

MEED MEANS MORE BUSINESS

***Job Growth through
Minnesota's Wage
Subsidy Program***

March, 1988

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MEED MEANS MORE BUSINESS:

Job Growth through Minnesota's Wage Subsidy Program

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Executive Summary

Introduction

The Minnesota Employment and Economic Development program (MEED) was established in 1983 to:

- ◆ provide employment opportunities for unemployed Minnesotans, particularly those eligible for public assistance, and
- ◆ create new jobs by stimulating small business expansion.

MEED works by providing private businesses with wage subsidies when they hire eligible workers. During the two-year budget period ending June 30, 1987, MEED placed 6,562 unemployed Minnesotans in jobs with private sector businesses and another two thousand in jobs with public sector agencies.

Earlier studies showed that MEED was putting people back to work, was creating new jobs, and was highly rated by small businesses. But both the economy and the program itself have changed over the past few years. This report presents an updated look at MEED, drawn primarily from program data supplied by the Department of Jobs and Training and from *Jobs Now's* 1987 survey of employers using the program.

MEED Reaches Greater Minnesota

MEED is directing most of its activity toward Greater Minnesota, where unemployment is higher than in the rest of the state. Fifty-nine percent of job placements and 58 percent of private employers using the program are located in Greater Minnesota.

MEED Provides Jobs for the Low-Income Unemployed

Participation in MEED is available to workers who are unemployed and are not eligible for unemployment or workers compensation or have exhausted their benefits. In addition, MEED gives priority to those at the lower end of the income scale.

- ◆ 79 percent of MEED participants belong to one of the MEED priority groups (eligible for General Assistance, Work Readiness, or AFDC; farm household with severe economic need; other household with no source of income).
- ◆ 54 percent are poor enough to be eligible for public assistance.
- ◆ 25 percent are American Indian, Asian, Black or Hispanic.
- ◆ 42 percent are women.

MEED Encourages Long-term Jobs and Low Turnover

MEED's wage subsidy formula rewards the creation of long-term jobs that provide stability for both workers and employers. Turnover in MEED positions is significantly lower than the average for newly hired workers:

- ◆ 90 percent of workers placed in MEED jobs either completed the six-month wage subsidy period (60%) or were still enrolled in the subsidy period (30%) as of June 30, 1987.
- ◆ 86 percent of those who had completed the six-month wage subsidy period were still working sixty days after their subsidy ended.

MEED Is Helping Small but Vital Businesses Representing All Sectors of the State Economy

- ◆ 81 percent of MEED employers have twenty or fewer full-time employees;
- ◆ 22 percent are manufacturing firms, more than twice as high as the percentage of manufacturing firms among all U.S. small businesses (10%).
- ◆ 32 percent are service firms, and half of these are in the rapidly growing business and professional services industries.
- ◆ 57 percent export at least part of their products or services outside Minnesota.

MEED Is Creating Thousands of New Jobs That Would Not Have Existed Otherwise

MEED's performance in adding net new jobs to local and state economies continues to be exceptional.

59.5 percent of employers said they would not have expanded without MEED (55.6%) or would have delayed their expansion (3.9%). MEED's job creation record is better than other programs that have been studied and evaluated.

MEED's record for creating net new jobs is particularly strong for:

- ◆ businesses located in Greater Minnesota;
- ◆ very small businesses (five or fewer employees); and
- ◆ businesses just starting out (0-2 years old).

MEED is working because it helps small businesses overcome barriers to growth. Employers cited several factors that would have prevented them from expanding without help from MEED: general cash-flow and financial problems; costs associated with training new workers and loss of productivity during training; and start up costs.

MEED Is Easy to Use

Private employers continue to be satisfied with the quality of workers available through MEED and with the administration of the program:

- ◆ 86 percent agreed that they were very satisfied with the performance of MEED workers.
- ◆ 92 percent agreed that they were able to fill positions with very little red tape.
- ◆ 94 percent agreed that the program rules were easy to understand.

Conclusion

MEED continues to be very effective in meeting both of its two major goals:

- ◆ providing meaningful work opportunities for unemployed Minnesotans, and
- ◆ creating thousands of new jobs for local and state economies that would not have existed otherwise.

MEED is working to the mutual benefit of the unemployed, small businesses, and local communities around the state.

The study indicates that MEED is as relevant today as it was in 1983. MEED has performed as well during the so-called “economic recovery” years of 1985 through 1987 as it did during the “emergency” years of 1983 and 1984.

The wage subsidy concept as practiced through MEED has proven over time to be an effective and powerful tool for economic development. Policymakers should work to insure that the wage subsidy/MEED approach is strengthened and is included as an important part of Minnesota’s overall strategy for economic growth.

