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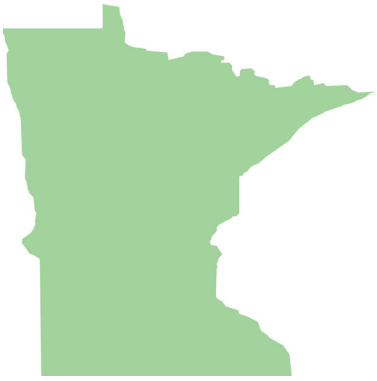
SELECT COMMITTEE ON LIVING WAGE JOBS



MAKING WORK PAY IN MINNESOTA

A Report of the
Minnesota House of Representatives
Select Committee on Living Wage Jobs

-by-

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1. MINNESOTA'S ECONOMY IS PRODUCING TOO FEW LIVING WAGE JOBS

1.1 Minnesota's economy is good, but no longer great

Overall, Minnesota's economy is out-performing the nation as a whole. Our median income, labor force participation, and educational attainment rates are higher than most states, and our poverty rate and unemployment rate are lower. But many people are not seeing the benefits of Minnesota's economic success. Minnesota households have actually lost real income over the last ten years and more Minnesotans are living in poverty. Wage and income disparities have widened. Meanwhile, Minnesota's population is not growing as quickly as the nation as a whole, and Minnesotans are dividing themselves into different regions, creating a state with very different economic conditions depending on where we live. Finally, growing income inequality may lead to permanent differences in the well-being of families. Despite Minnesota's relative economic success, a close look at Minnesotans' real experience in the economy tells a different story.

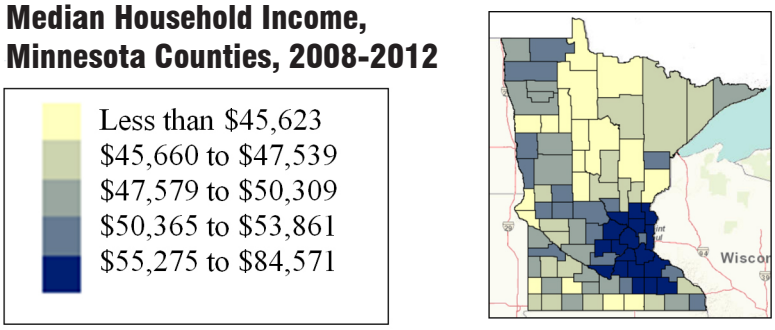
Minnesota's economy continues to be strong compared to the nation

On many socioeconomic features, Minnesota continues to favorably compare to the nation. It ranks 11th among the 50 states in median household income but enjoys a lower cost of living than many higher median income states. The cost of living in the Twin Cities metro is 11% above the national norm, but considerably lower than the Chicago (17%), Seattle (21%), Boston (32%), and San Francisco (64%) metropolitan areas.[1]

Minnesota's real household median income is down 9.5% over last ten years

Minnesota's median household income, adjusted for inflation, has declined over the past decade, from $63,000 in 2000 to $57,000 in 2011. Minnesota's median household income remains nearly $6,500 above the national level. Household median incomes are highest (above $56,000) in the Twin Cities region and along a corridor to the southeast that includes Rochester. Household median incomes are lowest (below $45,000) in relatively rural and non-metro counties such as Pine, Aitkin, Koochiching, Cass, Big Stone, Brown and Freeborn (Figure 1).

Figure 1.
Median Household Income, Minnesota Counties, 2008-2012



Source: Susan Brower, Minnesota State Demographer, Testimony before the Select Committee on Living Wage Jobs, February 4, 2013. Data from U. S. Census Bureau, American Community Survey, 2012.

Minnesotans more likely to be working than other Americans

Labor force participation rates reveal the share of people ages 16 and over who are willing and able to work, including the unemployed and self-employed. Minnesota's labor force participation rates, at 71.2%, remain substantially above the national rate of 64%, and we rank 4th among all states. Of Minnesotans in the labor force, 50% are working full-time year-round (compared to 46.2% nationally). Men in this age range are more apt to be working full time than women (56.5% to 43.5%), close to the national pattern. Nationally, in 2004 Census Surveys, 26% of those 20-64 not in the labor force responded that they were taking care of children; 25% cited chronic illness or disability; 14% were retired (early); 10% were going to school; 8% unable to find work, and the rest on layoff, temporary illness or injury, pregnancy and childbirth and other. Similar to the nation, 10% of Minnesota workers are self-employed as of 2011.

Over time, Minnesotans becoming less likely to work

Overall, the labor force participation rate in Minnesota has declined since 2000, from 75.1% to 71.2%. Workers aged 16-64 led the decrease in participation, while workers over the age of 64 (4% of Minnesota's labor force) are more likely to be in the workforce than they were ten years ago. During the financial crisis and in the recovery that followed, older men and women (65+) were the only age group nationally to increase their labor force participation rate. This increase occurred even though older workers, when laid off, experienced longer unemployment stints than other workers, and when working again, did so at lower wages. Higher labor force participation rates for post-65 people may be a response to the loss in home and retirement asset values. Post-retirement age Minnesotans (those that are healthy and have marketable skills and connections) may also be more interested in working than in past years and can do so, either as employees or as self-employed workers.[2]

After decades of progress, poverty is now increasing in Minnesota

In 2011, more than 1 in 4 Minnesotans (1.4 million people, or 28% of the state's population) were considered low-income (defined as below 200% of the federal poverty threshold or $45,600 in income for a family of four). This is the highest level in decades. Minnesotans have fallen into low-income not just because of job loss, but also deteriorating wages.

Indeed, the ranks of poor Minnesotans have grown rapidly in recent years. In 2011, 622,000 Minnesotans (11.4%) lived in poverty (below $22,800 for a family of four). Increases in poverty have outpaced population growth, moving from 7.8% of the population (380,000 people) in 2000 to 9.6% of the population (491,000 people) in 2008. 152,000 of Minnesota's poor are children under the age of 18. Some 60% of poor Minnesotans are white, and 40% are people of color, including Latinos. Poverty rates have been increasing among the youngest residents of the state but are stable for those over 65, in large part due to social security, Medicare and Medicaid.

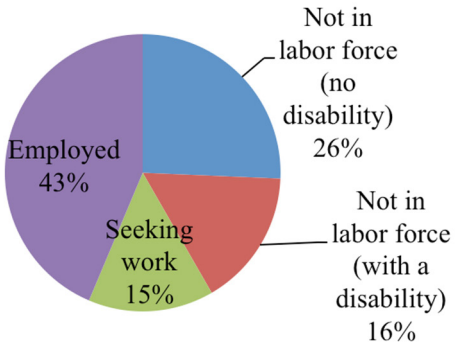
Today Minnesota's poverty rate is lower than in 1960, having fallen particularly rapidly in the 1960s, slowed in the 1970s, climbed a bit in the 1980s and fell again in the 1990s (and more rapidly than nationally) to a postwar low of 7.9% in 2000. But the gains of earlier decades have been reversed since 2000, rising rapidly to 11.6% in 2010. Minnesota shares of people in poverty are lower than the nation's (12% compared with 16% in 2011), a pattern that has persisted since 1960, reaching its greatest gap in 2000.

Most poor Minnesotans are working or seeking work

The majority of Minnesota's poor are working poor. Of households in poverty, 69% have one or more members in the workforce. Among working-age individual Minnesotans in poverty (20-64), 43% are employed, 15% are looking for work, and 42% are not in the labor force (a third of these because of disability) (Figure 2). The majority of those working in poor households are working part-time (70%), and many of them would like additional hours.

Figure 2. Working-age Minnesotans in Poverty Working or Seeking Work

Source: Susan Brower, Minnesota State Demographer, Testimony before the Select Committee on Living Wage Jobs, February 4, 2013. Data from U. S. Census Bureau, American Community Survey, 2012.



Poverty studies suggest that the duration of poverty is relatively short term, but most people moving out of poverty remain near-poor. Nationally, from 2005 to 2007, 70% of people fell under the poverty line for less than eight months in a stretch and very few were poor for more than two years in a row. Most of those moving out of poverty move

into the adjacent income quintile. The length of poverty spells has increased since the recession. Job loss and pay cuts account for about 40-50% of poverty. People also move in and out of poverty when they have a baby or shift from a two parent to one parent household.[3]

Minnesota's population growth has slowed compared with the nation

Minnesota's population as of July 2012 was 5,379,000 million, up from 4,389,000 in 1990. While the state's population grew almost as rapidly (12.4%) as the nation's (13.2%) in the 1990s, relative population growth slowed from 2000-2010, up 7.8% compared to 9.7% nationally. The Twin Cities metro area now accounts for 54% of the state's population, with the greatest increases in suburban areas.[4]

Minnesota has a mix of regional economies reflecting differing income and cost-of-living

Regional median income differences reflect the types of jobs available, people's preferences on where to live and work, and cost of living differentials. For instance, a monthly basic needs budget for a two-parent family with two children where both parents work full time is $5,124 in the Twin Cities region, but $4,519 in Greater Minnesota, and $4,368 in the northeastern region.[5] These cost of living differences temper the disparities in median incomes across the state.

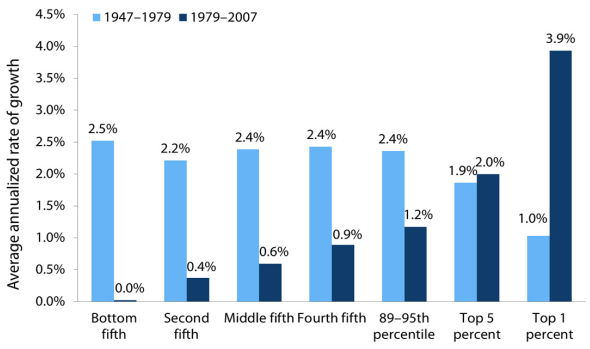
Lower cost of living is one factor driving internal migration in the state. Both Hennepin and Ramsey counties, the core of the Twin Cities metro, and 29 other counties, mainly in the far southern, western and northwestern regions, experienced 5% or more net out-migration (newcomers minus leavers) between 2000 and 2010, while many outer ring Twin Cities suburban counties and at least a dozen more to the north and northwest gained 5% or more. Since there was little net migration into Minnesota over this decade, most of this population reshuffling occurred within the state (Hart and Lindberg, 2012). Recent changes in this pattern may not be tied to cost-of-living differentials, but rather to quality of life preferences.

Many of Minnesota's rural counties have benefitted from a rural "brain gain" of adults aged 30-49 over the period 1990 to 2010. Those moving to rural areas are bringing skills and knowledge that compensate, in part, for the out-migration of young adults. Quality of life is a major reason for this gain, but so, too are jobs in education, health care and other sectors that require at least some college education (Winchester, 2012).

Disadvantaged families are staying disadvantaged

The belief that those who fare worse today will do better in later years is not supported by the data available regarding inequality trends. New data from the Current Population Survey and the Internal Revenue Service confirm a nationwide rise in "permanent inequality" over the post-World War II decades. The advantaged are becoming permanently better-off, while the disadvantaged are becoming permanently worse-off. The dispersion in household incomes, especially at the bottom and top, accelerated after 1979 (Figure 3). Over time, rising income inequality is creating greater disparity in families' well-being that will not likely be reversed. The evidence for these changes includes earnings from work activities as well as broader measures of family resources such as total household income (DeBacker, Heim, Panousi, Ramnath and Vidangos, 2013).

Figure 3. Average Family Income Growth, US, 1947-2007



Note: Data are for money income.
Source: Authors' analysis of Current Population Survey Annual Social and Economic Supplement *Historical Income Tables* (Table F-2, F-3, F-5), and Piketty and Saez (2012)

Source: Doug Hall, Economic Policy Institute, Testimony before the Minnesota House Select Committee on Living Wage Jobs, February, data from EPI analysis of Current Population Survey Annual Social and Economic Supplement Historical/Income Tables (Table F-2, F-3, F05) and Piketty and Saez, 2012.

Recovery of household assets since a Great Recession low in 2009 has also been highly unequal. While household wealth has rebounded to about 84% of its 2009 level, taking inflation into account, households headed by white and Asians aged 40-61 with two or four-year degrees (a group comprising 15.5% of all families in 2012 but controlling 37.5 of all wealth) regained 98%. In contrast, the average wealth of young African-American or Hispanic college graduates at the end of 2012 was only 31 percent of its pre-recession level, while those who did not finish high school fared even worse (Emmons and Noeth, 2013: 1-2).

1.2 Minnesota's economy suffers from high underemployment

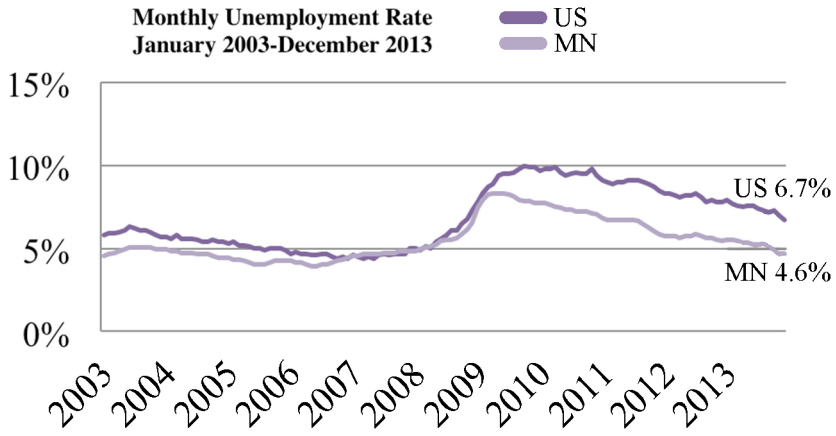
Minnesota's economy was more bubble-resistant than the nation's, resulting in lower unemployment rates throughout the Great Recession. In recent years, unemployment has fallen more rapidly than nationally, partly due to a decline in labor force participation rates that are, however, still higher than the nation's. Minority and teen unemployment rates are particularly high, and long-term unemployment has posed a tough challenge for many Minnesotans of all age groups. Economists estimate that real unemployment is about twice the official rate, because many discouraged workers are not actively looking for work. Many Minnesotans are underemployed, working at jobs with fewer hours than they seek and below their skill levels. Perhaps most concerning, job growth will concentrate in low-wage occupations through 2020 and beyond.

Minnesota's job growth outpaces the nation's

As of late March 2013, Minnesota's economy employed 2,751,00 people. During the worst of the Great Recession, an 18-month period between early 2008 and late 2009, Minnesota lost 156,300 jobs, an average of more than 8,000 per month. Overall, total net employment decline for this period was 5.6%, not far behind the total US net job loss of 6.4%. The recession wiped out more than all of the jobs gained during the 2004 to 2007 expansion.[6]

The Great Recession was a consequence of the financial and housing bubbles of the mid-decade. Minnesota was pulled along by the mini-crash. But because the state had not participated in the bubble to the same extent as many other states (the southern states where the housing boom was most pronounced and mortgage and corruption practices worst, and the eastern states where unsound financial innovation concentrated), Minnesota's recovery has been faster and more robust (Figure 4). The state's mix of healthy industries has also contributed to this recovery, as has its highly educated workforce and good public services.

Figure 4. Minnesota Recovering from Great Recession Faster than Nation, 2003-2013



Source: Susan Brower, Minnesota State Demographer, before the Select Committee on Living Wage Jobs, February 4, 2013. Data from Local Area Unemployment Statistics (LAUS) data, seasonally adjusted rates.

Minnesota also flourished during the 1990s, a period where deep defense cuts hurt many other states. The national peace dividend (associated with a 40% cut in national defense spending in real terms) went about 50% to deficit reduction and private sector expansion and 50% to increases in domestic discretionary programs such as education, health care, and social services (Gold, 2000). If significant defense cuts take place nationally going forward, Minnesota should again be relatively insulated from associated job loss.

Unemployment is falling faster in Minnesota than nationally

In the past few years, Minnesota has recovered from the Great Recession faster than the nation. Unemployment in Minnesota, which mirrored the national rate of 4.5% in 2007 and rose with the national rate until early 2009, reached 8.4% at its highest and began falling sooner and faster than the national rate thereafter. By December of 2012, Minnesota unemployment had fallen to 5.5% compared with 7.8% nationally. The numbers of people officially unemployed fell from 250,000 at their high point to around 165,000 at the end of 2012. The state's unemployment rate has not, however, returned to its low of 4.7 in December of 2007, though we are where we were when the financial markets melted down in September, 2008 (5.5%).

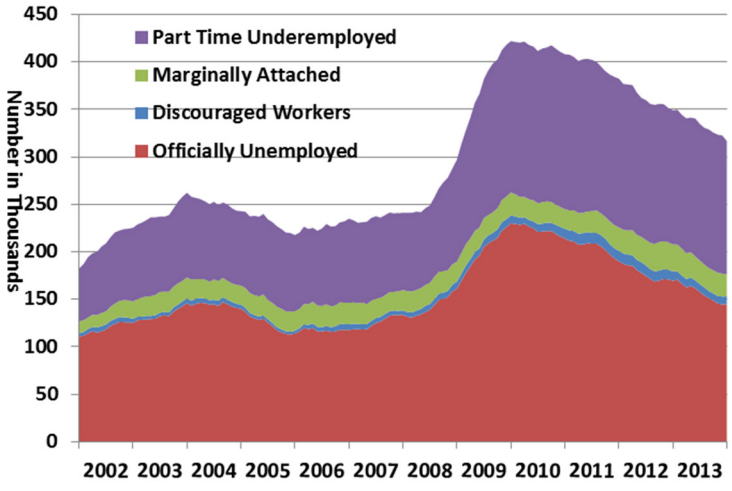
Lower unemployment in Minnesota and nationally is partly a result of declining labor force participation rates. Minnesota's Labor Force Participation Rate decreased from a peak of 75.6% in early 2001 and 72.3% in December 2007 to 70.8% in December of 2013, comparable to declines in US rates of 67.2%, 66.0% and 63.6%, respectively. Some portion of this could be accounted for by discouraged workers and by people returning to school or staying in school longer, but also to the relative aging of the workforce, which will continue.

