



Position Paper: A Wage Subsidy Program is a Critical Component to a Complete Job Creation Strategy

Purpose: This paper was prepared to recommend a strategy to respond to the immediate unemployment crisis in Minnesota. It is HIREd's position that the use of wage subsidies to create public and private sector jobs that build skills for unemployed workers in industries that drive economic expansion and offer critical services is a necessity.

Issues: With signs that unemployment will remain high well into 2011, this approach can quickly and efficiently create jobs and encourage the expansion of small and medium sized businesses. This is the type of stimulus that can truly impact unemployed people and businesses that are most in need of assistance and may otherwise be left behind.

Evidence: A successful wage subsidy model used in Minnesota from 1983 to 1987 put 7,400 people to work in its first six months and more than 42,000 in three years.

Targeted employers:

- All sectors – with the private sector the priority: Jobs would be in the public, private non-profit and private for-profit sector. A minimum of 60% of the jobs would be in the private for-profit sector.
- A priority focus on businesses likely to expand the state's economic base – such as manufacturing, research and export of product and services outside the state.
- Target small and medium sized employers.
- Target critical state service needs: Workforce development, education, health care and green jobs would receive priority in the public and private non-profit sectors.

Targeted unemployed workers:

- Unemployed workers who have exhausted their state-funded Unemployment Insurance benefits.
- Unemployed workers who are on/eligible for General Assistance or the Minnesota Family Investment Program.
- Unemployed veterans.
- Workers will have to demonstrate active job search prior to entering the program.
- No displacement: Must be new jobs. A union sign-off would be required if a collective bargaining unit is involved.

Building a more skilled workforce:

- The wage subsidy covers the months in which a worker is developing the skills to be fully productive at the worksite.
- In addition, workers will be required to upgrade skills either through full-time training, part-time training or on-the-job training.

Designed to implement quickly:

- Update policies for the On-The-Job Training Program and use subsidized work through TANF to get the initiative off the ground quickly.
- Allocate funds to the Workforce Service Areas based on the dislocated worker formula, modified to include the most up-to-date unemployment information available.
- Integrate use of the wage subsidies with existing dislocated worker and other federally funded programs, to get people back to work at the earliest possible time.

**Cost: \$16,000 a job.**

- In Minnesota, an allocation of \$200 million per year would provide for 12,000 jobs.
- 75% of the funds would be spent on direct wage subsidies to employers;
- At least 5% would be spent on training; and
- Remainder of funds would provide for program operation, worker supportive services.

How the program would operate on the ground:

Workforce providers make the connections: Local workforce agencies would identify the eligible workers and match them to local employers. The workforce agencies would publicize the wage subsidies and deliver the subsidy with the worker.

Incentive: significant wage subsidies: 80% of an employee's wages in the private sector would be subsidized up to a maximum of \$10 per hour for six months. In the public and non-profit sector, 100% of the wages would be subsidized up to the \$10 maximum.

A tool for long-term job growth:

- Employers have to agree to keep the employee on the payroll without subsidy for at least six months after the end of the subsidy period.
- The incentive to ensure that the employee is kept on for at least six months of unsubsidized employment would be to stagger the pay outs of the last two months of the subsidized wages: the subsidy for the fifth month's wages would be delivered to the employer at the end of the 8th month of employment and the subsidy for the sixth month after the 12th month of employment for that employee.

If an employee is not a good fit, an employer could let that employee go but would be required to fill the subsidized job with other eligible applicants.

- Employers who do not live up to the terms of the agreement would be barred from future participation.

Jobs in the non-profit and public sector would last as long as the subsidy. Workers holding those jobs would not be eligible for unemployment insurance at the end of the six months, but they would be eligible to participate in a subsidized private sector job.

A basic floor:

- Eligible jobs have to pay at least \$9 an hour.
- Jobs in the private sector would have to offer the same benefits to subsidized workers as other workers.
- If non-profit and public sector jobs cannot offer medical benefits, participating workers should have a no-wait waiver for MinnesotaCare.

Funding:

Funding could come from the following sources:

- Federal appropriation through the Workforce Investment Act Program and the Temporary Assistance for Needy Families (TANF) Program
- Combination of Federal waiver to use Unemployment Insurance and extension funds for entry into the program, and an additional federal appropriation



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