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INTRODUCTION

The MEED jobs program was established by the state legislature in 1983 when Minnesota was in the grips of the worst economic recession since the Great Depression of the 1930's. Known originally as the Minnesota Emergency Employment Development Program, MEED was designed to fulfill two purposes:

- to provide job opportunities for unemployed Minnesotans, particularly those who would otherwise be eligible for public assistance.
- to create new jobs by stimulating small business expansion.

MEED works by providing employers with an incentive to invest in their workforce. Employers receive a wage subsidy of up to \$4 per hour for wages and an additional \$1 per hour for fringe benefits. Employers can use their own funds to pay wages and benefits above the subsidized amount. MEED wage subsidies can be used only to hire new workers who are unemployed and who are not receiving unemployment compensation or workers compensation. The subsidy lasts for six months.

To stimulate the creation of long-term jobs, private sector employers are required to retain MEED workers for at least one year after the subsidy ends. If an employee hired through MEED leaves or is fired before the one-year period is up, the business must either hire another MEED participant to fill the job slot or pay back part of the MEED funds they received.

While private sector wage subsidies are the backbone of the program, MEED also has other tools at its disposal. Up to one-fourth of MEED job placements can be made with public sector agencies. Public sector placements are typically used to provide temporary work experience for unemployed participants, some of whom then move on to private sector MEED jobs. MEED jobs in the public sector are also subsidized for six months but there is no requirement that the position be retained after the subsidized period. In addition to wage subsidies, small amounts of MEED funding can also be used for job search assistance, labor market orientation, relocation, transportation, and child care expenses.

During the last budget biennium (July 1, 1985 to June 30, 1987), the number of people served by MEED was as follows:

Job Placements--Private Sector	6,562
Job Placements--Public Sector	1,941
Other Services (non-placement)	<u>2,806</u>
TOTAL	11,309

Private sector employers accounted for 77 percent of all job placements made through MEED during this period.

By all accounts, MEED has been an impressive success. The Jobs Now Coalition, which helped develop the original MEED concept, published two reports in 1984 and 1985 on the impact of MEED. MEED Means Business (1984), which was based on a survey of employers who used the program, found that MEED was creating thousands of jobs that would not otherwise have existed and was providing critical support for cash-hungry, struggling small businesses.¹ MEED Works (1985) documented the program's ability to create jobs for people who were eligible for public assistance and provided information on the circumstances and characteristics of MEED workers.² An analysis by Department of Energy and Economic Development staff estimated that by December 31, 1985, MEED would pay back \$37 million of the \$100 million appropriated through increased tax collections and reduced public assistance expenses, with further savings expected in subsequent years.³

But while MEED was very successful during its early years, it could be argued that times have changed. While unemployment rose in 1987 and the supply of jobs is critically short in many parts of the state, the state economy on the whole is in better shape now than it was in 1983. The emergency, recession-fighting years in which MEED was begun have given way to several years of modest economic recovery, at least for the state as a whole. In addition to economic change, the MEED program itself has also changed in several ways:

1. MEED now concentrates more on placing workers in private sector jobs than it did initially. Under the original 1983 legislation, at least 40 percent of MEED placements had to be in the private sector. The requirement for private sector jobs was raised to 60 percent in 1984 and 75 percent in 1985, in part because the private sector has responded well to the program. MEED has had no trouble meeting these new requirements.
2. The number of priority groups has been expanded. In general, MEED is available to Minnesota residents who are unemployed and not receiving unemployment compensation or workers compensation benefits. The original legislation required further that priority be given to two groups: people who would otherwise be eligible for General Assistance and people in households with no other income. In 1985, the Work Readiness program was split off from General Assistance, and those eligible for Work Readiness retained their priority status within MEED. Also in 1985, AFDC-eligible families and farm families facing severe economic hardship were added to the priority list.
3. Funding was reduced from \$100 million in the 1983-85 biennium to \$27 million in 1985-87.
4. In 1985, MEED became a permanent program of the Department of Jobs and Training instead of a temporary, emergency program and its name was changed to the Minnesota Employment and Economic Development program.

These changes in both the economy and the program raise several questions: Is MEED still reaching the priority groups designated by the legislature? What kinds of businesses are using MEED now? Is MEED as effective in creating new jobs now as it was in the beginning? Do employers still rate MEED as highly?