Layoffs per month have fallen by nearly 50% since the height of the Great Recession, and are a good signal of likely future employment growth. Total initial claims ran 23 to 24,000 per month during the expansionary years of 2004 through 2006, and rose to almost 44,000 during early 2009. In 2012, they averaged 23,154 and January, 2013, fell to 21,700. Recent vacancy levels have more than doubled since late 2009, and by the end of 2012 reached their highest 4th quarter levels since 2005.

Unemployment and underemployment is much higher than official estimates

The true degree of slack in Minnesota's labor markets is substantially under-estimated. If "unemployed" included those who have stopped actively searching, but would still like to have a job, and those who are working only part-time but want full-time work, Minnesota's unemployed (including the self-employed) would be roughly double the official level (350,000 versus 165,000, Figure 5). While the number of officially unemployed has dropped by about 85,000 over the past 3 years, the number of marginally attached workers (those who face other impediments to taking a job such as transportation or child care) is as high as it ever has been. Since the Great Recession, Minnesota has seen little improvement in underemployment. The expansion in involuntary part-time workers that peaked in 2009 has been the most troublesome: workers in this group have declined by only 20,000 since then.

Figure 5. Minnesota Underemployment, Involuntary Part-time Growing, 2002-2013



Source: Oriane Casale and Steven Hine, Department of Employment and Economic Development, update to Testimony before the Select Committee on Living Wage Jobs, February 4 and 22, 2013.

Long-term unemployment persists

Despite employment improvement, Minnesota's long term unemployed have faced a tougher time in the labor market than previously. The number of Minnesotans unemployed for more than 6 months peaked in late 2011, a year later than unemployment in general. The long term unemployed still comprise a third of those unemployed at any moment in time, about 55,000 workers, or three times the level at the recession's start.[7]

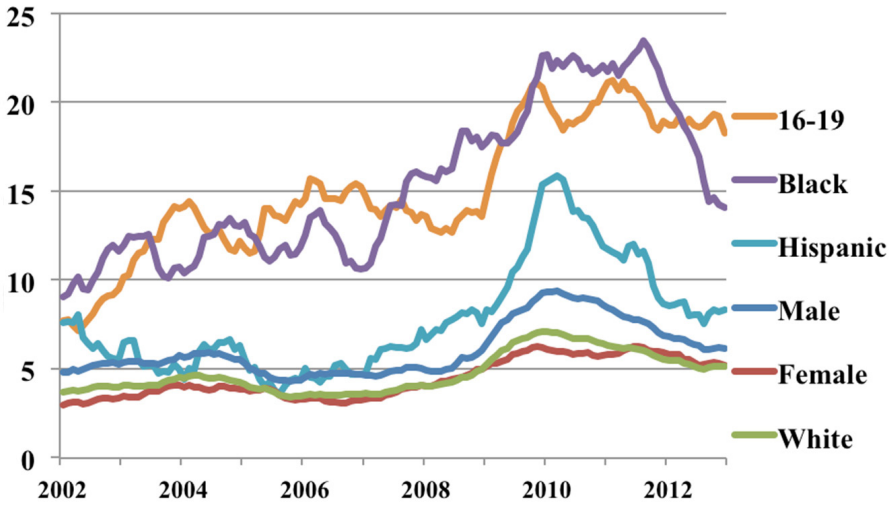
This bout of prolonged unemployment is partly attributable to the severity of the recession. But it is also due to employer discrimination in hiring the longer term unemployed. Some 27 states have introduced legislation prohibiting employers from stipulating that a candidate for a job cannot be currently unemployed. Passage of such legislation would put such discriminatory practices under scrutiny and ensure that this new form of discrimination does not result in new forms of structural unemployment. Legislation to prohibit discrimination against older workers is also being pursued, as are policies to make it easier for older workers to work (Harrington, 2011a).

If the recovery continues, and Minnesota's workforce ages, employers will be likely to consider candidates they would otherwise not have. However, if the economy goes into another recession, this problem could be compounded.

Minority and teen unemployment rates very high

Despite employment improvement overall, unemployment for subsets of the Minnesota population often diverge from this snapshot (Figure 6). African-Americans, Hispanics and teens, for example, were especially hard hit, and teens continue to struggle. In 2011, Minnesota's African American unemployment was 3.8 times the white rate, ranking second worst in the nation, behind only Washington, DC. By the end of 2012, the rate of unemployment disparity for African Americans had fallen, not quite a third, to 2.7 times the white rate, still 9th worst in the nation. Teen (ages 16-19) employment has also not improved (Figure 6). The share of teens working has fallen from 64% in 2001 to 45% in 2012, partly due to diminished participation but also because their unemployment rate has been stuck around 20% even as the overall rate has fallen by a third.

Figure 6. Much Higher Unemployment for Minority and Teen Workers, 2002-2012



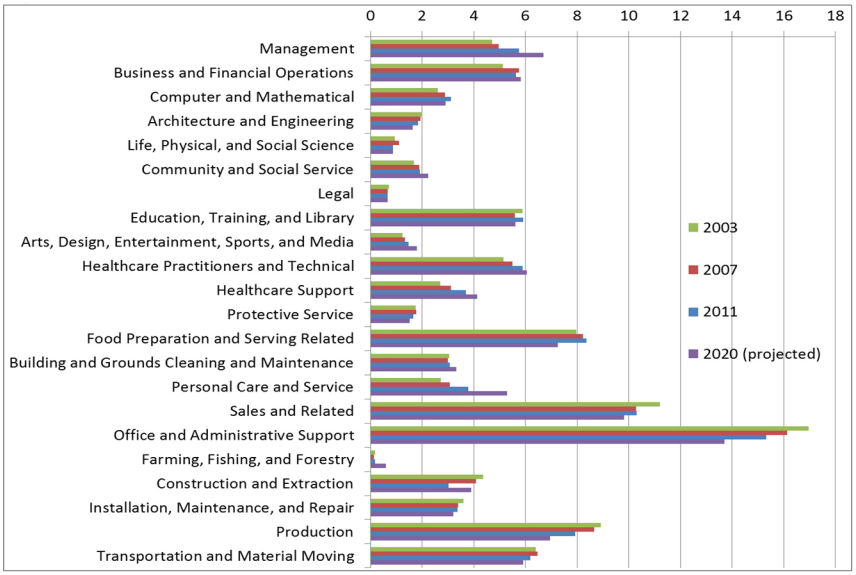
Source: Steven Hine, Minnesota Department of Employment and Economic Development, Testimony before the Select Committee on Living Wage Jobs, February 4 and 22, 2013.

Minnesota job growth in low-wage occupations will continue

Projections of job growth by occupation suggest quite divergent expansion rates and in educational, skill and pay requirements. Steve Hine, from the Minnesota Department of Employment and Economic Development (DEED), expects that jobs in 2020 will not be wildly dissimilar from what we see today or what existed 10 years ago. Minnesota employers will continue to fill large numbers of positions that do not require a college degree. Though demand for some high-skill occupations like arts, design, and media and health care professionals will grow, demand for others (architecture and engineering, computer and mathematical and life, physical and social science) is projected to decline. DEED expects robust job growth in management, which includes everything from fast food and other retail to corporations and business service firms (and thus quite diverse in skill requirements). Jobs in construction, craftwork, production and transportation will continue to decline.

Though some very large and relatively low-skilled occupations are expected to experience slow job growth, their shares of hiring will remain high (Figure 7). Office support jobs, for instance, have dropped from nearly 17% of all jobs in 2003 to 15% recently and will continue to fall to under 14% by 2020. However this occupation will continue to be the source of the largest number of Minnesota jobs. Healthcare support with its 32.5% rate of growth over the next ten years will see its share of jobs increase, from less than 3% in in 2003 to more than 4% in 2020. Personal care and services is expected to outpace job growth in all other occupations, doubling between 2003 and 2010, to well over 5% of all jobs. In 2020, the less-skilled occupations of office and administrative support, sales and related, and food preparation and serving will account for 30% of Minnesota jobs. Only higher wages and/or public assistance will enable these workers to make living wages.

Figure 7. Slow Growth in Low Skilled Jobs ≠ Low Employment, 2003-2020



Source: Steven Hine, Minnesota Department of Employment and Economic Development, Testimony before the Select Committee on Living Wage Jobs, February 4 and 22, 2013.

1.3 New jobs created in Minnesota have low wages and cost taxpayers

In Minnesota, even a bare-bones budget requires earnings at twice the official poverty rate to support a family of four. Inadequate earnings, linked to low statutory minimum wages, unemployment, and underemployment, result in heavy reliance on public assistance, especially for Minnesota families with children.

Many jobs in Minnesota pay less than a living wage

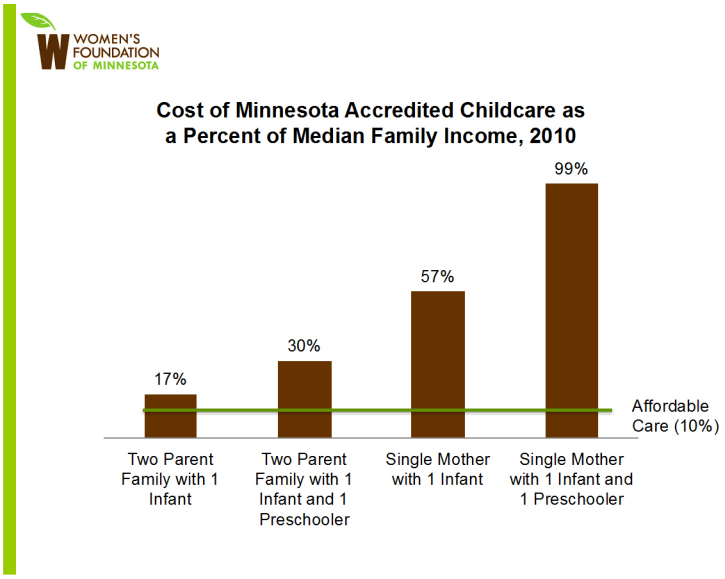
In Minnesota, a bare-bones budget for a family with two full-time working adults and two children reached $58,368 in 2009, more than twice the federal poverty level of $22,040 for that year. The Jobs Now budget, calculated for various family configurations and for individuals, includes only food cooked at home, housing, health care, transportation, child care, clothing and other necessities, and net taxes. It covers no restaurant meals, no transportation for recreation or shopping, no educational costs, no vacations, savings, or emergencies.[8] In this analysis, each adult in this type of household would have to make $14.03 an hour to meet the basic needs budget, assuming a 40 hour work week and that all income consists of earnings. Yet approximately 40% of Minnesota jobs in 2009 paid wage rates at below that rate.

The earnings required to qualify as a living wage depend on location in Minnesota and the type of family. In North Central Minnesota, a four-person household would require $50,736 in income and $12.20 hourly wages for each full-time worker to meet basic needs, compared with the state-wide average of $58,368 and $14.03 per hour. In that region of Minnesota, an even larger number of jobs pay less than a living wage, with 45% paying below $12.20 per hour.

For a two-adult family with two children where one parent does not work (and can do child care), a basic needs budget is much lower for the North Central region, $29,964 in 2009. The household's one full-time worker would have to make $14.41 an hour to meet the household's basic requirements. Yet 57% of wages in the North Central region fall below this threshold.

As the two-earner household has become the norm, families with young children have particularly heavy expenses, because of the cost of child care. The Center for Women and Public Policy estimates that a two parent household at median income, with one infant and one preschooler, would spend 30% of its income on childcare, but a single parent with the same two children would face costs of 99% of her income (Figure 8). A North Central single parent with two children at home would have to make $37,392 to cover a basic needs budget, a level that can only be satisfied if the parent works full time at $17.98 or more. Some 70% of all jobs in the North Central region pay less than this level.

Figure 8. Childcare Expensive for Working Parents



Source: Kim Borton and Debra Fitzpatrick. 2013. "Status of Women & Girls in Minnesota." Testimony before the House Select Committee on Living Wage Jobs, April 14.

These computations show that the poverty rate is a poor indicator of inadequate wage and income levels in Minnesota.

Inadequate earnings and incomes lead to reliance on public assistance

Both unemployment and low earnings on the job, from low wages or insufficient hours of work, increase the demand for federal, state and county public assistance and for nonprofit sector-supported programs.[9] Often employed adults must rely on these to make ends meet. Employed Minnesotans with inadequate incomes qualify for three types of programs: the Supplemental Nutrition Assistance Program (SNAP, or formerly food stamps); The Minnesota Family Investment Program (MFIP) and the Diversionary Work Program, both of which offer cash assistance for very poor families with children; and the Child Care Assistance Program, helping low income families pay for child care costs.

A family of three with one full-time worker at minimum wage (no holidays or time off) earns $15,138 a year, well below the inadequate federal poverty line of $19,530. For this family type, the SNAP program provides benefits up to an income level of $31,500, or 165% of the poverty line. The MFIP program accepts applicants below $13,272 if working and $12,060 if not working and ends support if income exceeds $21,000 or 115% of the poverty line. Child Care Assistance is available for families with incomes below $33,786, or 47% of state median income, and once in the program, they must exit if their income exceeds $48,164, or 67% of the state median.

Families with children form the largest share of recipients

As of December 2011, some 265,760 adult Minnesotans were receiving food stamps. Of these, 40% support children at home and close to 50% are working. Disabled adults account for the second largest share, a bit less than one quarter, and of these, 12% are working. Seniors account for about 40,513 of recipients, very few of whom are working, and other adults without children for another 64,000, about one quarter of who are working and are still eligible for SNAP (Minnesota Department of Human Services, 2011a).

Inadequate earnings force many working parents to rely on Minnesota's child care assistance program. Of those receiving child-care assistance, 83% are working or in a time-limited job search, and the rest are pursuing education, including completing high school.

Gaps in unemployment insurance cause many unemployed workers to rely on public assistance

Nationally, low-wage workers, especially those in retail and service industries, are 2.5 times as likely to be unemployed as higher wage workers but only half as likely to collect unemployment insurance (UI) (General Accountability Office, 2007). As a result, substantial numbers of unemployed workers (those out of and actively seeking work), even those receiving UI, rely on one or more of the state's public assistance programs. In late 2011, 10,468 workers on UI participated in the SNAP program, and 9,550 received medical assistance. Inadequate UI coverage is a major cause of reliance on public assistance. In 2012, only 40% of Minnesota's officially unemployed individuals received UI (compared to 30% nationwide). Individuals in low wage jobs are most likely to be unemployed and not receive unemployment insurance. The industries in Minnesota that are most likely to employ women are least likely to have workers receiving UI benefits.

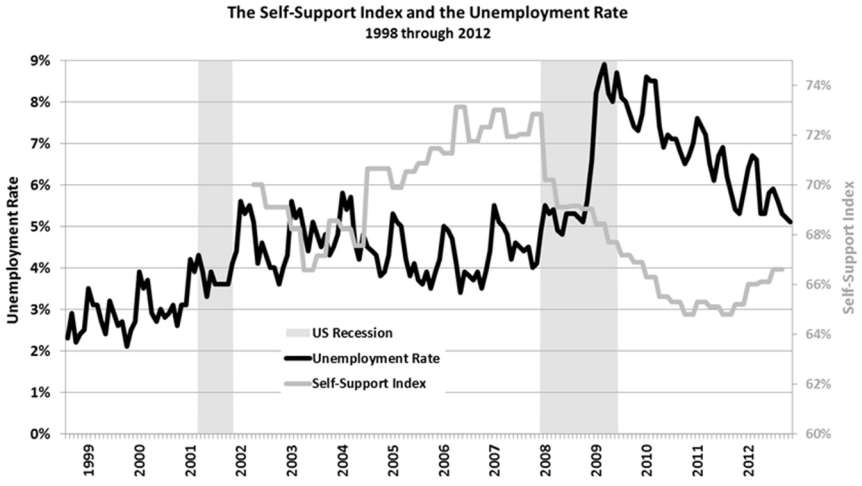
Workers on public assistance are concentrated in four industries: retail, hospitality, temporary office work and health care

The vast majority—80%—of Minnesotans on public assistance are working or were working sometime in the eight quarters before applying. A majority of workers turning to public assistance work in administrative and support (including temporary employment), retail, accommodation and food service, and health care and social services industries. The first three of these industries have the highest employee turnover rates in the Minnesota economy, and their workers also work relatively few hours weekly. Of people receiving SNAP, more than two-thirds, and of those receiving MFIP, 62%, have high school diplomas.[10] And 80% of parents who enroll in MFIP are women.

Taxpayers cover wage shortfalls through health care programs and tax credits

Other forms of assistance to the working poor in Minnesota include health care subsidies and the Working Family Tax Credit (WFTC). Committee hearings did not include testimony or evidence on these programs, but both tools help to fill the gap between the cost of living and low wages. The WFTC is only accessible once a year, a disadvantage for covering monthly costs, but has the benefit of not being tied to particular types of expenditures. Many families use this to cover extraordinary costs or to lower their debt, including credit card charges accumulated during the year (Cunningham, 2013).

Figure 9. High Minnesota Unemployment Increases Public Assistance, 1998-2012



Source: Deborah Schlick, Minnesota Department of Human Services, Testimony before the Select Committee on Living Wage Jobs, February 15, 2013, data from Welfare Brief, Transitions to Economic Stability, Minnesota Department of Human Services, April 2011, https://edocs.dhs.state.mn.us/lfserver/Public/DHS-6373I-ENG

A weak job market increases need for public assistance

The state's unemployment rate has a strong influence on the number of people receiving public assistance (Figure 9). Many people on public assistance are not marginalized people living outside of the economy's boundaries, but are between low-wage jobs or have been thrown out of work in a downturn. In the recent deep recession, enrollment in SNAP and Medical Assistance increased sharply, which would not happen if recipients were previously unemployed.

