sup> on percentage of adults over age 25 with a college degree (30.5%). We also ranked 8<sup>th</sup> in the year 2000 on percentage with a two-year associate’s degree or higher (35%). Considering that we are now 3<sup>rd</sup> in high school attainment, we should be able to do better at higher levels.

But the future looks less bright, because we’re lagging on the front end of the pipeline: Minnesota ranks 17<sup>th</sup> in postsecondary enrollments of 18- to 24-year-olds and 29<sup>th</sup> in enrollment for adults 25 and older.

Growth & Justice recommends that Minnesota set a goal of adding 10,000 more Minnesotans a year with postsecondary degrees than our current pace – almost a 30% increase in associate and bachelor’s degrees – so that by 2015 we would be among the top five states in educational attainment.

The best opportunity for increasing the number of post-secondary degrees lies with lower-income students, because Minnesota’s success is unusually concentrated at the high end of the socioeconomic spectrum. The wealthiest 20% of Minnesotans are seven times more likely to have a bachelor’s degree than the poorest 20%. This is a greater inequality than in 29 other states.

### **Busting Through Barriers**

For Minnesota to have the best educated, best trained workforce in the nation, we must bust through the barriers that block lower-income people from earning postsecondary degrees.

- Many of the state’s policies actively discourage low-income workers from returning to school. For example:

- In the face of rising tuition rates, the State Grant Program does not provide nearly enough help for low-income and part-time students who want to attend postsecondary institutions.
- Welfare recipients have to take low-wage, dead-end jobs even if they are qualified and willing to go to college. This Work First philosophy, driven by the federal government and now accepted in Minnesota, is turning out large numbers of workers who do not meet employers’ needs, resulting in high turnover.
- Child-care subsidies are strongly biased in favor of parents who work at low-wage jobs, rather than attending school.
- Many skilled, high-paying occupations are experiencing labor shortages, but we are not counseling and attracting young people to prepare to enter those fields and in some cases, such as nursing, we are turning away applicants because we don’t have the capacity to train the number needed.
- Unemployment insurance rules discourage Minnesotans from looking for part-time work while returning to school.
- Public higher education, the main route up for lower-income students, has been getting a shrinking share of Minnesota’s resources, and our commitment to it is declining sharply compared to other states.
- There is a substantial academic performance gap between white students and those of many minority groups. This gap shows up in early childhood and persists through K-12 education, decreasing the chance of these minority students succeeding in postsecondary education.

**What if the best route to economic growth and the best route to higher wages were the same route?**

## EXECUTIVE SUMMARY

### GROWTH & JUSTICE PROPOSES A SERIES OF SOLUTIONS FOR MORE EDUCATIONAL ATTAINMENT:

- Restructure the state financial aid formula, to help low-income and part-time students.
- Adopt Maine's Parents-as-Scholars program, which has enabled qualified and motivated welfare recipients to attend college, raising average income by nearly 50%.
- Encourage online education by providing an incentive to businesses that pay for it for their employees.
- Consolidate all child care subsidy programs into a single new early childhood voucher, available for parents going either to work or to school, and – unlike the current programs – designed to encourage them to place their children in high-quality care provided by workers earning a living wage.
- Support reform of our K-12 education system. A major focus should be new ways to recruit, train, reward, and retain the highest-quality teachers and principals where they are most needed.

### Skills Training Works, Too

Evidence is also growing that raising basic skills, even without higher degrees, can dramatically improve workers' wages. Here, too, what's good for the worker is good for the economy, because Minnesota businesses say that one of their major concerns is that too many low-wage workers lack the basic skills to be productive employees, and productive workers drive profits.

There are programs in Minnesota today that have been proven effective at this, including nonprofits that provide intensive training for low-skilled workers and a state program involving cooperation between businesses and postsecondary institutions to train workers for jobs the business needs.

In addition to seeing that an added 10,000 people a year get post-secondary degrees, Minnesota should also commit to an additional 15,000 workers a year obtaining market-driven skills training that could raise their wages without a degree.