This report provides answers to these questions. The report is divided into two parts. Part I (sections 1-3) presents data on the MEED workforce supplied by the Department of Jobs and Training. Part II (sections 4-6) presents information on MEED businesses drawn primarily from Jobs Now's 1987 survey of private sector employers using the program. The survey was mailed to employers by local MEED service providers in April and May of 1987, three years after the 1984 survey which formed the basis of MEED Means Business. Only employers who had hired MEED workers after July 1, 1985 were asked to respond. To allow for continuity, the questions asked were identical to the 1984 survey except for minor wording changes. (See Appendix C for copy of the survey.) After eliminating duplicates and discarding responses from businesses who had not used MEED since the cutoff date, 1,113 completed surveys were available for analysis.⁴

PART I
THE MEED WORKFORCE

SECTION 1

MEED REACHES GREATER MINNESOTA

MEED is directing most of its job placement activity toward Greater Minnesota, which is experiencing higher unemployment than the seven-county metro area. Greater Minnesota contains about half of the state's population but accounts for 59 percent of private sector MEED job placements and 58 percent of private sector employers using the program. Table 1 provides data on private sector MEED activity for each of the seventeen regions administered by MEED local service providers. (See Appendix A for a map of the local service areas.)

During the 1985-87 budget period, 6,562 MEED workers were placed in jobs with 3,562 private businesses.

TABLE 1

MEED PRIVATE SECTOR ACTIVITY:
July 1, 1985 to June 30, 1987

<u>Local Service Provider</u>	<u>Private Sector Job Placements</u>	<u>Private Sector Employers</u>	
<u>Greater Minnesota:</u>			
Northwestern Minnesota	267	146	
Northeastern Minnesota	629	475	
North Central Minnesota	763	370	
Duluth	267	121	
Central Minnesota	883	401	
Southwestern Minnesota	502	194	
South Central Minnesota	183	90	
Southeastern Minnesota	398	254	
Sub-total	<u>3,892</u>	<u>2,051</u>	
<u>Seven-County Metro:</u>			
Hennepin	518	393	
Minneapolis	755	263	
Carver	38	18	
Scott	58	49	
St. Paul	500	264	
Ramsey	153	122	
Anoka	282	182	
Dakota	241	126	
Washington	125	94	
Sub-total	<u>2,670</u>	<u>1,511</u>	
<u>Summary:</u>			
Greater Minnesota	3,892 (59%)	2,051 (58%)	
Seven-County Metro	<u>2,670 (41%)</u>	<u>1,511 (42%)</u>	
STATEWIDE TOTAL	6,562	3,562	

SOURCE: Minnesota Department of Jobs and Training.

SECTION 2

THE MEED WORKFORCE: REACHING THE LOW-INCOME UNEMPLOYED

During the most recent budget biennium (July 1, 1985 to June 30, 1987), 11,309 Minnesotans participated in the MEED program. Data from Table 2 show that MEED is reaching unemployed workers who are likely to need help the most:

- Four of every five MEED participants (79.2 percent) belonged to one of the MEED priority groups (eligible for General Assistance, Work Readiness or AFDC; farm household with severe economic need; other household with no source of income).
- Over half (53.6 percent) were poor enough to be eligible for public assistance programs such as General Assistance (17 percent), Work Readiness (24 percent), and AFDC (13 percent). This is an increase over the first two years of the MEED program, when 40 percent of participants were eligible for public assistance.
- One-fourth (25.3 percent) were American Indian, Asian, Black or Hispanic, up substantially from the 1983-85 program years when 14 percent of participants were people of color. Only about 4-5 percent of Minnesota's labor force is minority, but minority workers face high unemployment and are often concentrated on reservations and in inner-city neighborhoods where jobs are scarce. MEED is reaching people of color more effectively than many other jobs programs.
- More than two-fifths (41.9 percent) were women. In 1986, women made up 45 percent of the Minnesota labor force and 45 percent of those counted as unemployed.⁵

TABLE 2
PARTICIPANT INFORMATION
JULY 1, 1985 to JUNE 30, 1987

A. Priority Groups:

	<u>Number</u>	<u>Percent</u>
Work Readiness Eligible	2,662	23.5%
Gen'l Assistance Eligible	1,940	17.2%
AFDC Eligible	1,463	12.9%
Farm Household with Severe Financial Hardship	380	3.4%
Household with No Income	2,515	22.2%
Not Priority Group Member	2,349	<u>20.8%</u>
TOTAL PARTICIPANTS	<u>11,309</u>	
 [TOTAL PRIORITY GROUPS	 8,960	 79.2%]
 [TOTAL ELIGIBLE FOR PUBLIC ASSISTANCE	 6,065	 53.6%]

B. RACIAL/ETHNIC BACKGROUND:

American Indian	896	7.9%
Asian/Pacific Islander	517	4.6%
Black	887	7.8%
Hispanic	566	5.0%
White	<u>8,443</u>	74.7%
TOTAL	<u>11,309</u>	
 [TOTAL MINORITY	 2,866	 25.3%]

C. GENDER:

Female	4,734	41.9%
Male	<u>6,575</u>	58.1%
TOTAL	<u>11,309</u>	

D. AGE:

21 or Under	2,166	19.2%
22 to 44	7,838	69.3%
45 or Over	<u>1,305</u>	11.5%
TOTAL	<u>11,309</u>	

SOURCE: Minnesota Department of Jobs and Training.