Although Minnesota's cash assistance program also saw some increase in numbers of families served, the response was not as robust as SNAP. The weaker response of cash assistance to the recession was true throughout most of the nation (Pavetti et al, 2013). Because labor market conditions drive results, people are more likely to leave cash assistance and/or get jobs when the unemployment rate is lower (Figure 3A, Minnesota Department of Human Services, 2011b). Also reflecting the power of the labor market, the same Minnesota industries and occupations account for most parents enrolling in as well as exiting from MFIP.

Public assistance helps working poor families to make ends meet

Research by the Children's Defense Fund of Minnesota, using a basic needs budget calculation similar to that of Minnesota Jobs Now Coalition, demonstrates that SNAP, MFIP, reduced school meals, child care subsidies, free health care, federal assistance such as WIC and Section 8 housing subsidies, and state and federal tax credits (EITC and WFTC) can help bring working poor families to a level of basic, though bare bones, security. However, many families eligible for child care and section 8 housing do not receive assistance or are on waiting lists (Cunningham, 2013). Because public assistance comes through many uncoordinated programs, with different requirements from county, state and federal levels, it is difficult to calculate the full cost to Minnesota taxpayers of low wages and unemployment in the state's economy. Nonprofit charities also help cover the gap between expenses and income for many working poor.

1.4. Workers are losing job security, becoming independent contractors

More Minnesota workers are independent contractors or self-employed than in the nation as a whole, at approximately 10% of all workers (Layne, 2013). Independent or self-employed participate in a wide variety of job types and sectors. They include many day laborers, who are treated as contractors even though often legally they qualify as employees, and tens of thousands of self-employed workers have temporary employment or work through temporary agencies. Other self-employed workers are professionals and managers such as artists, designers, veterinarians, tech workers and farmers who either prefer self-employment or work as contractors to large and small organizations or via temp agencies. Self-employed workers also start small, chiefly retail businesses in their communities, supplying goods and services not otherwise available and generating jobs for others, albeit initially at low wages.

Taken as a whole, the self-employed face diverse challenges: finding start-up and working capital; developing business planning and management skills and marketing knowhow; dealing with clients, bosses and suppliers; coping with taxes and regulation; securing health insurance/care; accessing unemployment compensation and wages that they are entitled to; job security, making a living, and saving for retirement.

Many skilled workers, some self-taught, choose self-employment as a career strategy. In some professions, including farming and veterinary, self-employment is common, and worker-owners join professional associations to work through training, problem-solving and policy issues. Many other contractors work independently, but struggle to make a decent income. In a 2005 national study, 82% of responding independent contractors stated that in theory, they preferred independence to a traditional job, but only 32% preferred their current arrangement to a traditional job (Hine, 2013b).

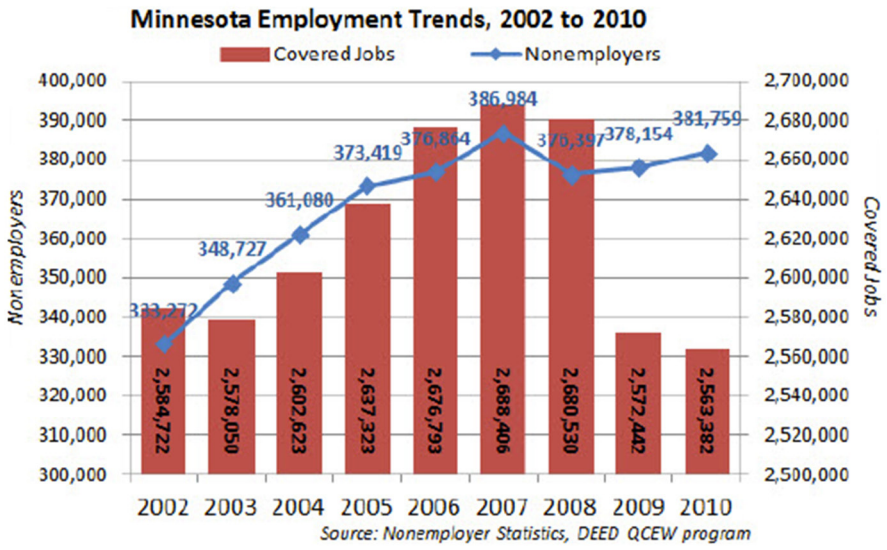
As the self-employed and contractors increase in numbers, new initiatives and better regulation in Minnesota can help with these challenges.

Temporary worker ranks are growing and working conditions are often difficult

Estimates from federal data sources not based on employer-reported statistics, indicate total self-employment in Minnesota at nearly 381,800 (Figure 12, Zabel, 2013). Based on DEED data, people who work mainly on contract account for about 60% of Minnesota self-employed. About one quarter of these are "on call" workers, who work as needed (e.g. independent plumbers, landscape gardeners). The remaining are temporary workers employed by agencies, not the businesses or households for which they work. A growth industry, employment service firms employed 67,000 workers in Minnesota in 2013, up from 25,000 in the early 1990s. Temporary work is highly cyclical: during the 2009 trough of the Great Recession, employment jumped by 42%. In 2012, a recovery year, temp employees grew by just

2%. Over time, however, a clear trend towards outsourcing, driven by human resources practices, is expanding the numbers of people working as temps and on contract, including skilled work in tech services and lower skilled work in landscaping and janitorial services (Hine, 2013b).

Figure 10. Minnesota Employed and Self-Employed, 2002-2010



Source: Laura Zabel, "Artists and Self-Employment," Testimony before the Select Committee on Living Wage Jobs, April 9, 2013. Data from Non-employer Statistics, DEED, QCEW Program.

In addition, many Minnesota workers—day laborers, hired on street corners, or workers in people's homes as housecleaners or child care and personal care workers—are often paid as contractors with no benefits, unemployment insurance, social security contributions, or taxes withheld. A recent National Public Radio report interviewed a construction contractor in Texas who confirmed that he hires day laborers for work that legally should be considered employment and that the practice is pervasive in his industry and state (National Public Radio, 2013). From a national survey of day laborers, researchers Abel, Theodore and Meléndez (2006) wrote:

> *Our findings reveal that the day-labor market is rife with violations of workers' rights. Day laborers are regularly denied payment for their work, many are subjected to demonstrably hazardous job sites, and most endure insults and abuses by employers. The growth of day-labor hiring sites combined with rising levels of workers' rights violations is a national trend that warrants attention from policy makers at all levels of government.*

In Minnesota, Legal Aid lawyers have experienced a surge in complaints from temporary and contract workers whose employers are not contributing to social security, benefits and unemployment compensation, and who are working under conditions that would be in violation of OSHA. Testimony by Legal Aid's Jessica Webster recounted the case of a woman who had been working as a temp at $8 an hour for ten years, and temp work listings that state "must be able to stand for twelve hours straight," and "slight risk of electric shock." Temp agencies and temp employers are fighting worker claims for unemployment insurance. Outright wage theft is also a common problem. Some workers are not getting paid for hours they worked or for over time (Webster, 2013).

Immigrant workers often experience particularly difficult times making ends meet through temporary work. Stephen Philion of Saint Cloud State University, who also serves as Chair of the Greater Minnesota Worker Center in St. Cloud, surveyed many of the 8000 to 12,000 Somali immigrant workers who have to rely on temporary agencies.

> *They are going from job to job, with long periods of unemployment in-between—as much as one to two months a year. They are paid low wages and lack basic rights on the job, job security, and any time of retirement, such as 401Ks. They often have to go to work at the drop of a hat despite children who are relying on the presence. They are very vulnerable to practices that permanent workers don't have to face, like having to take out their wages through debit card and paying charges on these… Immigrants are funneled into a labor market that is tiered, and they are getting the impression that they are second class citizens (Philion, 2013).*

Temporary workers are pursuing new organizing techniques

Temporary and contingent workers in Minnesota and around the country are pursuing innovative organizing techniques to achieve greater employment security. In one example, the Greater Minnesota Worker Center in St. Cloud approached the Jenny-O Turkey Company and asked them to go to direct hiring. After some reflection, the company agreed. Reported Philion:

> *The impact on workers and the company has been real and dramatic. Workers are less likely to be fired. When a problem happens on the line, it is dealt with directly by the manager, who previously would have sent it to the temp agency who would often fire the worker rather than deal with it. More motivated workers and a better communication system between management and workers at Jenny-O has proven better for the employer as well as workers.*

Community-based worker centers like the one in St. Cloud appear to be the most effective intervention into the temporary worker market according to Abel, Theodore and Meléndez (2006). Worker centers help workers monitor the actions of employers, increase transparency in hiring, and provide a foundation for holding employers responsible for workplace abuses. The St. Cloud center does what social service agencies do not: trains people in workers' rights, helps immigrant workers fill out job application forms, bargains with employers to bring up wage standards and working conditions. For employers, they help normalize the hiring of day laborers, monitor workers quality, and provide opportunities for incorporation into the mainstream economy through employment assistance and, in some cases, skills training. The Center aspires to keep educated immigrant young people in the St. Cloud labor market and helping their communities rather than leaving for Minneapolis or Chicago. However, in 2013, a new industry group, the Center for Union Facts, based in Washington, DC, began lobbying Congress to investigate whether worker centers should be subject to regulation and unveiled a new website that calls on employees to report worker centers for harassment (Krisberg, 2013).

Policy interventions to improve pay, working conditions and employment security can include better data on and enforcement of labor and employment laws (U. S. General Accounting Office, 2002), more resources (such as legal services) to help laborers address labor violations, and enactment of immigration reform, since undocumented status often leaves workers vulnerable to employer exploitation. The state can also tailor workforce and business development programs to these workers, helping them move into better jobs and become entrepreneurs themselves.

Workers remain subject to illegal independent contractor misclassification

Economically marginal workers frequently are subject to misclassification as independent contractors. This eliminates some of the economic security they would earn as employees. Minnesota's Legislative Auditor estimates that about 6% of the Minnesota workforce may be classified as independent contractors, in technical services and health services (especially home health care) and some retail, manufacturing and trucking as well as construction. There are many legitimate uses of independent contractors, but there has been a rise in creative interpretation of the law. For instance, the U.S. Department of Labor discovered a cleaning service that won a contract to clean an office building, and then found workers to whom it rented a cart and half a floor of the building for her to clean every night from 11 p.m. to 3:00 a.m. with no worker protection or rights. Anecdotal evidence suggests that such practices continue to proliferate, which could change the employer/worker relationship in the United States.

In 2007, the Minnesota Legislative Auditor released a report documenting considerable misclassification in Minnesota, especially in the state's construction industry. In response, the Department of Labor and Industry, the Department of Employment and Economic Development, and the Department of Revenue worked together to address misclassification. In 2011, DLI initiated a pilot project in construction, requiring that every building construction provider in Minnesota must register with DLI. DLI assigned two investigators to visit construction worksites to ensure that all people working there are registered contractors or employees of registered contractors.[11]

Currently some state and federal compliance programs offer first-time offending employers an opportunity to voluntarily comply without penalty where misclassification is found, if they pay back-pay, overtime pay, social security, and taxes, and workers' compensation going forward, covering any past claims if sustained. Active enforcement can curtail misclassification and improve compensation and working conditions for Minnesotans.

Community-based entrepreneurs are often self-employed and play an important economic development role

In low and modest income neighborhoods, suburbs, and towns, retail and consumer services are often scarce, especially where culturally-specific offerings are desired. Jobs are often scarce, as well. New entrepreneurs emerge to fill the gaps, but often need help understanding and accessing business planning, finance, tax and regulatory information, and real estate know-how. New organizations, often dubbed micro-credit or micro-finance, have formed to foster these new businesses, and in Minnesota, many self-employed people have become business owners and employers with transitional support.

In Minnesota, a number of organizations, including the Saint Paul-based Center for Neighborhood Development (CND), have provided incubating services for would-be entrepreneurs, often immigrants, in low-income neighborhoods.[12] CND's services include preliminary training, financial literacy and loans, and ongoing technical assistance. Loans are modest in size (average $25,000, highest $300,000, working with banks if possible), and payback rates are high (92%), especially for businesses that are considered "unbankable" by commercial banks. For entrepreneurs with an idea, the CND provides classes, currently in five languages, that explain how local economies work, how to find finance and what it takes to run a business. Since 1993, CND has trained over 4000 entrepreneurs, financed $8.5 million in loans, and logged 35,000 in small business consulting (Center for Neighborhood Development, 2011). CND is supported both through the public sector (Minnesota DEED and federal Small Business Administration and Treasury CDFI programs), foundation grants, and some capital from banks, often partnering with cities and others.

Self-employed start-ups like these become economic drivers in their neighborhoods. By providing goods and services that people want, they help to recycle income within the neighborhood. After 20 years, the CND has spawned 457 businesses that are open today, providing 2300 jobs with an average wage of $12.14 an hour and a $25 million payroll. Over half of the employees are from the neighborhood. They remain micro-businesses—the average size is five, an owner and four employees. While average wages are well above minimum wage, few offer benefits—only 9% of CND-spawned businesses offer health insurance.

Some start-ups want to grow larger, while many are satisfied with remaining small. In a 2013 evaluation by Wilder Research, 68% of CDN business owners surveyed want to increase their numbers of employees, 64% to add to inventory or buy equipment, and 58% to provide a new product or service (Schauben, 2013: 3). Among CDN-nurtured businesses that have expanded beyond micro-scale are Tortilleria La Perla, which started in Minneapolis' Mercado Central and expanded into a manufacturing plant in Seward to employ 40 people. In Orono, CDN helped an individual start a bus company that now employs around 200.

A network of organizations works with these constituencies, but the coverage is still thin. In the Twin Cities, in addition to CDN, entrepreneurial programs are run by Women Ventures, NAEDA, African Development Center, Latino Economic Development Center, and the Metropolitan Consortium of Community Developers. Outside of the Twin Cities, coverage is thinner. Three of the Minnesota Initiative Foundations fund entrepreneurs, and Northeast Entrepreneurship Fund in Duluth trains as well as funds, but few organizations are providing ongoing technical assistance, key to success rates, an area where state policy might help. One model might be Minnesota Technology Inc, which in its earlier operations fielded teams of experts to visit and provide technical assistance to small and medium-sized manufacturing firms around the state. Small entrepreneurs also need help understanding complex state and local regulations and tax law and benefit laws.

Working with small Minnesota entrepreneurs—tens of thousands in Minnesota—is one way of providing jobs for low income, ethnic and immigrant workers and improving neighborhood economies. By teaching managerial skills and providing financial intelligence and loans, organizations like CND develop business leadership in neighborhoods that strengthen their economies and livelihoods over time. They also encourage other business start-ups by revitalizing commercial areas: 60% of CND businesses occupy a building that was formerly vacant (Schauben, 2013: 3).

Free agents dominate many new industries, creating new challenges to employment security

Many college-educated workers find themselves involuntarily working as contractors. In 1995, a young New York lawyer, Sara Horowitz, landing a job in a Manhattan law firm after graduation, found that she was hired as a contractor, meaning no health coverage, no pension plan, no paid vacation—just a paycheck. She was already experiencing a trend in which American employers rely increasingly on independent contractors, temporary workers, contract employees, and freelancers to cut costs (Greenhouse, 2013).

Whole new industries are now predominantly working in this fashion. In their study of new media workers in New York, Rosemary Batt and her colleagues (2000) found contractor roles to be the norm and identified three types of problems. One, as technology changes rapidly in this project-oriented industry and because formal learning programs have not kept up, new media workers must invest a significant amount of time learning and upgrading their skills—on average, 13.5 unpaid hours per week. Second, because these workers move from job to job, they must rely on social networks to find work and build reputations. Third, most interviewees reported job security and future prospects to be weak, half considered their pay to be unfair, and most lamented the absence of health care coverage and benefits. As Christopherson (2004) found in a study of new media work, the policy environment rather than the technology per se accounts for these problems.

Policy and institutional innovations can help in these circumstances. In industries like new media, employers, professional associations, and other industry stakeholders could work with training providers to insure that their offerings reflect industry requirements and reflect the pace and hands-on nature of skill acquisition (Batt et al, 2000). Training programs must reflect the pace and hands-on nature of skill acquisition in new media. Workers and employers alike need a more efficient, reliable, and standards-based system for skill certification.

Unionization provides a route to greater bargaining strength, benefits and training for the skilled self-employed, as shown for many groups of artists (e.g. the American Federation of Musicians, National Writer's Union, Screen Actors Guild). The New York-based Freelancers Union, begun in 1995 by lawyer Horowitz, currently has over 215,000 members around the U.S., among them graphic designers, writers, information technology professionals, artists, web design/developers, and editors. The union offers contract advice, access to its own for-profit health insurance program, networking opportunities, and advice on how to deal with clients. Their policy initiatives include fair taxation and payment protection.

Staffing agencies have evolved to counsel and help place higher skilled workers who find themselves unemployed. The goal of a professional staffing agency, Jim Johnson of the Minnesota Recruiting and Staffing Association explained to the Select Committee, is to place unemployed professionals in jobs that often turn out to be permanent (Johnson, 2013). Job seekers are given higher quality counseling and support than are less skilled workers who turn to temp agencies.

Independent artists offer a window into the challenges of professional self-employment

The arts sector in Minnesota contributes over $1 billion annual to the state's economy, and self-employed artists are directly responsible for over 20% of that impact (Minnesota Citizens for the Arts, 2007). Minneapolis-St. Paul hosts larger shares of artists of all disciplines than the nation and than most other large metros. The northeast and southeastern regions of Minnesota are also home to large numbers of artists (Figure 13). High concentrations of artists have been nurtured by the state's pioneering publicly-funded Regional Arts Councils and philanthropies like McKnight, Jerome, and Bush, and in turn have helped fortify our cultural industries, especially the state's strong advertising and publishing industries, and other large employers (Markusen and Schrock, 2006; Markusen and Johnson, 2006).