### GROWTH & JUSTICE PROPOSES:

- Paying nonprofit training organizations for successfully moving low-wage workers up the ladder.
- Expanding a state program in which businesses partner with postsecondary institutions to train employees in skills the business needs.

Together, by 2015, the two parts of this Workforce First strategy could give nearly 250,000 additional Minnesotans the postsecondary degree or market-driven skills training they need to make a living wage. The result for the state could be as much as \$6 billion in benefit.

## The Case Against Most Tax Incentives to Businesses

Workforce quality pays off, but the evidence for other economic development strategies the state could pursue is weak, based on reviews of the evaluative literature by expert economists.

For example, the state of Minnesota and its local governments continue to offer generous tax incentives to encourage businesses to locate or expand on certain sites, even though the research evidence suggests that this produces limited results at a very high cost per induced job. It is difficult to know what we spend on such programs, but it's well over \$100 million a year, and the governor's new Job Opportunity Building Zones (JOBZ) program alone figures to cost the state tens of millions a year.

**Workforce First: 250,000 additional Minnesotans with postsecondary degrees or market-driven skills training could equal as much as a \$6 billion benefit to the state.**

# **Doubling the Working Family Credit would provide 200,000 working Minnesota families with an average of \$500 more cash per year; some could get as much as \$1,300.**

We need to wean ourselves off these incentives, to free up scarce resources for more effective strategies. The state should join with the business community and local leaders to end the bidding wars among localities within the state, and to emphasize workforce quality, quality of life and other advantages – not tax breaks – when recruiting firms from outside the state.

The state has many broader-based business tax breaks as well. They are based on encouraging capital investment, which may or may not help workers. An employment subsidy that rewards firms for hiring more workers in areas of high unemployment would have more direct impact at lower cost. And Growth & Justice urges exploring an incentive that is untested but intriguing: a credit against the payroll tax for employers that actually raise the wages of lower-wage earners significantly faster than inflation.

## **Struggling Families Still Need a Boost**

A stronger workforce will still leave some people earning too little to support their families, and we must have a secondary strategy to strengthen their financial capacity. The research suggests that the most efficient way is through the Earned Income Tax Credit (EITC) – which also happens to be the route with the broadest multi-partisan support.

**GROWTH & JUSTICE RECOMMENDS DOUBLING THE STATE WORKING FAMILY CREDIT, AT A COST OF ABOUT \$100 MILLION A YEAR, WHICH WOULD PROVIDE MORE THAN 200,000 LOW-INCOME WORKING MINNESOTA FAMILIES WITH AN AVERAGE OF \$500 MORE CASH PER YEAR, WITH SOME FAMILIES GETTING AS MUCH AS \$1,300.**

Other tactics, such as raising the state's mandatory minimum wage or subsidizing more of lower-income people's expenses, can also work, but they are less efficient. While health care reform is beyond the scope of this report, universal coverage that is portable, affordable and high-quality would make a huge difference.

## **Paying for the Strategy**

The cost of pursuing a strategy to make Minnesota the quality workforce state is modest, since some of the resources can be diverted from business tax incentives and from some less effective forms of workforce development. For about \$500 million in new funding a year, the state could make meaningful progress on every proposal in this report.

It is not the purpose of this report to propose a specific set of tactics to pay the bill. But we believe it can be paid in ways that would actually benefit Minnesota.

Even if the entire \$500 million came from taxes and fees, that would represent only about 1/4 of a percent of Minnesotans' aggregate personal income. That would still leave the price of government (all state and local spending as a percentage of personal income) well below its average over the past decade and more than two percentage points below its 1994 peak of 17.7%. Even if the state also spent another \$500 million restoring the most damaging of its recent spending cuts, the price of government would remain below its 10-year average.

Some methods of raising the revenues could have beneficial side effects, such as the impact that a \$1 per pack increase in the cigarette tax would have on teen smoking, or the impact that rush-hour highway fees would have on traffic congestion. Some could make the tax system fairer, such as a new higher income tax bracket on the highest-earning 4% of Minnesotans, who do not pay their proportional share of all state and local taxes.