SECTION 3

STABLE JOBS AND LOW TURNOVER

The MEED formula of six months of subsidized wages followed by twelve months of unsubsidized employment adds up to an eighteen month commitment. By emphasizing the creation of long-term jobs, MEED has encouraged greater job stability that benefits both workers and employers. Turnover rates for MEED workers are much lower than average for newly hired workers in the U.S.⁶

As of June 30, 1987, ninety percent of MEED participants placed in private sector jobs had either completed their six-month wage subsidy period (60%) or were currently working during the subsidy period (30%). Only ten percent had left their job or been dismissed. (See Table 3.)

Routine follow-up checks on those who had completed six months of subsidized employment also yielded impressive results. Eighty-six percent were still employed 60 days after their wage subsidy had ended (78 percent with the same employer and 8 percent with another employer).

TABLE 3
PRIVATE SECTOR PARTICIPANT OUTCOMES*
(as of June 30, 1987)

	<u>Number</u>	<u>Percent</u>
Completed Subsidy Period and Entered Unsubsidized Employment (Average Hourly Wage = \$5.12)	3,937	60%
Currently Enrolled/Receiving Subsidy	1,969	30%
Terminated	656	10%
TOTAL	<u>6,562</u>	

60-DAY FOLLOW-UPS FOR PARTICIPANTS**
ENTERING UNSUBSIDIZED EMPLOYMENT

	<u>Number</u>	<u>Percent</u>
Employed--Same Employer	2,031	78%
Employed--Different Employer	212	8%
In School	15	1%
Unemployed	264	10%
Other	94	3%
TOTAL FOLLOW-UPS	<u>2,616</u>	

* Based on MEED participants placed in private sector jobs between July 1, 1985 and June 30, 1987.

** Many follow-ups were not yet done since 60 days had not yet elapsed since completion of the wage subsidy phase.

SOURCE: Minnesota Department of Jobs and Training.

PART II

MEED EMPLOYERS:

Results of the 1987 Survey of Private Sector Businesses Using MEED

SECTION 4

PROFILE OF EMPLOYERS USING MEED

Employers who hire MEED workers are primarily small businesses representing all parts of the state and all sectors of the economy. Based on 1,113 complete responses to the employers' survey, the profile of businesses using MEED is as follows:

- 60.5 percent hired MEED workers through local service providers in Greater Minnesota, and 58.3 percent were actually located in Greater Minnesota, outside the seven county metropolitan area. (See Table 4.) These two figures are slightly different because local service providers can make placements that cross county lines.
- 81.1 percent of the businesses had twenty or fewer full-time employees and 96 percent had fewer than 100 full-time employees. (See Table 5.)
- 32.3 percent of the businesses were involved in selected services. (See Table 6.) Half of all businesses providing services were in the rapidly growing business and professional services fields. Appendix B provides further data on the kinds of service firms using MEED.
- 22.4 percent were involved in manufacturing. MEED appears to be drawing exceptionally heavy use from manufacturing firms, since data from the Small Business Administration indicates that only about 10 percent of small businesses nationally are in the manufacturing sector. (See Table 6.) Appendix B provides additional information on the types of manufacturing firms using MEED.
- 56.7 percent sell at least part of their products or services to customers outside Minnesota, thus bringing new dollars into the state economy. Of those who do export outside Minnesota, 26 percent conduct at least half their business outside the state and 17 percent conduct at least three-fourths of their business outside the state. (See Tables 7a and 7b.)
- 59.3 percent of the firms using MEED have been in business for at least five years, while 17.4 percent have been in existence for two years or less. (See Table 8.)
- Only 4.7 percent said they had plans to buy new equipment that would enable them to reduce their workforce, and only 5.8 percent said they had any short-term or long-term plans to relocate in another state. (See Tables 9 and 10.) Businesses that use MEED appear to be committed to retaining the size of their current workforce and to remaining in Minnesota.

TABLE 4
LOCATION OF BUSINESSES

	<u>Number</u>	<u>Percent</u>
Greater Minnesota	617	58.3%
Hennepin-Ramsey	312	29.5%
Suburban Counties*	130	12.3%
TOTAL	<u>1,059</u>	

* Anoka, Carver, Dakota, Scott and Washington.

TABLE 5
NUMBER OF FULL-TIME EMPLOYEES

	<u>Number</u>	<u>Percent</u>
Five or less	530	51.2%
6-10	192	18.5%
11-20	118	11.4%
21-50	101	9.7%
51-99	50	4.8%
100 or more	45	4.3%
TOTAL	<u>1,036</u>	

TABLE 6
INDUSTRIAL SECTOR OF MEED BUSINESSES AND OF TOTAL
SMALL BUSINESSES IN U.S.