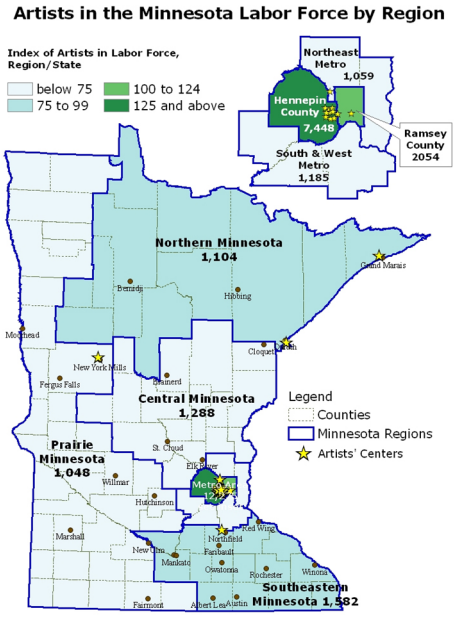


Figure 11. Artists in the Minnesota Labor Force by Region, 2000

Source: Ann Markusen and Amanda Johnson, Artists' Centers, Minneapolis, MN: Project on Regional and Industrial Economics, Humphrey School of Public Affairs, 2006.

Counting those who worked at music, drama, writing, visual arts, design, and architecture as first and second occupations, 48% of U.S. artists were self-employed in 2000 (Markusen and Schrock, 2006), ranging from 65% for writers to 28% for architects (Table 1). Musicians were most likely to work at music as a second occupation. Many choose to work across sectors (commercial, nonprofit, public, community) sequentially or simultaneously, and some work "day jobs" that are unrelated to their art forms (Markusen et al, 2006).

Table 1. Self employment rates, artistic occupations, US, 2000

Occupation	% Self-employed	Primary job	Second job
Writers	65	71,369	10,056
Visual Artists	57	69,470	13,549
Musicians, singers	41	65,618	32,728
Performing artists	36	113,178	37,494
Actors	37	32,652	3,817
Producers, directors	22	11,879	949
Dancers, choreographers	12	3,029	na
Designers	32	132,122	24,095
Architects	28	31,295	3,068

Source: Markusen, Ann and Greg Schrock. 2006. "The Artistic Dividend: Urban Artistic Specialization and Economic Development Implications," Urban Studies, Volume 43, No. 10: 1661-1686. Bureau of Labor Statistics data.

As is true nationally (National Endowment for the Arts, 2011), Minnesota artists are likely more educated than other workers, but less likely to have full-year or full-time employment.[13] Their annual median incomes are thus lower than those of workers with similar educational attainment. Nationally, 4 in 10 artists have no health insurance, twice that of the general population.

Minnesota nonprofits have been innovators in services for artists. Many artists' centers, both disciplinary like the Loft Literary Center and Highpoint Center for Printmaking in the Twin Cities and Grand Marais Art Colony on the North Shore, and community-oriented centers, like Intermedia Arts and Juxtaposition Arts in the Twin Cities and New York Mills Regional Arts Center offer artist members opportunities to work, teach, learn, share equipment and space and resources, present and sell their work, find mentors, and compete for grants and awards (Markusen and Johnson, 2006). Now nationally prominent Minneapolis-based Artspace Projects has built and continues to own and manage live/work and studio buildings for artists in Saint Paul, Duluth, Fergus Falls, and Brainerd (Gadwa, 2010). Saint Paul-based Springboard for the Arts offers independent artists career consultations, training, vouchers to connect them with health care providers, homebuyer assistance, and many other services (Springboard for the Arts, 2010). Springboard is also initiating an art buyers' model, similar to community supported agriculture, where people sign up to buy artwork from area artists.

Policy ideas to improve artists' and other self-employed workers earnings, work prospects, and standards of living include tailoring workforce development and small business programs to address their unique challenges, adopt unemployment compensation programs, and fashion a New Entrepreneur Tax Credit for sole proprietors during the first few years of business start-up. Artist unions, such as local chapters of the National Writers' Union, Musicians' Union, and Actors' Guild, provide bargaining power and professional development opportunities tailored to each art form.

1.5 Minnesota families depend on women workers but women make less than men

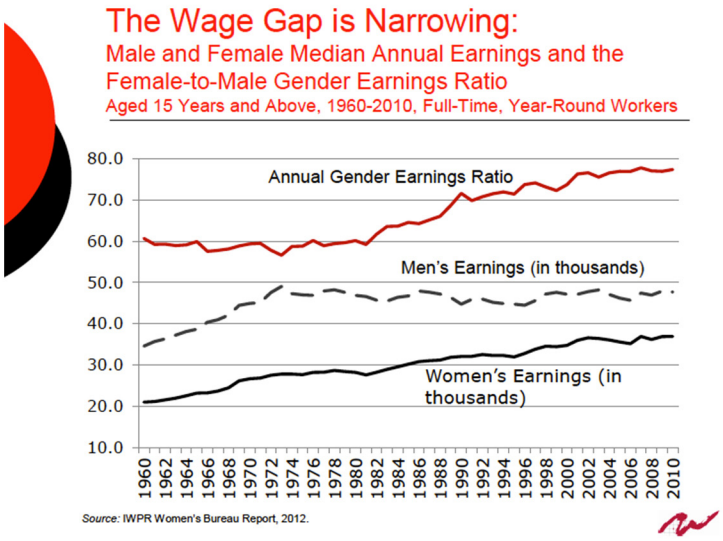
Women working full-time in Minnesota earn only 80% of their male counterparts' pay. This is despite their high

educational attainment and the highest labor force participation rates in the U.S. Nationally and in Minnesota, the gender pay gap has fallen by half since 1960, due to pay equity legislation, declines in gender occupational segregation, educational gains by women, and men taking on greater responsibility for child care. Choice of major and field, workplace discrimination and harassment, pay secrecy and women's continued burdens at home contribute to gender pay gap persistence. The federal Family and Medical Leave Act and the Equal Pay Act have helped. Minnesota's Local Government Pay Equity Act, one of the strongest fair pay laws in the nation, has been highly effective. However, other states have pioneered stronger sick leave and family leave policies. States can influence gender work and pay inequality through a large portfolio of legislative initiatives.[14]

Despite gains, American women's pay and opportunity still lag men's

Nation-wide, full-time, year-round working women's earnings are under 80% of men's. In 1960, women made only 60% men's earnings (Figure 14).[15] Today, they make nearly 80%. In relation to white men, the gender gap has diminished for all race/ethnic groups, with the greatest improvement for Asian-American women and the least improvement for Hispanic women.

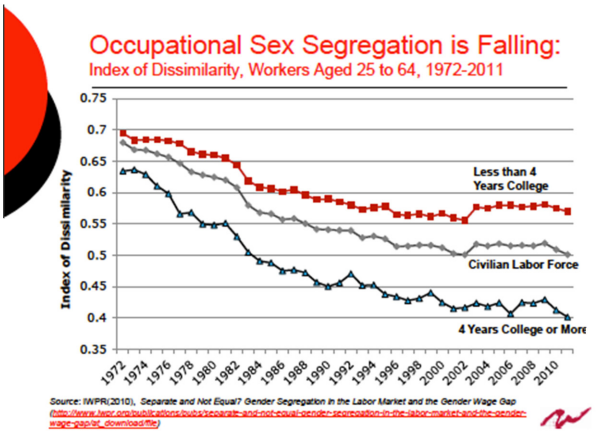
Figure 12. Fulltime Wage Gap between Women and Men Narrowing, US, 1960-2010



Source: Heidi Hartmann, "Achieving Workplace Gender Equity." Keynote, National Economists Club Luncheon, January 31, 2013, Washington DC. Powerpoint at Institute for Women's Policy Research .http://www.iwpr.org. Data from Bureau of Labor Statistics.

The pay gap has narrowed for several reasons. Pay equity and anti-discrimination laws have made inroads on discrimination. Fathers have taken on more child care work at home, up from 30% of mothers' child care hours in 1965 to 54% in 2000 (Bianchi et al., 2006), making it easier for women to participate in the labor force and work full time. Occupational segregation, once such a strong contributor to the gender pay gap that many states, including Minnesota, adopted comparable worth practices, has declined (Figure 15). The gap narrowed for all race/ethnic groups and especially in jobs requiring higher education (Hegewisch et al., 2010). But in recent years, gender gains have diminished. Job desegregation is slowing, especially for young women, and unequal and low pay is persistent in female-dominated jobs (Hartmann, 2013).

Figure 13. Occupational Gender Segregation is Falling, 1972-2011



Source: Hegewisch, Ariane, Hannah Liepmann, Jeff Hayes, and Heidi Hartmann.2010. Separate and Not Equal? Gender Segregation in the Labor Market and the Gender Wage Gap. Data from Bureau of Labor Statistics. http://www.iwpr.org/publications/pubsseparate-and-not-equal-gender-segregation-in-the-m=labor-market-and-ther-gender-wage-gap

In addition to the pay gap, American women face other ongoing work and income challenges. Women's higher educational attainment in the U.S. lags that of many other OECD countries. Labor force participation is high, and women work more hours in the U.S. than in other developed economies, making it difficult to juggle family responsibilities with work (Hartmann, 2013).

Pay gap smallest in gender-segregated medium skilled occupations

Occupational segregation remains a major reason for pay differentials. The pay gap between female-dominated and male-dominated occupations is highest (33%) for high-skilled occupations—those requiring at least a bachelor's degree—and lowest (20%) for medium-skilled occupations, those requiring some college (Figure 16). For low-skilled workers, in jobs that require a high school diploma or less, the wage gap is 26%. Workers (men and women) in low-skilled male-dominated occupations (25% or less female) made $553 in weekly earnings to just $408 in weekly earnings for people in female-dominated (75% or more female) occupations (Hegewisch et al., 2010). New evidence suggests that the nation's workforce development system, administered through the states and the subject of a later section of this report, continues to reinforce occupational segregation and the gender wage gap (Institute for Women's Policy Research, 2013).

Figure 14. Gender Pay Gap Lower in Sex-segregated Medium Skill Occupations, 2009

Weekly Earnings by Gender Composition of Occupations

	Male-Dominated Occupations (25 percent or less female)	Mixed Occupations (25.1 to 74.9 percent female)	Female-Dominated Occupations (75 percent or more female)	Wage Ratio (earnings in female-dominated occupations as % of earnings in male-dominated occupations)
Low-skilled	$553	$435	$408	73.8%
Medium-skilled	$752	$735	$600	79.8%
High-skilled	$1,424	$1,160	$953	66.9%

Source: Hegewisch et al., *Separate and Not Equal? Gender Segregation in the Labor Market and the Gender Wage Gap*, 2010, based on IWPR analysis of U.S. Department of Labor, Bureau of Labor Statistics, 2009. " Household Data Annual Averages, Table 39."

Source: Hegewisch, Ariane, Hannah Liepmann, Jeff Hayes, and Heidi Hartmann.2010. Separate and Not Equal? Gender Segregation in the Labor Market and the Gender Wage Gap. Data from Bureau of Labor Statistics. http://www.iwpr.org/publications/pubsseparate-and-not-equal-gender-segregation-in-the-m=labor-market-and-ther-gender-wage-gap

Educational attainment and specialization contribute to the gender pay gap

The 50% reduction in the full-time gender pay gap since 1960 owes much to gains for women in access to and enrollment in higher education. Women of all ages, considered together, have increased their share of U.S. bachelor degrees from 29% in 1965 to 49% in 2010, so the current earnings gap is smaller for younger than for older women. Yet women still graduate straight into a pay gap. Taking many factors into account (age, parental status, quality of college, grades), full time 23-year-old college educated women are making on average $35,296 to men's $42,918, a ratio of 82% and a gap of 18% (Corbett and Hill, 2012).[16]

The choice of majors in college appears to be the most important source of post-college pay differentials. Women account for 82% of health care majors and 81% of education majors, while they form a distinct minority in engineering and engineering technology (18%). Though college students freely choose their majors, subtle and overt pressures can drive women and men away from fields nontraditional for their gender (Hill, 2013). Taking into account all factors (occupation, industry, hours worked per week, multiple jobs, months unemployed since graduation, undergrad GPA and major, college selectivity, age, region and marital status), the pay gap for bachelors' degree recipients working full time one year after college graduation is still 7% (Corbett and Hill, 2012). The unexplained gap

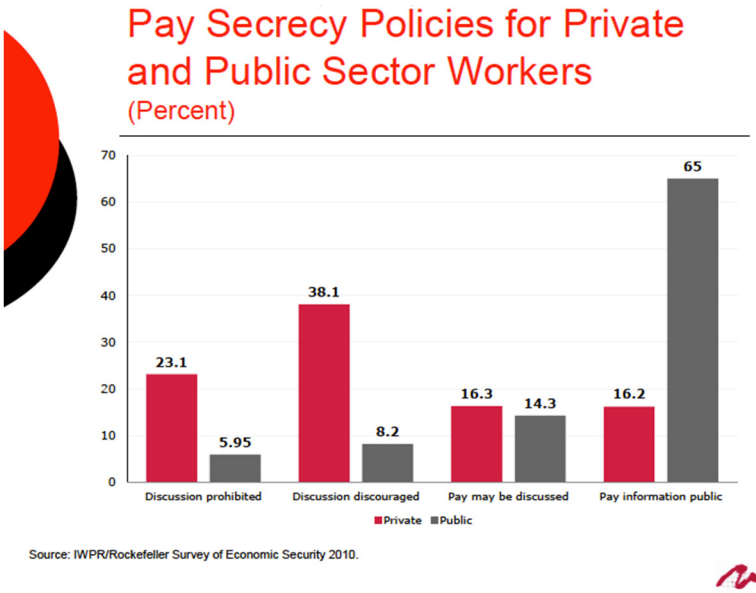
for newly graduated medical students is $16,800 (Lo Sassa, Richards, Chou and Gerber, 2011).
Further, a college degree is not a reachable goal for many Minnesota women. Nationally, almost 30% of female high school graduates do not go to college (Bureau of Labor Statistics, 2013). Among those earning bachelor's degrees, Minnesota's young African-American, Latina and Native American women trail white and Asian-American women substantially: 11%, 11% and 6% respectively, compared with 32% and 34%. While the share of Minnesota 12th grade girls, surveyed in 2010, that expected to go on to college rose modestly over 1998, the numbers planning to go to trade or vocational schools that train for jobs where pay is decent and the gender gap smallest plummeted (Borton and Fitzpatrick, 2013). The skilled trades, where earnings can be significantly higher than in other occupations that require only a high school degree, are still virtually closed to women. Women hold fewer than 3% of jobs in construction occupations. Exclusion from the skilled trades reduces the opportunities for women without a college education to achieve economic security.

Workplace discrimination remains a cause of the gender pay gap

Gender discrimination remains a significant issue in the workplace, as shown by increasing numbers of claims filed with the Equal Employment Opportunity Commission (30,000 in 2012, about 1% from Minnesota) and millions of dollars paid by employers annually in awards, settlements, and other legal fees—over $9 million in 2012 (Equal Employment Opportunity Commission, 2013; Hegewisch, Deitch and Murphy, 2011). Pregnancy discrimination suits have risen at the highest rates in recent years. Experimental evidence confirms that many people continue to hold biases against women in the workplace, especially those who work in traditionally male fields. For instance, a study published in the Proceedings of the National Academy of Science study found that research scientists offer higher salaries to men who apply for lab manager positions than to identically qualified women. Importantly, both men and women were equally likely to be biased against women who applied for the job (Moss-Racusin et al, 2012). Bias is impossible to measure directly, and many who discriminate—both men and women—may not be aware that they are doing so.

Workers' willingness and ability to negotiate salaries may also contribute to the pay gap. Many employers have policies prohibiting employees from discussing their pay, making it more difficult for women, especially minority and working class women, to know what others are making and what is reasonable to request. A study by the Institute for Women's Policy Research, using the Rockefeller Survey of Economic Security, found that in the private sector, 61% of employers actively discouraged or prohibited discussion of salaries and wages (Figure 17). In the public sector, where most salaries are public information (65%), the problem was much less severe (Hartmann, 2013).

Figure 15. Private Sector Pay Secrecy Much Greater than in Public Sector, 2010



Source: Heidi Hartmann, "Achieving Workplace Gender Equity." Keynote, National Economists Club Luncheon, January 31, 2013, Washington DC. Powerpoint at http://www.iwpr.org

Sexual harassment in the workplace is another contributing factor and accounts for a growing share of discrimination claims. In 2011, almost 12,000 charges of sexual harassment were filed with the EEOC and associated state and local agencies, 16% by men and 84% by women (Equal Employment Opportunity Commission, 2013). Most victims of

sexual harassment do not file charges: an ABC News national poll found that one in four women in the workplace had been harassed, demonstrating prevalence (ABC News, 2012). Sexual harassment is more common for women in non-traditional jobs and in workplaces that are mostly female but where male bosses are very powerful, as in agriculture or food processing (Hegewisch et al., 2011). However, it occurs in professional workplaces as well. A 2012 study of University of Minnesota employees found that women supervisors were more likely than other women and more likely than male supervisors or workers to be sexually harassed (McLaughlin, Uggen and Blackstone, 2012.) Sexual harassment can drive women from better paying jobs and workplaces and intimidates them in negotiations over pay and working conditions.

Economy-wide, women continue to bear a significantly larger share of responsibility for child care and household work, complicating their work options. Even when these responsibilities do not impede upon the productivity of women, employers may assume that women will not make work their first priority, denying them higher wages or promotions (Williams and Bornstein, 2008; Bornstein and Weber, 2008). As a result, the pay gap between working mothers and fathers is particularly large. Women may be less willing to relocate for work, to commute far from home, to travel on the job, and to work involuntary (Moe and Shandy, 2009).

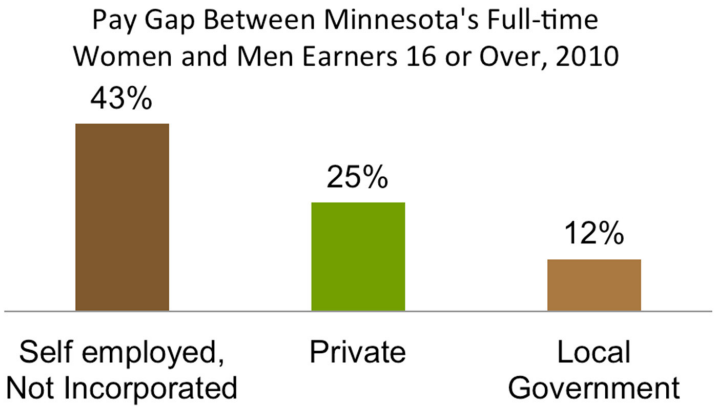
Women do better in Minnesota, but the gender pay gap remains substantial

Minnesota is first among the states in women's work force participation and ranks 11th for gender pay equity. It also ranks high on most gender economic indicators, with the exception of the percentage of women-owned businesses (Institute for Women's Policy Research, 2011). Minnesota's gender pay gap is slightly smaller than in surrounding states, due in part to strong comparable worth pay equity laws for the local public sector (Borton and Fitzpatrick, 2013).[16] The state also stands out on many health and educational outcomes, inextricably linked to economic outcomes. Minnesota is a national leader in expanding the protections offered through the Family and Medical Leave act, expanding the number of employers that are covered, offering time off for school conferences and for victims of domestic violence, a time and place to pump for nursing mothers, and flexible use of sick leave.

Minnesota working mothers are increasingly the primary or dual breadwinners in their families. As nationally, Minnesota women workers are crowded into lower paid, less secure occupations with fewer benefits (Borton and Fitzpatrick, 2013). Even men working in female-dominated occupations make more than women in those occupations. Although women in Minnesota currently earn the majority of college degrees, their earnings lag those of men with lower educational attainment. Women 22 to 30 years old in Minnesota with master's degrees earn less annually than men with BAs. The full-time gender pay gap is greatest in the health professions (43%) and lowest in the architecture and engineering professions, where, however, women make up a very small share of workers (Fitzpatrick, 2013).

Across Minnesota regions, the gender pay gap varies markedly (Fitzpatrick, 2013). It is lowest in Minneapolis, where full time working women make 91% of men's median earnings (a 9% gap, partly due to relatively low men's earnings). It is highest in Anoka/Washington counties, where women make only 74% of men's earnings (a 26% gap) despite relatively high median earnings for both genders. Differences in occupational and industry structure account for much of these differences.

Figure 16. Local Government Equity Act Lowers Pay Gap, 2010



Source: Kim Borton and Debra Fitzpatrick. 2013. "Status of Women & Girls in Minnesota." Testimony before the House Select Committee on Living Wage Jobs, April 14.

Minnesota's pay equity act has reduced the gender pay gap

Minnesota's Local Government Pay Equity Act (1984) has eliminated more than half the pay gap between men and women working in the public sector. Based on principles of comparable worth, the law put in place a process where all local governments in the state study and design criteria for future wage-setting. They must take into account equivalent training, skills and experience across occupations. By requiring ongoing systematic reviews, the law both ensures that female dominated fields are not undervalued and protects individual women from biased behavior in the workplace. The Minnesota law is a national best practice in combatting the continuing power of workplace stereotypes. By 2010, the gender pay gap for full-time earners in Minnesota local government was reduced to 12%, compared with 25% for the private sector and 43% among the self-employed (Figure 18; Borton and Fitzpatrick, 2013). Minnesota also enacted a State Pay Equity Act in 1982, earmarking 1.25% of total payroll in 1982 and 1.2% in 1984 to be reallocated to achieve pay equity. Bargaining and final pay equity adjustments were completed by mid-1986 (Legislative Commission on the Economic Status of Women, 1994).

States have launched new policies to overcome the gender pay gap

State governments outside of Minnesota have been initiating new policies to improve pay and working conditions for women. In New Mexico, Governor Bill Richardson required state agencies to produce pay equity reports for use in the budget-making process, and subsequently required all contractors bidding on state jobs to submit a pay equity report as well. In March 2012, New Mexico Governor Susana Martinez signed the bipartisan Fair Pay for Women Act, ensuring that Richardson's administrative directives cannot be rescinded. For Minnesota, this type of approach would begin to extend the gains in the public sector into the rest of the state's economy. Proactive efforts to target women for training in the skilled trades and requiring state contractors to include women in hiring goals for publicly-funded projects like the Viking stadium would help improve women's access to good-paying work.

Minnesota women are more likely to work and work longer hours than women in most other states and countries. Better pregnancy, sick and family leave policies as well as better retirement security can improve parents' ability to cope with home responsibilities. Research commissioned by the National Partnership for Women & Families shows that without such leave policies, women and men's lifetime earnings are lower, and they are less likely to be working at all and more likely to be on government assistance (Houser and Vartanian, 2012). In the absence of such policies, US women with comparable educational attainment work less than their counterparts in other countries (Blau and Katz, 2013). Better leave policies reduce turnover and increase time on the job and years of experience that in turn increases wages and reduces welfare dependence (Hartmann, 1990).

Women are also at risk from cutbacks in pension funding and retiree health care benefits, including in state and local government, where women hold 60% of the jobs. Public sector pensions, which have been under pressure because of underfunding, are particularly important to African Americans and women, the latter accounting for 60% of workers in the local public sector, a prominent employer of educated women (Cooper, Gable and Austin, 2012). Women comprise 76% of public school and 74% of private school teachers, and ensuring pension preservation is important in this sector as well (Doherty, Jacobs, and Madden, 2013).

The Women's Foundation of Minnesota researches and advocates other initiatives to improve women's economic opportunity through work and compensation, including increasing access to high quality early childhood education; increased financial aid and access to childcare for post-secondary education (especially for young men and women of color), improving subsidies for and access to childcare and eldercare; enhancing protections against pregnancy/caregiver discrimination; educating teachers and employers on bias and sexual harassment; better benefits and childcare for welfare-to-work programs, and laws that value care work and care workers (Borton and Fitzpatrick, 2013).

The passage in the 2013 legislative session of a Minnesota law to permit the unionization of child care and home care workers who are compensated through state programs may result in higher quality of care, lower turnover, and much higher pay for jobs predominantly worked by women while enabling many more people to receive care in their homes as evidence from California has shown (Howes, 2013). In general, unionization has helped women make pay and job gains, especially in the public sector. A higher minimum wage would substantially help Minnesota women, who account for 56% of those who would benefit (Hall, 2013).

1.6 Minnesota workers of color face double economic jeopardy

Minnesota's minority workers and families face racial and ethnic as well gender discrimination. As nationally, and with few exceptions, their employment rates, incomes and wealth holdings are substantially below those of whites. Men of color were especially hard-hit by the Great Recession, with steep employment loss. Educational attainment, a function of continued neighborhood and de facto school segregation, contributes to these disparities, but minorities with equivalent education still make much less than their white counterparts. Discrimination, much of it informal yet pervasive, accounts for much of the difficulty in finding and keeping jobs and for lower pay and poorer working conditions.

Race and ethnicity continue to color how individuals fare in the U.S. economy as a whole. African Americans and Hispanics have lower educational attainment, lower employment rates, lower income, and lower wealth than white and Asian Americans. African American and Hispanic 2012 median household incomes were $39,400 and $44,000, respectively, significantly below those of white ($67,700) and Asian ($75,000) households. The differences in wealth accumulation are even more dramatic, with the median white household holding ($89,537) 12 times the wealth of Hispanic households ($7,683) and 14 times the wealth of African American households ($6,314) (Pew Research Center, 2013).

Native Americans are less likely to be employed than whites in nearly every state. Among 25-54 year olds, Minnesota has the third highest American Indian-white employment rate gap, with the Native American employment rate hovering nearly 24 percentage points lower than white employment rates (Austin, 2013a, 2013, b). Even after controlling for factors typically associated with employment (such as educational attainment, facility with English, state of residence), Native Americans have 31 percent lower odds of being employed than do similar whites.

Unemployment rates among African Americans in Minnesota continue to be significantly above those of whites (see Figure 6 above). In 2012, African Americans suffered unemployment rates of 13.8%, more than twice the rate of 5.2% for whites. These numbers are considerably better than 2011, when African American unemployment was over 20%, compared to white unemployment of 5.6%. Minnesota Hispanics or Latinos fare slightly better than African Americans with an unemployment rate of 8.5% (Minnesota Department of Employment and Economic Development, 2013).

During the Great Recession, men suffered significantly more job loss than women, and this was particularly the case for minorities. Industry and occupational differences account for much of the variation. Because they are concentrated in highly cyclical occupations, African Americans, Hispanics, men, youth and low-educational attainment workers in general suffered the steepest employment declines and increases in unemployment (Hoynes et al., 2012). However, since the Great Recession, men's employment has recovered more quickly than women's. This pattern underscores the importance of unemployment insurance and benefits as well as employer tax subsidies on wages for new employees (see following section) for these groups.

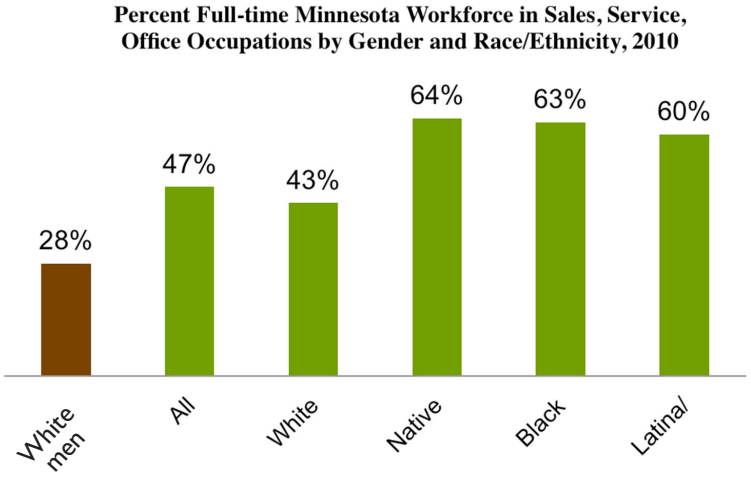
Employment rates and incomes are positively correlated with educational attainment. In 2012, 51 percent of Asians and 34 percent of whites aged 25 or over held a college degree, as compared to 21 percent of African Americans and 15 percent of Hispanics (Pew Research Center, 2013). The causality runs in both directions: lower income families have a more difficult time accessing good education, due to continued racial and income residential segregation and discrimination, and lower educational attainment makes it more difficult to find and compete for good-paying jobs.

Although Minnesota ranks high relative to other states in school test scores and high-school graduation rates, significant achievement gaps by race and ethnicity persist. Compared to white students, minority students have consistently lower test scores in reading and math, are less likely to graduate from high school, and are less likely to go on to college. While some progress has been made in recent years, particularly at the 4th grade level for reading and mathematics, the gap at 8th grade actually widened (National Center for Education Statistics, 2013). Given the strong correlation between education and earnings, one way to increase earnings would be to shrink the achievement gap by targeted efforts to improve K-12 education for minorities, especially those crowded into low performance schools in heavily non-white districts.

Educational disparities alone do not account for disparities in earnings and income. At every educational level, white men earn more than men of color. Likewise, while they earn less than white men, white women earn more than African American and Hispanic women at all education levels (American Association of University Women, 2013). While women of different backgrounds, ages, and education levels all suffer a wage gap in the United States, the size of the gap and overall earnings levels vary widely by race and ethnicity.

Minority women face both gender and race/ethnicity income penalties. Nationwide, gender pay disparity contributes to pay inequity by race and ethnicity. Compared to white men, Hispanic women experience the lowest gender earnings ratio (59% for a gap of 41%). African American women fare slightly better (69% earnings ratio for a gap of 31%). White women earn 81% of white men's earnings, while Asian America women have the highest earnings ratio of all women (88% with a gap of 12%) (AAUW, 2013). Minority women earn less than white women. Hispanic and African American women's median earnings are considerably lower than those of white and Asian American women. Women of color are occupationally concentrated in lower paid, less secure (sales, service, office) occupations with fewer benefits than white women (Figure 17).

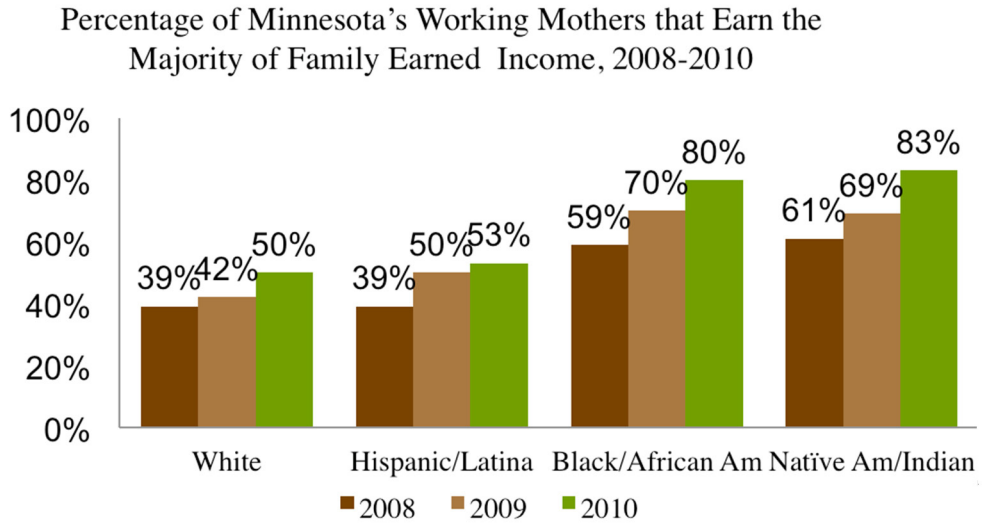
Figure 17. Minority Women Crowded into Sales, Service, Clerical Occupations, 2010



Source: Kim Borton and Debra Fitzpatrick. 2013. "Status of Women & Girls in Minnesota." Testimony before the House Select Committee on Living Wage Jobs, April 14. Data from the American Community Survey, 2010.

The low returns to minority women's work poses serious costs on their families. Minority women's earnings comprise a greater share of their household incomes than do white women's, and this share increased rapidly during the Great Recession as minority men disproportionally lost jobs (Figure 18). Raising the earnings of minority women is thus crucially important to improving Minnesota family incomes. As seen above, an increase in the minimum wage would disproportionally benefit minority women workers in the state.

Figure 18. Minnesota Minority Women Are Key Household Major Income Earners



Source: Kim Borton and Debra Fitzpatrick. 2013. "Status of Women & Girls in Minnesota." Testimony before the House Select Committee on Living Wage Jobs, April 14.

Within racial groups, the gender pay gap is smaller for Hispanic and African American women than for white and Asian American women. Women and men alike in these minority groups are crowded into lower paying jobs, so even in the presence of gender occupational segregation, gender pay gaps are not large. Household workers, mostly women, earn low wages similar to those of men laborers (McCall, 2001). In Minnesota, African American, Asian American and Native American women suffer from poverty rates that are higher than the national average for these groups (Caiazza et al., 2005).

Discrimination continues to play a role in the persistence of racial and ethnic wage discrepancies. The Civil Rights Act of 1964 banned discrimination based on race, color, or ethnicity. While outright examples of race discrimination, such as job ads that state, "Whites only need apply," have been eliminated, more subtle forms of race discrimination persist. The Equal Employment Opportunity Commission (EEOC) reported that race discrimination comprised roughly one third of the 100,000 job bias charges filed in 2102 (EEOC, 2013). Racial discrimination lawsuits continue to make headlines. In August of 2013, Merrill Lynch agreed to pay $160 million to settle a racial bias suit with 700 African American brokers (McGeehan, 2013).

Gender intersects with racial harassment to create problems for women of color, as highlighted in the lawsuit filed against MSA Security for tolerating racial harassment of an African American woman employee over the course of many years (Goldstein, 2013). Filings of racial discrimination charges with the Minnesota Department of Human Rights are also on the rise, both in numbers and relative to other charges, such as those based on age, disability, and sex. In its latest filings, race discrimination runs second only to charges based on disability (Minnesota Department of Human Rights, various years).

It has proven difficult to legislate remedies to prevent discrimination in hiring and promotion. Some businesses and organizations have figured out creative ways of doing so. In classical music, in response to complaints that women and minorities were almost entirely shut out of symphony orchestras, arts leaders instituted blind auditioning, where performers played behind screens so that their race or gender was not apparent. Women and minorities' shares of orchestral jobs have skyrocketed since. Nevertheless, these initiatives are few and far between. Audit studies continue to document discriminatory hiring practices. For example, in a recent experiment economists sent out resumes that differed in whether the names were very 'white-sounding,' such as Emily or Greg or very 'African-American-sounding,' such as Lakisha or Jamal. This study found that white names received 50 percent more callbacks for interviews than African American names (Bertrand and Mullainathan, 2004).

Some professions and businesses have introduced novel "colorblind" ways of hiring and promoting. But a strong case remains for aggressive state policies: enforcing prohibitions on discrimination, harassment and illegal contracting, requiring pay equity reports of public and private sector employers and contractors; increasing pay transparency; raising minimum wages, improving access to unemployment benefits; permitting unionization in homecare, childcare and other low-paid occupations; providing better skills training; and addressing the educational attainment gap in Minnesota schools.

Low wages and incomes for minorities in Minnesota can be addressed through public policies that enforce prohibitions on discrimination and harassment without undue burdens on plaintiffs, require pay equity reports of public and private sector employers and contractors, increase pay transparency, raise minimum wages, improve access to unemployment benefits (to redress poor coverage at low pay levels), design job creation subsidies to target the hard-to-employ, and address the educational attainment gaps in Minnesota schools. The provision of high-quality early childhood education has been shown to generate extremely high returns for underprivileged populations. Improvements in maternal and child health among poor populations have been shown to have large and long-term effects on educational achievement. Low wages in and lack of access to fast-growing "women's" occupations (homecare, child care, K-12 teaching, nursing and nurses aides) can be redressed through better skills training opportunities at moderate cost, raising teacher salaries, and permitting unionization of homecare and childcare workers. Improvements in retirement pay and pensions could help make up for the effects of past discrimination on savings and social security earnings.