	<u>MN Firms Using MEED</u>		<u>U.S. Small Businesses</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Agriculture/Forestry/Mining	52	4.7%	132,438	3.6%
Construction	52	4.7%	510,922	13.7%
Manufacturing	249	22.4%	355,100	9.5%
Transportation/Communication	32	2.9%	133,872	3.6%
Wholesale Trade	45	4.1%	416,024	11.2%
Retail Trade	224	20.2%	1,056,332	28.3%
Finance/Insurance/Real Estate	92	8.3%	261,257	7.0%
Selected Services*	358	32.3%	864,245	23.2%
Other	6	.5%	--	--
TOTAL	<u>1,110</u>		<u>3,730,190</u>	

SOURCE: MEED survey and the Small Business Data Base maintained by the U.S. Small Business Administration. The above figures are published in The State of Small Business: A Report of the President, 1986, page 40. The Small Business Data Base contains information on virtually all full-time operating U.S. small businesses with employees that use credit markets.

* "Selected Services" includes businesses that provide personal services, recreation and amusement, hotels and other lodging places, business services, professional services, repair services, and other kinds of services. It does not include wholesale trade, retail trade, finance, insurance or real estate.

TABLE 7a
SELL PRODUCTS/SERVICES TO CUSTOMERS
OUTSIDE MINNESOTA

	<u>Number</u>	<u>Percent</u>
Yes	629	56.7%
No	480	43.3%
TOTAL	<u>1,109</u>	

TABLE 7b
PERCENT OF SALES OUTSIDE MINNESOTA
("EXPORTERS" ONLY)*

	<u>Number</u>	<u>Percent</u>
Under 10%	287	45.6%
11-20%	97	15.4%
21-50%	74	11.8%
51-75%	52	8.3%
76% or more	108	17.2%
Percent unknown	<u>11</u>	1.8%
TOTAL	<u>629</u>	

* Percentages based only on "Yes" responses in Table 7a.

TABLE 8
HOW LONG HAVE YOU BEEN IN BUSINESS?

	<u>Number</u>	<u>Percent</u>
Less than 1 year	92	8.3%
1-2 years	101	9.1%
2-5 years	259	23.3%
5 years or more	<u>658</u>	59.3%
TOTAL	<u>1,110</u>	

TABLE 9
PLAN TO BUY EQUIPMENT THAT WILL RE-
DUCE WORKFORCE IN NEXT YEAR

	<u>Number</u>	<u>Percent</u>
Yes	52	4.7%
No	<u>1,043</u>	95.3%
TOTAL	<u>1,095</u>	

TABLE 10
HAVE SHORT- OR LONG-TERM PLANS TO
RELOCATE IN ANOTHER STATE

	<u>Number</u>	<u>Percent</u>
Yes	63	5.8%
No	<u>1,016</u>	94.2%
TOTAL	<u>1,079</u>	

SECTION 5

MEED'S IMPACT ON JOBS AND BUSINESSES

One of the primary goals of the MEED program is to encourage small businesses to create jobs and expand production. Creation of jobs that would not have existed otherwise is essential to the success of MEED. It is very important, therefore, to try to evaluate the program from this perspective. The question is: Do the jobs created by MEED represent new jobs or are they simply jobs that would have been added by participating businesses even if there were no wage subsidy?

This is no trivial issue. MEED was intended in part to boost the state economy, particularly in depressed areas. Economic activity would be increased through the creation of new jobs, and additional jobs and growth would be stimulated by the multiplier effect of having fresh money pumped into the economy. But if the jobs subsidized by MEED would have existed anyway, then MEED cannot claim much credit for stimulating the economy and strengthening the small business sector. Moreover, if MEED jobs were really not "new,"--if there was no real net job growth--it could mean that some jobs elsewhere in the economy were simply being displaced to make room for MEED participants.

[NOTE: Providing job opportunities for unemployed people, which is MEED's other primary objective, is in itself an important and valuable goal, regardless of whether MEED funding has any greater effect on the total supply of jobs. But the purpose of MEED has always been to go beyond this step and create a partnership between the unemployed, small businesses and the state that would benefit the broader community through real net job growth.]

No job creation or economic development strategy can guarantee that all of the employment opportunities attributed to it would never have existed otherwise. The question becomes a matter of degree. The federal government's wage subsidy effort--the Targeted Jobs Tax Credit--has been criticized for creating few new jobs and for focusing more of its benefits on larger businesses. Estimates are that no more than 20 percent of the positions funded through the Tax Credit represent net new jobs.⁷ Preliminary studies of wage subsidy programs in European countries indicate that up to 40 percent of the jobs funded under some programs would not have existed otherwise.⁸

Responses to the 1987 MEED employers survey indicate that MEED's performance in creating new jobs is exceptional. Well over half of the businesses (55.6 percent) said they would not have expanded without the MEED wage subsidy. Another 3.9% said they would have had to delay expansion if MEED were not available. MEED thus had an impact on the expansion plans of three of every five businesses (59.5 percent). On the other hand, two of every five businesses (40.5 percent) said they would have expanded anyway. (See Figure 1, next page.)