2. MINNESOTA CAN PURSUE A LIVING WAGE JOB AGENDA

2.1 Education alone will not raise wages for Minnesota workers

A component of "underemployment," people are often found working in jobs that require less than their levels of educational attainment or skill level. At the same time, many economists note that job requirements are changing and that more complicated functions will require higher-level and different kinds of skills in the future. With many workers overeducated, and the labor market generally demanding better-trained employees, Minnesota suffers from a mismatch between the types of training and skill required and the education that workers receive. On-the-job training can be more relevant than formal education, yet fewer employers have been willing to invest in on-the-job training in recent decades. Job mismatch appears to be happening at all levels of qualification, and ineffective human resource matching tools is one cause. Simply expanding higher education will not fit workers' skills to the jobs that become available.

Many Minnesota workers have more education and skill than their jobs require

Many Minnesota workers are employed in jobs that require less than their skills and educational attainment. Just over 70% of jobs in Minnesota in 2010 are in occupations that require, at entry level, a high school diploma or less, but nearly 70% of Minnesota's workforce have attained more than that level of education. Thus many with post-secondary credentials are working in jobs that apparently do not require them. Minnesota State Labor Economist Steven Hine estimates that 364,610 individuals with Bachelors degrees are working in jobs that require no more than a high school diploma at entry level, or half of the 731,000 employed Minnesotans with Bachelor's degrees. Others calculate educational requirements for jobs differently, for example by assuming that the present educational attainment of job-holders is the best indicator of requirements of those jobs, and find little underemployment, but this measure will not detect underemployment. [17]

DEED's Hine researched fifteen Minnesota occupations that the BLS classifies as not requiring more than a high school education, including retail sales, cashiers, waiters and waitresses, personal care aides, janitors and cleaners, receptionists and office clerks. He found that in 2010, 65% of Minnesota's retail sales workers had completed some post-secondary education. Some 407,000 individuals with at least some college and 124,000 with bachelor degrees or more worked in these 15 occupations.

Overall, by this measure, Hine concludes, only 43% of Minnesota workers are appropriately educated for their jobs, while 49% are over-educated and underemployed.

Over-education is subject to debate

One problem with using BLS entry-level job qualifications as a marker of required educational attainment is that employers may have very different expectations for people within a given occupation. Many workers with higher-than-entry-level educational attainment could be properly employed. The occupation of economist is tagged by the BLS as requiring a college degree as an entry level qualification, but if working at the Federal Reserve Bank or as research director for DEED, an economist would need a PhD. In another example, a worker in a grocery store may not need more than a high school degree (or less), but a worker selling complex high tech equipment might need college training. Child care is similar. Some child caretakers and centers require only a high school education, but with the new emphasis on early childhood education, some employers and parents prefer workers with post-secondary education.

Significant controversy currently exists among policy think-tank and academic economists regarding whether the American workforce is indeed underemployed, or whether, on the contrary, our workforce is not highly-enough skilled.[18] The underemployment view has received significant support from think tanks and the press (e.g., Pew Fiscal Analysis Initiative, 2013; Yen, 2012; Kouvassi, 2012), while another line of reasoning projects that many more U.S. occupations will require higher education in the future (e.g. Carnevale et al, 2010). Some economists have argued that the U.S. economy has experienced a "hollowing out" of the jobs that fit the skills of workers, as middle-skill, routine jobs disappear. In other words, skill-biased technical change has led employers to replace routine jobs with technology, leaving only jobs that are manual and service-oriented, or jobs that are cognitive and require advanced degrees (Autor et

al., 2006; Jaimovich and Siu, 2012). Occupational mismatch can explain a large part—as much as one-third—of the rise in unemployment for highly educated workers, but is less important for less well-educated workers (Sahin et al., 2011).

Underemployment persists at all qualification levels

Underemployment, by DEED's definition, fell less rapidly during the recent recovery than did unemployment, a troubling sign that underemployment may persist. If Minnesota truly had a shortage of qualified workers, employers could be expected to ask existing workers to work longer hours, but that is not happening.

The phenomenon of underemployment means that some qualified workers who lose their jobs face a difficult time finding new work. Although there is only anecdotal evidence on this, employers prefer younger, newly trained workers because they believe they can offer them lower wages than what a seasoned worker would require. Or, employers may fear that the more qualified, or over-qualified, worker who takes on a less challenging job will be bored and more apt to leave sooner when a better job opens up.

Also contributing to underemployment, many workers find themselves stuck in jobs that are less than full time. Large-scale retailers and other employers are increasingly turning to part-time employment as a way of cutting costs and gaining flexibility in deployment of their employees, shifting health care costs and income shortfalls to state social services and the Working Family Credit. As a result, turnover is high, as these workers continually seek better hours and pay, exacerbating churning in this portion of the labor market.

Recent college graduates have a hard time finding good jobs

Despite employers' preference for hiring younger workers, many recent graduates have a hard time finding good jobs after completing college degrees, though this difficulty may not persist. DEED analysis shows that only a small share of recent graduates are finding appropriate full-time work within a few months of graduation, even in majors such as computer and information science, mechanical engineering and welding technology.

Nationally, about 1.5 million, or 53.6 percent, of bachelor's degree-holders under the age of 25 were jobless or underemployed in 2012, the highest share in at least 11 years. In 2000, the share was at a low of 41 percent, before the dot-com bust erased job gains for college graduates in the telecommunications and IT fields (Yen, 2012; The Pew Fiscal Analysis Institute, 2013; Harrington, 2011b, 2011c). Since these figures include many young people several years out of college, the findings are concerning.

Education offerings may not align with workforce requirements

Despite scrutiny and reforms of workforce development systems at the state level in recent years, no clear consensus has emerged about whether high school and post-secondary institutions are providing the skills needed in the contemporary workforce. At the high school and two-year college levels, the elimination of much technical training for jobs important to manufacturing and the construction trades has been heavily criticized and policies to reverse this championed (Ferguson, 2012). At the four-year college level, the role of liberal arts curricula in particular have been questioned and greater emphasis placed on STEM and professional degree programs.

What evidence is there for educational mismatch? In addition to tracking underemployment using the methods cited above, employer surveys also cast light on skill shortages and other reasons for difficulty in hiring. Surveys, however, are not generating unequivocal results either. In some industries and lines of work, employers easily identify skills they need—welding would be an example. Others report that potential employees do not have adequate "soft skills," such as showing up on time or being able to talk to a customer, skills not formally taught in schools. Interestingly, in recent Minnesota DEED surveys, 72% of employers reported difficulty in hiring for positions that require no more than a high school diploma, while those seeking suitable applicants for jobs requiring a college degree found it much less difficult. And, employers face challenges in hiring for reasons other than skill. Nevertheless, employer groups such as the US Chamber of Commerce continue to stress the failure of school-based workforce development programs.[19]

Despite differing views on the jobs-skills mismatch, some occupation-specific training is not leading to jobs, while other occupation-specific skills appear under-taught. In Minnesota, many high schools and colleges are currently

experimenting with and implementing curricular change. Can education truly substitute for employer-based training? "Skill requirements of employers change quite rapidly in these times," notes Hine, "and we need to provide right skill sets. Are employers realistic? We don't really know."

Even if educational institutions could provide workforce-training functions, educators at all levels caution that our schools and colleges have important functions beyond preparation for work. They teach history, civics, social science, artistic expression, athletics and basic skills like problem-solving, math, writing, computer literacy and cooperation that are important to their students' future lives as citizens, parents, and community members. An undue emphasis on vocational training for follow-on jobs could damage future workers' prospects and ability to adapt to changing industries, occupations and technologies.

The "skills gap" is not the leading hiring challenge for employers

Skills may not be the most important hiring challenge for employers. In a recent DEED survey, more employers reported difficulty in offering competitive wages and inability to hire good candidates because jobs are not in a good location or are undesirable because of mandatory work shift changes or noxious or hazardous work. Employers in rural areas often have difficulties hiring because even though cost of living is lower and recreational offerings may be superior, their wage offers are not high enough or candidates cannot find jobs for spouses.

Many Greater Minnesota counties have benefitted from a "brain gain" over the last decade—the movement of skilled workers aged 30 to 49 to rural Minnesota, often returning to their hometowns (Winchester, 2012). But diminishing resources for rural K-12 schools in recent years challenge this trend, risking outmigration and fewer newcomers.

Computer-based recruiting and hiring tools are a barrier for many job seekers

The more than 20,000 recently evolved web-based job-matching services are performing poorly for many employers and job-seekers, reports DEED's Steven Hine. Even when a posting and a resume find themselves on the same site, matching keyword algorithms often exclude qualified candidates. Many sites require that a candidate's previous job title exactly match that of the job to be filled, but job titles are often hard to decipher or are firm-specific. Workforce placement organizations like HIRED report that job applicants require significant training simply on how to use ever-changing hiring tools favored by many employers.

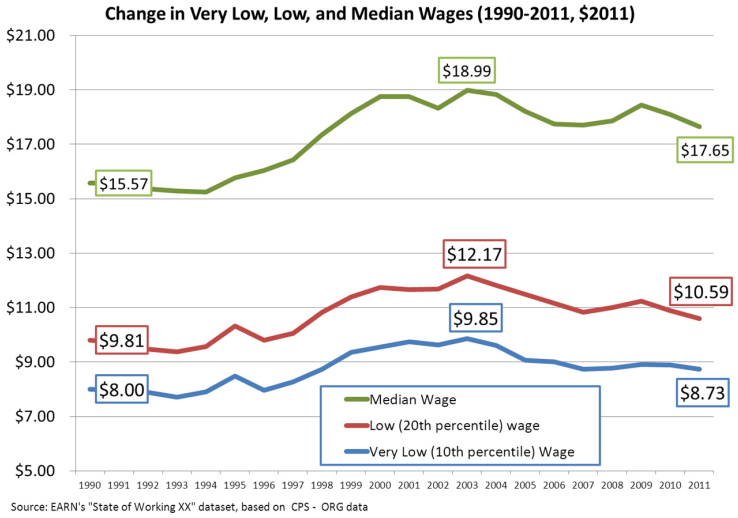
The search for the Pink Unicorn

Researchers have also found that many employers are looking for very specific skills and experiences, and often "two-fers," people with two or more skills, such as an engineer with project management experience or a geek with people skills. Or, they are looking for someone with experience on firm-specific machinery. Capelli (2013) refutes the argument that the schools are failing our workforce. "The people who actually do the hiring are not complaining about a shortfall of academic skills, nor are they looking to hire people right out of school. What they want and can't find are people with job experience, typically in very specific areas. To the extent that there is a skills problem, it has to do with the skills one learns on the job" (Wharton Magazine, 2012). Employers' hiring frustrations are also due in part to the decades-long decrease in job commitment to workers and to internal training programs that would ensure a good fit. According to Hine, employers may have unrealistic expectations about their ability to find workers that perfectly match their needs, and are thus reporting a lack of qualified applicants for a position as a "pink unicorn."

2.2 Stronger workplace regulations can improve job quality

Minnesota has long been a hard-working state. Labor force participation rates have been high and productivity growth strong, enabling a high standard of living, low poverty levels, and superior quality of life, including excellent education and good public services. Yet today, the majority of Minnesotans in the labor force are earning less in real terms than they did a decade ago, even though they are, as a group, more highly educated and more productive, and bring greater work experience to their jobs. Minnesota's median wages have declined since 2003, most rapidly at the lowest pay levels (Figure 19).

Figure 19. Change in Very Low, Low and Median Wages in Minnesota, 1990-2011



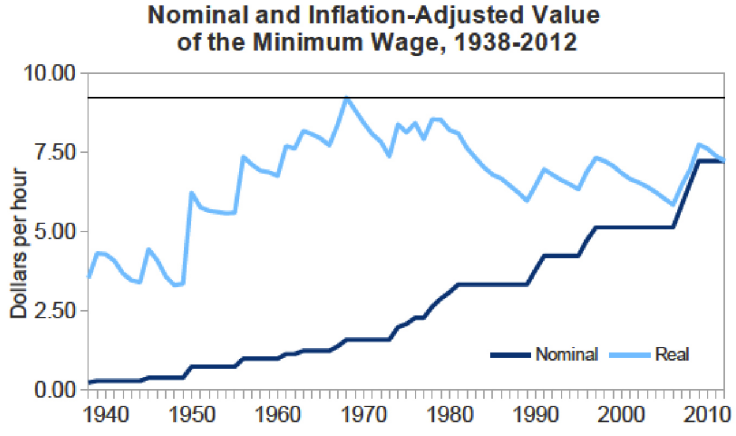
Source: Doug Hall, Economic Policy Institute, Testimony before the Minnesota House Select Committee on Living Wage Jobs, February 15, 2013, data from EPI analysis of Current Population Survey and ORG data.

Wealth concentration and wage stagnation both contribute to growing economic inequality in Minnesota and the nation. The statutory minimum wage in Minnesota, $6.15 for most employers, has not been raised since 2006, and the national rate of $7.25, which prevails in Minnesota, has not increased since 2009. Reliable studies of state-level minimum wage increases over a twenty-year period have found no appreciable employment effects. Most employers respond to minimum wage increases by modestly lowering profits and compressing wages, increasing prices on the margin, and improving productivity by using existing workers in a smarter way. A higher minimum wage also lowers expensive labor turnover.

Minimum wage today

Before legislative changes in 2014, Minnesota's minimum wage, adopted in 2005 and taking effect in 2006, was $6.15/hour for employers with annual receipts above $625,000 (and $5.15 for those under that threshold), but was overridden by the current Federal minimum wage, passed in 2007, of $7.25/hour by 2010, making $7.25 the effective minimum wage in Minnesota presently. Nineteen states, including California, Maryland, Florida and Ohio, mandate an hourly wage higher than the current federal $7.25 rate. In Washington, the current rate is $9.34.

Figure 20. Deterioration in the Buying Power of the Minimum Wage, 1938-2012



Source: CEPR analysis of BLS data.

Source: John Schmitt, "The Economic Impact of the Minimum Wage." Testimony before the Minnesota House Select Committee on Living Wage Jobs, February 25, 2013, Bureau of Labor Statistics Data

While Minnesota joined eleven other states in 2014 in indexing their minimum wage to inflation, its value in previous years deteriorated as the cost of living rose. If the federal minimum wage had kept pace with its purchasing power high point in 1968, it would be $10.75 today, or $22,000 for a full time worker instead of the current $15,000 (Figure 20).

Nationally, over the last 50 years U.S. wealth per capita has doubled and worker productivity has risen substantially, but earnings have not kept up, partly because of erosion in the purchasing power of the minimum wage. If the federal minimum wage had kept up with worker productivity gains since 1968, it would be $21.72 today.

The U.S. has had a minimum wage for 75 years. The first national minimum wage legislation was passed in 1938, when the Depression had worsened and unemployment was still very high. At its inception, Congress expressly intended to prevent market forces from driving the wages of the least skilled workers below a level deemed fair. The minimum wage is thus a labor market norm, not an equity, fiscal or poverty policy, though it has impacts on all of these. The minimum wage serves as a reference point and plays an important role in determining the wages of states' overall workforce, especially for workers with a high school or less education and those living in rural areas (Markusen, Ebert and Cameron, 2004).

Minnesota's minimum wage workers

Currently, around 60,000 Minnesotans are working for minimum wages, about 3.9% of the workforce, and many others are receiving not much more than that. The impact of a minimum wage increase to $10.10 would increase wages for some 500,000 Minnesota workers, or 19.7% our workforce. Of these, 362,000 would be directly affected, because their current wages fall below the $10.10 level, and the rest indirectly, through multiplier effects. Additionally, 229,000 Minnesota children would benefit, because they live in households where one or more workers would see wage gains.[20]

Although 77% of minimum wage increase beneficiaries are white, larger shares of Minnesota minority workers would be affected because they are more apt to work in low wage jobs. Some 41% of Latino workers, 30% of African American workers, and 24% of Asian-American and other Minnesotans of color, including Native Americans, would receive a wage increase.

More than 56% of those who would benefit from a substantial minimum wage increase are women, whose median incomes for full time work remain at only 80% of men's.

Although young people and workers with less education will benefit from a minimum wage increase, many better-educated and older workers will also benefit. Some 81% of those earning a wage gain are 20 years of age or older, 30% are married and 20% are parents. Some 43% are working full time and another 34% are working 20-35 hours a week. And 58% have some college education or more and 57% are women. The average affected worker contributes nearly half of his or her family income.

Young people 20 or under comprise 20% of those poised to gain from minimum wage hikes. Many of them are contributing to their families' incomes and many need income to support college educations, spend more time in class and studying, and pay for student debt.

Research indicates a minimum wage increase will not cost jobs

Labor economists have studied past state minimum wage increases, including what happens on either side of borders between two states where one has increased its minimum wage and the other has not. All Minnesota counties bordering North and South Dakota, Wisconsin and Iowa were included in several of such studies. While there is some variation in the exact counts, researchers find very small employment effects, plus or minus, with the most statistically reliable studies finding no employment effects (Card and Krueger, 1994, 2000; Doucouliagos and Stanley, 2009; et al, 2010, 2012; Dube, 2011; Schmitt, 2013b). Even for teenagers, evidence of negative effects is contested (Allegretto, Dube and Reich, 2011).

Why do minimum wage increases tend to not result in fewer jobs? There are several reasons. First, minimum wage increases form a small share of total business costs, which include non-labor overhead like rent/mortgage payments, utilities, franchise fees, taxes, transportation costs, business services such as advertising and accounting, and intermediate goods such as food, merchandise, and gasoline. Even as a part of labor cost, minimum wages form a small share, since managers and salaried workers receive higher wages and are not affected by the minimum wage increase. In addition, the cost of minimum wage increases are staged over a number of years, so that only a fraction is incorporated each year (Schmitt, 2013b).

Second, studies of past minimum wage increases show that layoffs are often a last resort for employers because they decrease morale. Some employers adjust by absorbing small reductions in profit, while others tolerate some wage compression—less spread in pay between minimum wage workers and managers and professionals. Some employers avoid negative consequences by increasing labor productivity through a combination of less worker turnover and better use of labor resources. Others increase the prices of their goods and services, though modestly (on average, about 0.1%). Since most businesses paying minimum wages are in local-serving industries, there is no competitive disadvantage to employers—all are apt to raise prices in similar fashion (Hirsch, Kaufman and Zelenska, 2011; Schmitt, 2013).

Third, since low-wage workers are likely to spend most of a minimum wage increase rapidly and locally, a minimum wage increase would have a modest positive impact on Minnesota's overall employment. Using standard multipliers, the Economic Policy Institute estimates that by 2015, with a $10.10 minimum wage increase, Minnesota would gain 4,270 additional jobs (about 0.17% of the current workforce), as workers spend their additional wages. Many of the industries that pay low wages—such as fast food and low-end retail—are best positioned to from more increases in low wage workers' income (Hall, 2013, Markusen, Ebert, and Cameron, 2004).

Higher wages attract and retain better workers. They induce productivity improvements by employers. Along with its reasonable cost of living compared with other states, Minnesota's relatively high wages, incomes, and tax rates have neither discouraged growth nor led to higher unemployment. Minnesota unemployment rates are today almost two percentage points below the national average. Furthermore, despite their erosion in real terms, median wages in the state remain high compared with neighboring states to the south and west.

Minimum wage increase can save taxpayer dollars

Currently, the state of Minnesota subsidizes low wage employers by compensating for low incomes of working people via the Working Family Credit (WFC) and other benefit programs. Raising the state's minimum wage will lower the numbers of individuals needing the WFC, food stamps and other state services and lower the amounts claimed by others. The Working Family Credit is a tax expenditure—the more claimed, the lower the revenues left to the state to provide other services. Raising the minimum wage will also generate additional state funds through taxes paid by beneficiaries, via sales taxes and in some cases, income taxes. These two positive fiscal effects—higher tax revenue and lower need for the WFC—can be used to improve the Working Family Credit for those who continue to rely on it. The Working Family Credit remains an important public program, because it encourages people to work. Raising the minimum wage will strengthen the Working Family Credit.

Workplace regulation beyond the minimum wage can improve job quality

Improvements in paid sick leave and family leave for both women and men, at federal and state levels, can help families achieve greater economic security and more consistent employment. Under these laws, workers receive a portion of their usual wages during leave. Programs are funded through employee payroll contributions (Hill, 2013).

Several states have recently passed pioneering sick and family leave laws, and more are considering them. Connecticut (2011) passed the first state-mandated job-protected sick leave law, including safe leave for domestic violence or sexual assault for workers in 68 service occupations who work for businesses with 50 or more employees. California's (2002) and New Jersey's (2008) social insurance systems provide up to six weeks of paid family leave for workers in all sizes of firms who need leave to care for a new child or a seriously ill family member.

Studies of Maryland's proposed Earned Sick and Safe Time Act and a similar Oregon bill allowing employees to earn up to seven days of paid sick leave a year found that despite the time lost on the job, employers would benefit from expanded and more flexible leave practices through reduced turnover, reduced spread of contagious disease at work, and prevention of productivity losses from employees working while sick, among other savings (Williams, 2013; Williams et al, 2013). Employer and employee surveys of the results of California's paid leave legislation showed significant worker satisfaction, while employers reported either a positive effect or no noticeable effect on productivity, profitability/performance, turnover and employee morale (Appelbaum and Milkman, 2011, Milkman and Appelbaum, 2013). The National Partnership for Women and Families (2013) maintains a website on work and family policy searchable by state and issue. These advances come nowhere near European counterparts, including Sweden's 16 months of parental leave (at good, but not full, pay).

2.3 Reformed business subsides can improve job quality

Subsidies paid to businesses in return for creating jobs are costly, and many of the programs do little to create quality jobs. Today, job subsidies total about $70 billion per year across the U.S. Minnesota has continued to offer substantial business tax breaks and other subsidies as job-creation incentives. These programs are expensive when first implemented and in foregone state and local taxes for years into the future. Rigorous analyses of these incentives reveal significant problems and disappointing results. State-enabled Tax Increment Finance (TIF) districts at the local level have disproportionally shifted jobs from poor to more affluent communities, decreased job opportunities for minorities, and subsidized big box retail that displaces existing local retail and services. Yet research also reveals that well-designed and targeted incentives can help create quality jobs. The key to a high-quality job incentive is to provide verifiable requirements for net new jobs that employ Minnesota residents (especially the unemployed), to ensure business expansions do not unfairly compete with existing Minnesota businesses, to ensure that jobs are not simply relocated from one jurisdiction to another, to require repayment to the state if good-paying jobs do not materialize, and to ensure that subsidies are transparent and enforced.

Jobs subsidies often reflect political desires, not proven economic models

The effectiveness of selective business tax and other incentives is doubtful, based on the historic Tiebout hypothesis (1956) that fiscal competition among fragmented local governments is efficient and it should permitted. The case against state business incentives has been articulated powerfully by Minnesota economists Melvin Burstein and Art Rolnick, former Federal Reserve Bank of Minnesota Vice-President in a seminal paper (Burstein and Rolnick, 1995). They argue that incentives are both inefficient (they transfer consumer surplus to firms who would locate there anyway and interfere with optimal siting) and inequitable (they impose tax and public service burdens on existing firms and residents). Burstein and Rolnick propose that nationally, Congress tax away all such incentives, rendering them ineffective. Furthermore, economists studying business siting decisions find that tax breaks almost never matter– they form too small a share of costs. Often, a generous package of incentives is a pure windfall for the business that would have located in the jurisdiction anyway (Jensen, 2014). Investments in infrastructure or plant and equipment that would remain in place after a company decamps are better investments than foregoing taxes for years.

Other economists argue that in an integrating world economy where the federal government has largely abandoned responsibility for economic development onto lower levels of government, without providing the resources to do so effectively, we should champion state and local governments' rights to shape their relatively open economies. Upjohn Institute for Employment Research economist Tim Bartik (2007) argues that increasing local employment can yield substantial net social benefits, especially if jobs go to existing local residents, the costs of serving incentivized businesses are less than new revenues they generate, and no better uses of public resources are on the horizon. Yet many of these caveats are not considered when states, including Minnesota, fashion new business subsidy initiatives. A thorough review of economists' theories and reasoning can be found in Markusen and Nesse (2007) and Thomas (2007).

States and localities confront institutional and political pitfalls in using business subsidies to create jobs. Business subsidy programs operate on an uneven and highly political playing-field. In the "market for jobs," job "suppliers," mostly multi-state or multi-locational companies, control crucial information in the deal-making process and have greater power than do state and local governments in bi-lateral negotiations (Markusen, 2007). Relying on professional site consultants (whose work often resembles that of lobbyists, but they are not regulated as such), firms seeking subsidies are able to informally collaborate in extracting spending and tax breaks, while competing local government officials, in a prisoners' dilemma, fear being blacklisted by site location consultants if they share information with each other (Weber, 2007). The result is a strong bias towards over-estimating benefits, argues Bartik (2007). Furthermore, the flurry over deal-making obscures their contributions to long-term erosion in business shares of public sector revenues and often impoverishes "winning" local governments future operating budgets, especially if firms fail, produce predominantly low-wage and part-time jobs, or decamp within a few years for even lower-cost locations.

Poorly designed job subsidies can curtail high-quality job creation

Good Jobs First, a Washington-based public interest nonprofit, has long studied state and local business job subsidies and recommended important policy remedies. The public interest group details the various forms that such subsidies

take: property tax abatements, Tax Increment Financing (TIF) diversion of property and sales taxes, corporate income tax credits, sales tax exemptions, enterprise zones, land write-downs, infrastructure aid and personal income tax diversions. Good Jobs First tracks job subsidies across the U.S. on an ongoing basis, casting light on egregious examples. For instance, LeRoy (2007) documents a 1997 disclosure form in Minnesota for a tax increment financing deal worth $275,515 to create one new job at a Dairy Queen paying $4.50 an hour, below minimum wage at the time.

In testimony before the Minnesota House Select Committee in 2013, Executive Director Greg LeRoy explained the various harms inflicted by poorly designed job subsidies (LeRoy, 2013). TIF subsidies are particularly wasteful and unfair to other businesses and segments of the population. TIF financing, enabled by state legislation, has resulted in over-subsidization of retail. As an example, new Cabellas and Bass Pro sporting goods outlets were granted sizeable TIF subsidies that enabled them to unfairly compete with never-subsidized Saint Paul-based Gander Mountain. These TIF and other subsidies were opposed by the Minnesota-based chain nationally, usually to no avail.

TIF districts divert incremental growth in future property tax base and revenues to pay off the public investment involved over many years. They divert property tax base growth relied upon by other property taxing entities: schools, especially, but also infrastructure and services to other neighborhoods in the municipality. The resulting harm to a community's schools in foregone property tax revenue could far outweigh the benefits of a TIF district, especially in creating a good labor force for business and in enabling students to prepare for good jobs (LeRoy, 2007).

Most TIF districts and other job subsidies are adopted in suburban jurisdictions, predominantly those farthest from core cities. Good Jobs First has documented considerable relocation of businesses, within Minnesota and especially within the Twin Cities metro, enabled by incentives programs, especially TIF districts (LeRoy and Walter, 2006). In some cases, workers had to move to keep their jobs, while other urban workers lost them because transit access was poor or non-existent. The negative job impacts disproportionately fell on low income and minority workers. Other states and metropolitan areas have adopted programs to encourage public officials involved in potential relocations to talk with each other. Exemplary models include the Denver Economic Development Corporation's Code of Ethics and Montgomery County (Dayton, Ohio metro area) Economic Development/Government Equity program (LeRoy and McIlvaine, 2011).

Job subsidies also produce unseen consequences: the covert budget erosion—or "death by a thousand cuts"—in business tax receipts that result from business subsidies, and the bias against existing small and local entrepreneurs. A large new branch plant or retail operation may promise many new jobs, but these may come at the expense of a large number of smaller retail, service or manufacturing firms. Finally, the case-by-case process of granting of job subsidies does not inform the public of either the true costs of subsidies or on whom they fall, nor do they offer legislators and citizens an opportunity to consider alternative ways of spending or foregoing the same tax dollars in other, more effective forms of quality job creation.

Evidence of quality job creation from incentives is largely unavailable

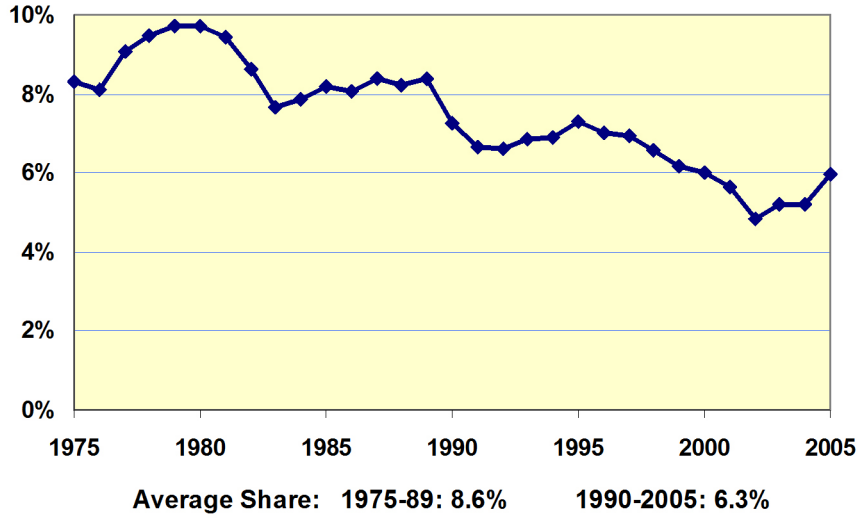
Few long-term studies or data provide data sufficient to show whether promised jobs and tax base increments envisioned in deals of the past ever appear, but in Minnesota and nationally. Some communities have done very well using incentives to land new factory, office, and retail jobs, but it is not clear whether the new branch plants have displaced existing competitors or how much the hosting cities and states are sacrificing in ongoing foregone tax revenues and greater infrastructure and service burdens, or what state and money could have otherwise accomplished for quality job creation.

Many cases of disappointing results have been documented (LeRoy, 2005). A path-breaking analysis of a North Carolina economic development initiative involving more than $1 billion in public sector liabilities found that only 4% of the jobs created were actually induced by the program, and these weighed in at an exorbitant cost of nearly $40,000 per job (Luger and Bae, 2005; Schweke, 2006). In a pioneering study of 366 Ohio business expansions between 1993 and 1995, Gabe and Kraybill (2002) found that those companies receiving state incentives over-estimated employment targets but created no net new jobs (in fact, reduced overall jobs), while those that did not receive incentives accurately forecast their job expansion and did create new jobs. Studying the extent to which incentives create jobs for newcomers rather than existing residents, Bartik (1993) finds that in the long run, about 80% of new jobs in local economies go to workers who relocate from elsewhere.

Economists have studied the impact of enterprise zones, of which Minnesota's JOBZ is an example, on jobs creation. In a summary of ten such studies that use multi-variate regression analysis to isolate the impact of business subsidies, Minnesota House Research Economists Hirasuna and Michael (2005) found no evidence of significant or prolonged increases in employment. They speculate that zone-related incentives are too small a share of total business costs to matter. Such subsidies would be most influential in large metropolitan areas, but that is also where they would be least justified.

Business incentives for job creation constitute a large opportunity cost. The corporate income tax share of state revenues dropped from nearly 10% in 1980 to 6.3% in 2005 (Figure 21), an erosion University of Iowa economist Peter Fisher (2007) attributes to both rising tax incentives and related changes in taxation practices aimed at competitiveness. Corporate income tax revenue as a share of Gross State Product nationally has declined from 0.51% to 0.27%—or by half—in the same period. As a result, a larger share of the state's public sector service costs, including those for services provided to firms, is borne by households in the form of sales, income and property taxes. Since two of these are highly regressive taxes, the net result is to shift the tax burden from the highest income households to the lowest.

Figure 21. Corporate Income Tax Declining Shares of State Tax Revenues, 1975-2005



Source: Fisher (2007)

Minnesota lags the nation on best practices for high quality job incentive programs

Some of the best studies of state tax incentive programs have focused on Minnesota. Studies of major Minnesota jobs incentives programs show disappointing results, especially given the resources devoted to them. University of Minnesota professor Margaret Dewar documented the results of Minnesota's Economic Recovery Fund over the period 1984 to 1988. She concluded that the Fund, designed to create jobs, especially in small companies, and revitalize depressed economies across the state, produced negligible job growth (1998). The program anticipated creating 33,000 jobs, but only 1400 to 3200 materialized, less than 10% of the projected benefit. Though the legislative design was promising and criteria for awarding incentives clear, politics over-rode the intended distribution of incentives, with large companies and more prosperous counties garnering disproportionate shares.

University of Minnesota economists Tonya Hansen and Laura Kalambokidis, now Minnesota's State Economist, found the Job Opportunity Building Zone (JOBZ) program to be more generous than prior Minnesota business subsidy programs and targeted to areas outside of the Twin Cities metro. They found that JOBZ added less than 1% to nonfarm private employment (Hansen and Kalambokidis, 2010; Mahon, 2010). Examining the contribution of JOBZ incentives to county-level economic growth, they found little evidence of growth contribution for the first three years of the program. They found instead that workforce and demographic variables such as high school educational attainment and age structure of the population were more important in explaining county economic expansion. Hansen and Kalambokidis found that 37% of the firms awarded JOBZ incentives were simply relocations within Minnesota.

The Minnesota Legislative Auditor's 2008 evaluation of the JOBZ program found that incentives had been used appropriately in some cases and helped to create jobs. But JOBZ also provided tax breaks to some businesses that

would have expanded in Greater Minnesota without the program and had subsidized some business that compete with existing Minnesota businesses for the same customers. JOBZ subsidies as a whole had not been targeted to economically distressed parts of Greater Minnesota. The Auditor's Office found the program unfocused, lacking a budget constraint, and unhelpful to local governments in deciding which businesses may participate. Business subsidy agreements too frequently lacked adequate job and wage requirements.

The Auditor's report also found the state's Department of Employment and Economic Development (DEED) process for checking business compliance to be slow and sometimes failing in identifying businesses not meeting their JOBZ obligations and in requiring repayment of tax breaks. Some JOBZ businesses continued to receive subsidies after their removal from the program. The report estimated the JOBZ cost per new job created to be $26,900 to $30,800, more than five times DEED's estimate of $5,000, and significant given the average annual wage of JOBZ employees—$30,700 (Office of the Legislative Auditor, 2008: 94-5).

Good Jobs First ranks states on key features of business subsidy programs. Minnesota was once a leader in good practice regarding subsidies. For example, in 1995, the Minnesota Legislature enacted a disclosure, or "sunshine," requirement that led the nation. By 2010, many states had followed suit, with 37 disclosing subsidy awards online. But today, Minnesota has slipped behind many other states. It ranks 20th in the quality of its subsidy disclosure, 25th in job creation/job quality accountability, and 23rd in enforcement of contracts and clawbacks. Compared to seven competitor states—border states Iowa and Wisconsin; Illinois, the closest industrial powerhouse state, and Washington, Oregon, and Colorado that compete with Minnesota for educated labor and new creative and technology businesses, Minnesota is ranks 6th, 5th and 5th respectively (Table 2).

Table 2. Minnesota and Selected Competitor States' Business Subsidy Rankings, 2011-14

State	Disclosure(a)	Accountability(b)	Enforcement (c)
Illinois	1	29	18
Wisconsin	4	12	8
Oregon	8	48	40
Washington	10	47	43
Iowa	19	4	5
Minnesota	**21**	**38**	**23**
Colorado	25	13	8

Sources: Mattera et al (2014); Mattera et al (2011); Mattera et al (2012)
(a) Ranked from best (#1) to lowest (#50) on seven features: disclosure of recipient name, subsidy dollar amounts, job creation numbers, wage levels in jobs created, geographic location of subsidized facility, whether the project involved job relocation, and how easy it is to use online data. (b) Rank on performance requirements and job quality standards. (c) Rank on scope and rigor of monitoring of subsidy recipients' performance and in dealing with cases of noncompliance on job creation, job quality and other standards.