MEED IMPACT ON EXPANSION

Percent of Businesses

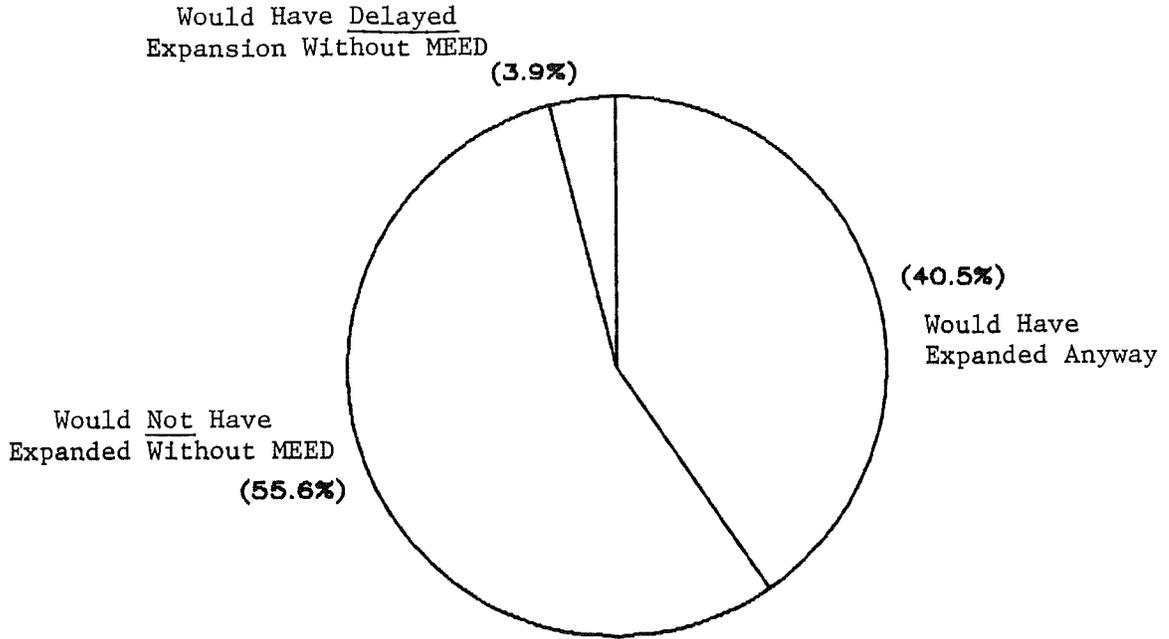


Figure 1. Percent of businesses that would not have expanded without MEED or that would have delayed expansion.

The results are slightly more positive when we consider the number of MEED job placements in companies that relied on MEED to expand. (This is an important consideration since some businesses use more MEED workers than others; thus, the percentage of jobs affected by expansion may be different from the percentage of businesses.) Overall, 57.6 percent of MEED job placements were in businesses that would not have expanded without the program, and another 5.1 percent were in companies that would have had to delay expansion without MEED. Only 37.3 percent of MEED workers were placed in companies that would have expanded anyway. (See Table 11.)

TABLE 11
WOULD YOU HAVE EXPANDED YOUR WORKFORCE WITHOUT THE MEED SUBSIDY?

	<u>Number of Businesses</u>		<u>Number of MEED Placements in Responding Businesses</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Yes	424	40.5%	1,067	37.3%
No	582	55.6%	1,649	57.6%
Would Have Delayed Expansion	41	3.9%	146	5.1%
TOTAL	<u>1,047</u>		<u>2,862</u>	

The results are virtually identical to the 1984 survey responses as reported in MEED Means Business. Three years ago, 59.1 percent of businesses said they could not have expanded without help from MEED, and 4.1 percent said they would have had to delay expansion.

In addition to the above question, business owners were also asked whether they agreed or disagreed with several statements about the impact of MEED. The results again indicated that MEED had positive and significant effects on most businesses:

- Only 22.9 percent said that MEED failed to improve their firm's performance.
- 81.2 percent agreed that hiring MEED workers made it possible to expand production.
- 60.4 percent agreed that MEED made it possible to invest in needed equipment.
- 53.5 percent agreed that MEED made it possible for the firm to diversify into new areas.

As Table 12 shows, business owners' ratings of the impact of MEED are almost identical to, and in most cases slightly higher than, their responses to the same questions in the 1984 survey.