Minnesota can reform its job subsidy programs to ensure quality job creation

Reforming business incentives is a significant policy lever Minnesota has to for creating more high-quality jobs. As a key strategic practice, Minnesota could generate a unified economic development budget enabling decision-makers and citizens to see size and breakouts of spending, including tax expenditures which are often dominant, involved in all programs. A Kentucky public interest group pioneering such and budget and revealed that more than 70% of the state's economic development budgetary commitments took the form of tax expenditures, many of which are locked in for years into the future (Mountain Association for Community Economic Development, 2005).
If quality job creation is the real purpose of business economic development subsidies, then hiring subsidies are the most efficient approach, pioneered in Minnesota's Employment and Economic Development (MEED) program. From 1983 to 1989, Minnesota enrolled 45,000 people, many of them low-skilled or among the long term unemployed, in a wage subsidy program that granted $4 per hour (over $12 in 2012 dollars) to employers who hired new workers. More than 20,000 of these workers stayed on with their employer after the subsidy ended or found

other permanent unsubsidized jobs (Kucera, 2009). The MEED program had persistent positive effects on long-term earnings, and small businesses in Minnesota benefited most from the program (Bartik, 2009). Bartik also concluded that job subsidies of this sort compare favorably with other types of job creation programs. Bartik (2001) and William Schweke of the Corporation for Enterprise Development (2007) both espouse job subsidies as particularly effective in targeting localities, employers, and disadvantaged workers where there are market failures. Schweke proposes a Job Growth Tax Credit that would provide a substantial (30%) tax credit on the first $14,700 (in 2007 dollars) of wages paid to added employees. The subsidy could be targeted to high unemployment and/or high poverty counties and could also be limited to smaller businesses.

A series of contractual and informational reforms would strengthen the ability of state and local governments to better negotiate contracts that will ensure quality job creation. Many state and local governments write performance requirements into each business subsidy contract that include penalties and repayment (clawback) provisions. The state can shorten the allowable duration of subsidies, to focus taxpayer investments on the crucial job-creating location commitment. It can legally classify site consultants as lobbyists in order to block the use of commissions derived from discretionary incentives that tend to escalate deal dollars. It can end dual agency and other site consulting practices that exacerbate market failures (Markusen and Nesse, 2007; LeRoy, 2007). "Sunshine" is a major remedy that both jobs advocates and fiscal conservatives support: on-line deal-specific disclosure of job creation outcomes, including wage levels (LeRoy, 2007). Such practices enable public sector economic developers, like good customers in any market, to get a better deal. Some governments plan in advance what they want and are prepared for sudden requests and bidding wars, invest their public dollars in place-based assets rather than firm-based ones, and extend benefits only after firms have produced the jobs they promise (Weber, 2006).

The Minnesota Legislative Auditor's report on JOBZ (2008: 107-9) encourages many of the above reform concepts and adds additional recommendations. The Auditor recommends that the Legislature put a cap on the estimated cost of new subsidies that entering businesses are expected to receive during subsidy program participation, a move that would inform a long-term unified development budget approach. It should require businesses receiving public subsidies to annually submit the M500 tax form or lose subsidies and require noncompliant businesses to repay any property tax benefits after ceasing to fulfill obligations. The Legislature should authorize the State Auditor to have access to state tax and unemployment insurance data to audit business subsidy compliance, sharing the results with the Department of Revenue and county tax officials, and should enact a stronger penalty for local governments that do not file timely reports.

The Auditor's report also recommends more rigorous oversight by DEED and more support for local governments from state agencies. New state job subsidies for individual businesses should be reviewed and approved by DEED before they take effect. Any business applying for a state subsidy should report the extent to which they compete with other Minnesota businesses for the same customers and demonstrate that they would not have located or expanded in Minnesota with it. DEED should more closely monitor business subsidy recipients' progress, using unemployment insurance claims to monitor performance and removing them if non-compliant. DEED should conduct a more rigorous analysis of benefits and costs of providing any business with tax or other subsidies. DEED and the Department of Revenue should develop and provide local governments with guidance on state subsidies and other forms of assistance that will best produce fiscally responsible, effective and sustainable job creation, including which businesses should receive subsidies.

Minnesota state law governs how localities may create Tax Increment Financing districts. Important reforms could be undertaken to eliminate the adverse impact on school districts, restrain the contribution of TIF districts to unfair retail competition, and favor small and local businesses. A strong case can be made for Minnesota banning retail subsidies altogether except in depressed inner-city markets that are demonstrably underserved (LeRoy, 2007). Because school districts lose their shares of future tax base growth when TIF districts are designed, they should be given control over the increment to their pre-TIF share of the tax base. The state could consider requiring that TIF districts be tied to transit corridors, so that low-income job seekers can compete for those jobs and to minimize the costs of more infrastructure such as roads, sewer and water, and schools (LeRoy, 2006, 2013). The Legislature could also amend the Weaver act to require that local public officials involved in intra-regional corporate locations consult with each other and share information when a company signals a possible move.

2.4 Expanding union organizing can improve job quality

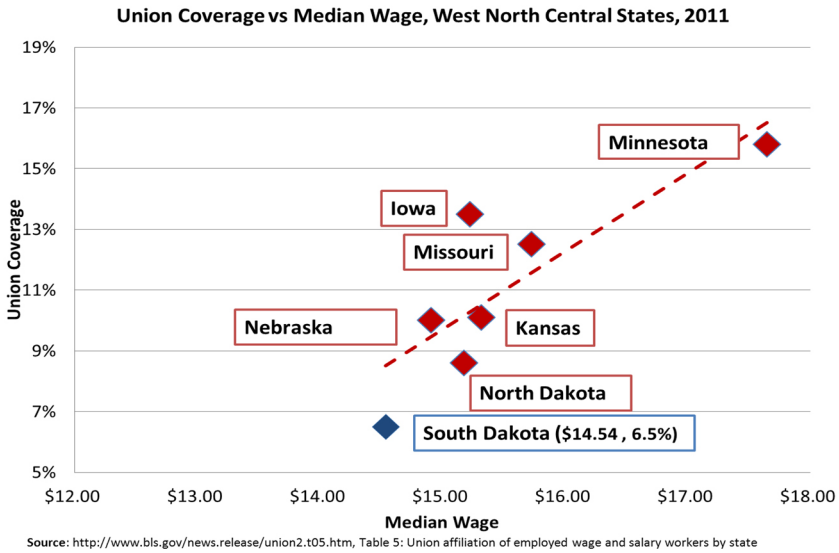
Union representation, fought for and won in the 19th and 20th centuries by workers who labored as much as 80 hours a week and faced horrific working conditions, has been a major contributor to middle-class incomes and decent working conditions. Unions have won good pay, benefits and retirements for workers regardless of gender and race. By leading initiatives on minimum wage, worker health and safety, and a social safety net, unions have helped improve work and incomes for all working Americans. Minnesota's high unionization rates have helped raise wages and improve the state's economy because they attract and retain motivated, skilled and well-educated workers while encouraging employers to invest in their workers and to increase productivity, making firms more competitive.

Minnesota's higher unionization rates have supported higher wages

Across many sectors—manufacturing, construction, transportation, health care, services, education and state and local government—Minnesota's unionized workers enjoy the federally-legislated right to bargain as a group with their employers over wages, benefits, and working conditions (Freeman and Medoff, 1984; Geoghegan, 1991). Most aspects of union/management relationships are governed by federal laws enforced by the National Labor Relations Board (NLRB). Safe working conditions are overseen by the federal Occupational Health and Safety Administration (OSHA). The State of Minnesota plays a role in ensuring compliance of employers around issues such as illegal subcontracting (as recounted above) and legislated requirements associated with public sector contracts.

Unionization rates in Minnesota's diversified economy are high relative to those in surrounding states. Economist Doug Hall's testimony presented to the Select Committee (Hall, 2013) shows that Minnesota's 2011 union coverage is close to 17%, Iowa's is just under 14% and South Dakota's is at 5.6%. State-wide wage rate differentials are strongly correlated. (Figure 22). Workers' median wages in Minnesota were almost $18 per hour, compared with under $15.50 in Iowa and $14.50 in South Dakota. These differences amount to a considerable gap in purchasing power for workers annually.

Figure 22. Median Wages Rise with Union Coverage, West North Central States, 2011



Source: Doug Hall, "The Economics (and Demographics) of the Minimum Wage for Minnesota." Testimony before the Minnesota House Select Committee on Living Wage Jobs, February 25. Data from Bureau of Labor Statistics, http://www.bls.gov/news.release/union2.t05.htm, Table 5.

Unionization of service and retail workers is improving pay and working conditions

Unionization of lower skilled workers can be a powerful tool in increasing pay, job security and benefits. Given that a major cause of declining family income is the proliferation of low wages, part-time employment and wage theft in big box retail, fast food outlets, and other service industries, efforts to unionize workers in these sectors can make a huge difference in improving incomes and decreasing dependence on state programs that currently make up for low wages

earned by many workers (Berhardt et al, 2009).

In Minnesota, unions have won big gains for service workers such as janitors who previously earned minimum wage, had no sick pay, and suffered under relatively poor working conditions. Jordan Ash of the Minnesota's Service Employees International Union (SEIU) Local 26 explained to the Select Committee how large employers often illegally require workers to work on Sunday without overtime pay (Ash, 2013). For instance, Target Corporation recently settled a lawsuit with the janitorial workers for $657,000. Ash described how companies like Target and the Minneapolis Saint Paul Airport structure their bids for janitors, aircraft cleaners, skycaps and wheelchair attendants, jobs that are increasingly contracted out to the lowest bidder. In department stores, big box retail, and large facilities like the MSP Airport, subcontractor companies with lowest labor cost win contracts. Workers who were cleaning aircraft for $9 to $11 an hour are now making $8.10. A Target worker who was making $10-12 an hour testified that he is now making $8 an hour under a new contractor at the same job. After SEIU organized janitors in the Twin Cities, the cleaning contractors signed a master union contract that offers $14 an hour, an 8-hour shift, holidays and vacation time, and individual health benefits.

Unionization of home health and child-care workers improves customer satisfaction and cuts costs for the state while raising pay

In general, unionization has helped Minnesota women make pay and job gains. The passage in the 2013 legislative session of a Minnesota law to permit the unionization of child care and home care workers who are compensated through state programs will likely result in higher quality of care, lower turnover, and much higher pay for jobs predominantly worked by women, while enabling many more people to receive care in their homes, as evidence from California has shown (Howes, 2013). Unionizing child care and home care workers is also likely to lower over-all costs for the state.

Better state standards and enforcement will raise pay and work quality

Many states are addressing wage theft and illegal subcontracting, documented in Section 1.4 above, by strengthening enforcement capacity. If workers are not paid for hours put in on the job, including dressing for work or being permitted to punch the time clock at your scheduled start time, those workers are likely to earn significantly less than they are owed. If an employer illegally treats a worker as a subcontractor rather than an employee when the worker is performing his or her duties on the premises under the employer's supervision, the worker is not eligible to join existing unions or go through the steps to form one. New York and Illinois are beefing up enforcement and adopting new workplace standards. The United States Department of Labor has also become more active in recent years, recovering $250 million dollars in 2011 from employers, especially in the restaurant industry, whose workers were illegally working off the books (Warren, 2013).

To the extent that state and local governments engage in privatizing public service work, a tactic that has largely failed to generate savings to the public or better quality services (Sclar, 2000; Thompson, 2009, on Minnesota school bus privatization), workers are much less likely to be able to join unions. Many lose their good-paying jobs following privatization. Some states are passing legislation that encourages workers hired on contracts for privatized work to be hired by the new provider. Some are making it possible for unions to secure labor peace agreements in which companies agree to card check for union organizing and neutrality in community benefits agreements when their business is publicly subsidized, including use of or work on publicly owned land (Warren, 2013).

Minnesota can take steps to support union efforts to improve jobs and workforce development

During the short, intense era of deindustrialization in the 1980s, communities and unions joined together to try to save jobs, and in many cases, these were successful (Clark, 1989). But the concerted effort of business groups to shed unionized workers and discourage further unionization since that time has been fierce (Craypo and Nissen, 1993; Bernhardt et al, 2009). Nevertheless, unions have continued to devote time and resources to improving jobs and the workforce. Unions in some states, including Wisconsin, led in partnering with businesses to deal with skill shortages in innovations such as the Wisconsin Regional Training Partnership (Dresser, Robers and Zdaril, 2004).

States can encourage union participation in new efforts in workforce development. Many unions have for decades run successful apprenticeship programs, and many have participated in tri-partite (business, government, and nonprofit)

partnerships that are sector-specific, as in Chicago's Workforce Centers (Schrock, 2010; Markusen and Schrock, 2008; Wolf-Powers, 2003). In passing new workforce development legislation and funding new initiatives, including those at Minnesota's institutions of higher education, the Legislature should specifically include active union participation. Further ideas for revitalizaling and encouraging unionization are detailed in social scientists' recent work (Cobble, 1997; Turner, Katz and Hurd, 2001; Herod, 1998).

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— Endnotes —

[1] http://www.census.gov/compendia/statab/cats/prices/consumer_price_indexes_cost_of_living_index.html

[2] Information from an ongoing study at the Institute for Women's Policy Research, Washington, DC, February 2013. See also Harrington, 2011a, 2011b.

[3] Data from the Survey on Income and Program Participation. The most recent report was published in March 2011 and covers the period 2004-2007. http://www.census.gov/prod/2011pubs/p70-124.pdf

[4] Unless otherwise noted, all data reported in this section came from the testimony of Minnesota State Demographer, Susan Brower (2013) and followup thereafter. This and all subsequent hearings audio available at: http://www.house.leg.state.mn.us/audio/archivescomm.asp?comm=88900&ls_year=88

[5] Jobs Now Coalition, 2010; Glasmeier, 2013.

[6] Unless otherwise noted, data and analysis in this section from Steven Hine's (2013) testimony before the Select Committee on Living Wage Jobs, February 22, March 4.

[7] While at a given moment in time, one-third of the unemployed are designated as long-term unemployed, many more than two-thirds of the unemployed are unemployed for short periods of time. For example, consider the following example tracking unemployment over the course of a week. Suppose there are two unemployed people. One remains unemployed for the seven days, but the other unemployed person changes daily. Thus, on any given day, one-half of the unemployed are 'long-term' unemployed. Yet, if you look at unemployment over the course of the week, only one-eighth are unemployed for the entire week.

[8] Unless otherwise noted, research findings on basic needs budgets can be found in the Testimony of Kevin Ristau of Jobs Now Coalition before the Select Committee on Living Wage Jobs, Minnesota House of Representatives, February 15, 2013. See the budget calculator at http://www.jobsnowcoalition.org/costofliving.

[9] Unless otherwise noted, figures in this section and following are based on testimony by and follow-up with Deborah Schlick, Project Manager, Transitions to Economic Stability, Minnesota Department of Human Services, before the Select Committee on Living Wage Jobs, Minnesota House of Representatives, February 15, 2013.

[10] Further information on demographics of public assistance recipients can be found in Minnesota Department of Human Services (2011a, 2011c).

[11] Information in this section provided in testimony by Assistant Commissioner Jessica Looman of the Minnesota Department of Labor and Industry before the Select Committee on Living Wage Jobs, April 9, 2013. http://www.house.leg.state.mn.us/audio/archivescomm.asp?comm=88900&ls_year=88

[12] Unless otherwise noted, the information in this section comes from the testimony of Mike Temali, Founder and Chief Executive Officer of Neighborhood Development Center, Saint Paul, before the Select Committee on Living Wage Jobs, April 9, 2013. http://www.house.leg.state.mn.us/audio/archivescomm.asp?comm=88900&ls_year=88

[13] Unless otherwise noted, the information on artists comes from the testimony of Laura Zabel, Executive Director for Springboard for the Arts, Saint Paul, before the Select Committee on Living Wage Jobs, April 9, 2013. http://www.house.leg.state.mn.us/audio/archivescomm.asp?comm=88900&ls_year=88

[14] Unless otherwise noted, this portion of the analysis comes from the testimony of Catherine Hill, research director of the Association of American University Women, before the House Select Committee on Living Wage Jobs, April 14, 2013.

[15] From Heidi Hartmann, President, Institute for Women's Policy Research, "Achieving Workplace Gender Equity." Keynote, National Economists Club Luncheon, January 31, 2013, Washington DC. Powerpoint downloadable at http://www.IWPR.org

[16] Unless otherwise noted, the Minnesota analysis comes from the joint testimony of Kim Borton, Director of Programs, Women's Foundation of Minnesota, and Debra Fitzpatrick, Director, Center on Women and Public Policy, University of Minnesota, before the House Select Committee on Living Wage Jobs, April 14, 2013.

[17] This analysis, by Steven Hine, is based on Census Public Use Microdata Samples drawn on 2010 American Community Survey data for Minnesota, using the Bureau of Labor Statistics definition of levels of education necessary for entry-level position by occupation. This method diverges from that used in the Carnevale et all study, 2010, where occupational educational attainment requirements are assigned based on the current educational attainment of workers in the occupation. The methods produce very different results. There are problems with both methods: entry level requirements may not be sufficient for many people in that occupational group as they rise in the ranks (but remain in the occupation), while assigning occupational requirements on the basis of the presence of people with higher education in them currently certainly risks underestimating underemployment.

[18] This tension was reflected in the testimonies of Tom Stinson and of Steven Hine on February 22 and March 4, 2013.

[19] Institute for a Competitive Workforce, 2012. "While the country has high unemployment, employers cannot find skilled workers. The reason: The country's higher education and workforce development systems are broken. These systems are not producing the skilled workers that employers need," p. 32.

[20] Unless otherwise noted, the analysis in this section was presented in the testimony of Doug Hall, Director of the Economic Analysis and Research Network, Economic Policy Institute, Select Committee on Living Wage Jobs, Minnesota House of Representatives, February 25, 2013.