TABLE 12
RESPONSES TO STATEMENTS ON IMPACT OF MEED

	<u>Percent "Strongly Agree" or "Agree"*</u>	
	<u>1987 Survey</u>	<u>1984 Survey</u>
"The subsidy did <u>not</u> improve my firm's performance."	22.9%	25.9%
"MEED made it possible for me to invest in machinery/equipment that my firm needs."	60.4%	52.5%
"Hiring MEED workers made it possible to expand production/scale of operations."	81.2%	79.0%
"MEED made it possible for my business to diversify into new areas."	53.5%	46.5%

* Blank or "Not Applicable" responses are excluded from the calculation of percentages.

Where Is MEED Having the Greatest Impact?

What kinds of businesses are the most likely to use MEED to generate additional jobs that would not otherwise have existed? Where is MEED having its greatest impact as a job creation resource? Table 13 shows that businesses that would not have expanded without MEED or that would have had to delay plans for expansion are most likely to be:

- Located in Greater Minnesota;
- Very small businesses, particularly those with five or fewer full-time employees; and
- New businesses, particularly those that have been open for two years or less.

For example, the survey shows that MEED was essential to the expansion plans of 68.4 percent of firms with five or fewer full-time employees compared to 40.0 percent of firms with more than twenty full-time workers.

TABLE 13
JOB CREATION IMPACT OF MEED ON DIFFERENT KINDS OF BUSINESSES

	<u>Percent That Would Not Have Expanded Without MEED or That Would Have Delayed Expansion:</u>
Total MEED Businesses:	59.5%
A. Location:	
Greater Minnesota	62.1%
Hennepin & Ramsey Counties	55.6%
Suburban Counties	53.5%
B. Number of Full-time Employees:	
Five or less	68.4%
6-10	59.5%
11-20	57.5%
21 or more	40.0%
C. Number of Years in Business:	
Two years or less	69.8%
2-5 years	63.3%
Five or more years	54.8%

TABLE 14
REASONS WHY BUSINESSES WOULD NOT HAVE GROWN WITHOUT MEED

	<u>Number</u>	<u>Percent*</u>
Cash-flow problems, lack of capital, "Can't afford it"	261	64.1%
Training costs, low productivity during training	94	23.1%
Start-up costs	37	9.1%
Other	15	3.7%
TOTAL	<u>407</u>	

* Percentages based only on respondents who made written comments citing reasons why their business would not have grown without MEED.

Why MEED Works

Businesses that would not have expanded without MEED or that would have delayed their expansion were asked why the MEED wage subsidy was essential to their plans for growth. Almost all the responses can be divided into three major reasons, which are summarized in Table 14.

(1) General Financial and Cash-flow Problems

The overwhelming number of responses stressed cash-flow and other financial problems; the most common answer was "we couldn't afford it." This is not surprising, given that so many of the businesses using MEED are very small. Many are working on very tight budgets, with very low reserves. Expanding into new areas and adding new workers is both costly and risky, even when opportunities to expand are present. MEED provided these businesses with the financial cushion that made it worthwhile to take the risk and add to their workforce.

"MEED gave us an opportunity to add people and expand service without severe jeopardization of cash flow."

"I wouldn't have had the money (to expand) at the time and the new employees helped generate the money and income to maintain their jobs."

"MEED gave us the head start we needed. By the end of six months, the new employees had helped to generate additional revenue to cover their position permanently. Without this help, we could not have expanded."

"I needed the cash to pay the wages until the extra labor could generate additional cash flow."

(2) Costs of Training New Workers

Costs associated with training new workers were cited by many businesses (and may have been behind the comments of some who mentioned only general cash-flow problems). During training, new workers may not be sufficiently productive to bring in new revenues to cover their wages. It may take several months before an expanded workforce reaches adequate productivity. Training may also require the time of managers and other workers. Struggling companies often do not have the cash reserves to invest in the new worker or to absorb the losses that may occur if training doesn't work out or if new revenues fail to materialize. The MEED wage subsidy encourages employers to take on new people and do the necessary training. It softens the risk to an acceptable level.

"The MEED subsidy allows me train people for our projected expansion."

"Small business has a very slim margin for profit. The cost of training a new employee can be expensive, especially if this is a new working environment for the MEED client."

"During initial training, employee is non productive and current costs would prevent an expanded workforce without monies to pay wages during training."

"We would not have taken the risk of hiring these new, untrained employees without the financial assistance of the MEED program. We may have purchased equipment which would have increased efficiency rather than investing time and money in an unskilled employee."

(3) Start-up Costs

Many businesses also cited the problems of getting started. In addition to training new employees, new businesses lack steady revenues. It may be many months or years before the business is going strongly enough to become profitable. Difficulties getting start-up loans to cover these initial costs add to the problem. MEED provides employers with human start-up capital that makes it possible to go ahead and launch the business.

"Starting a new business from scratch was costly. Having a MEED employee helped greatly."

"The whole business starting up depended on MEED to tide us over the initial period."

"Business start-up time and earnings delays. Twelve months were required to become profitable."

SECTION 6

ADMINISTRATION OF THE MEED PROGRAM

The vast majority of employers who use MEED are satisfied with the quality of workers available through MEED and with the program's administration. In response to specific statements about the program:

- 86.0 percent agreed that they were "very satisfied" with the performance of workers placed through MEED;
- 91.7 percent agreed that they were able to fill the positions with very little red tape; and
- 94.2 percent agreed that program rules were easy to understand.

Throughout its history, MEED has enjoyed a reputation as a program that is accessible and easy to work with, and it is clear that this reputation is continuing. The highly positive ratings found in the 1987 survey are virtually identical to the 1984 survey results. (See Table 15.)

Employers were also asked to assess the length of both the subsidized and unsubsidized (payback) work periods. Slightly under two-thirds thought that the six-month subsidy period was too short (61.8 percent) and that the required twelve month period of unsubsidized employment was too long (66.3 percent). These responses are probably not surprising given that many of the businesses are very small and are struggling to maintain adequate cash flows. Despite their preferences on this point, it is important to note that these businesses did in fact use MEED under the current formula.

TABLE 15
PERCEPTIONS OF MEED ADMINISTRATIVE PROCESS

	<u>Percent "Strongly Agree" or "Agree"*</u>	
	<u>1987 Survey</u>	<u>1984 Survey</u>
"I was very satisfied with the performance of my MEED employee(s)."	86.0%	83.8%
"I was able to fill the jobs with a minimum of red tape."	91.7%	92.2%
"The rules were easy to understand."	94.2%	93.5%
"The six-month subsidy is too short."	61.8%	64.6%
"The twelve months without subsidy is too long."	66.3%	64.1%

* Blank or "Not Applicable" responses were excluded.

SECTION 7

CONCLUSION

This report demonstrates that MEED continues to be an effective program that is achieving both of its stated goals. MEED is working to the mutual benefit of the unemployed, small businesses, and local communities throughout the state.

First, MEED is providing work opportunities for unemployed Minnesotans who want to work, particularly for those at the low end of the income scale. Well over half of MEED workers are poor enough to qualify for public assistance and over 80 percent fall into one of the priority groups indicating economic hardship. One-fourth are people of color. MEED makes it possible for people to earn an income, upgrade their skills and experience, and in many cases get on-the-job training. The program represents an investment in human capital for the state and a source of opportunity for workers.

Second, MEED has added thousands of jobs to local communities and the state economy that would not have existed otherwise. MEED is helping many small businesses to grow and stabilize, particularly in Greater Minnesota, where economic development is needed the most.

The report indicates that MEED is as relevant today as it was in 1983. The recession of the early 1980's may officially be over, but many small businesses face a continual struggle to start and grow even in better times. As survey responses indicate, cash-flow, training costs and other problems constitute significant barriers to growth. And for tens of thousands of Minnesota's unemployed, lack of jobs is a fact of life which is still very much with us. In fact, the unemployment rate increased in 1987, and "post-recession" unemployment has never returned to the pre-recession rates of the late 1970's. For both workers and business, there is ample need for programs that can do the job that MEED does.

The report demonstrates that MEED has performed as well during the so-called "economic recovery" years of 1985 through 1987 as it did during the "emergency" years of 1983 and 1984 when Minnesota was struggling to escape from the deepest recession since the 1930's.

The wage subsidy concept as practiced through MEED has been tested and has been proven over time to be an effective and powerful tool for economic development. Policymakers should work to insure that the wage subsidy/MEED approach is strengthened and is included as an important part of Minnesota's overall strategy for economic growth.

NOTES

1. Jobs Now Coalition, MEED Means Business: Private Employers Assess the State Jobs Program, December, 1984.
2. Jobs Now Coalition, MEED Works: A Look at Minnesota's Investment in People, Jobs and Communities, March, 1985.
3. See memorandum dated January 23, 1985 reprinted in MEED Works, pp. 26-28.
4. It is not possible to calculate the precise response rate because we do not know the exact number of businesses who received the survey. Some businesses hired MEED workers through more than one local service provider; they may have been mailed several surveys but only returned one. (Mailings were done by each local service provider based on their own lists.) Some businesses who had not obtained MEED placements after July 1, 1985 may have received surveys anyway. Some surveys were returned for no forwarding address, indicating that the firm may have gone out of business. Despite these uncertainties, we do know that the response rate was at least 42 percent and was probably several percentage points higher.

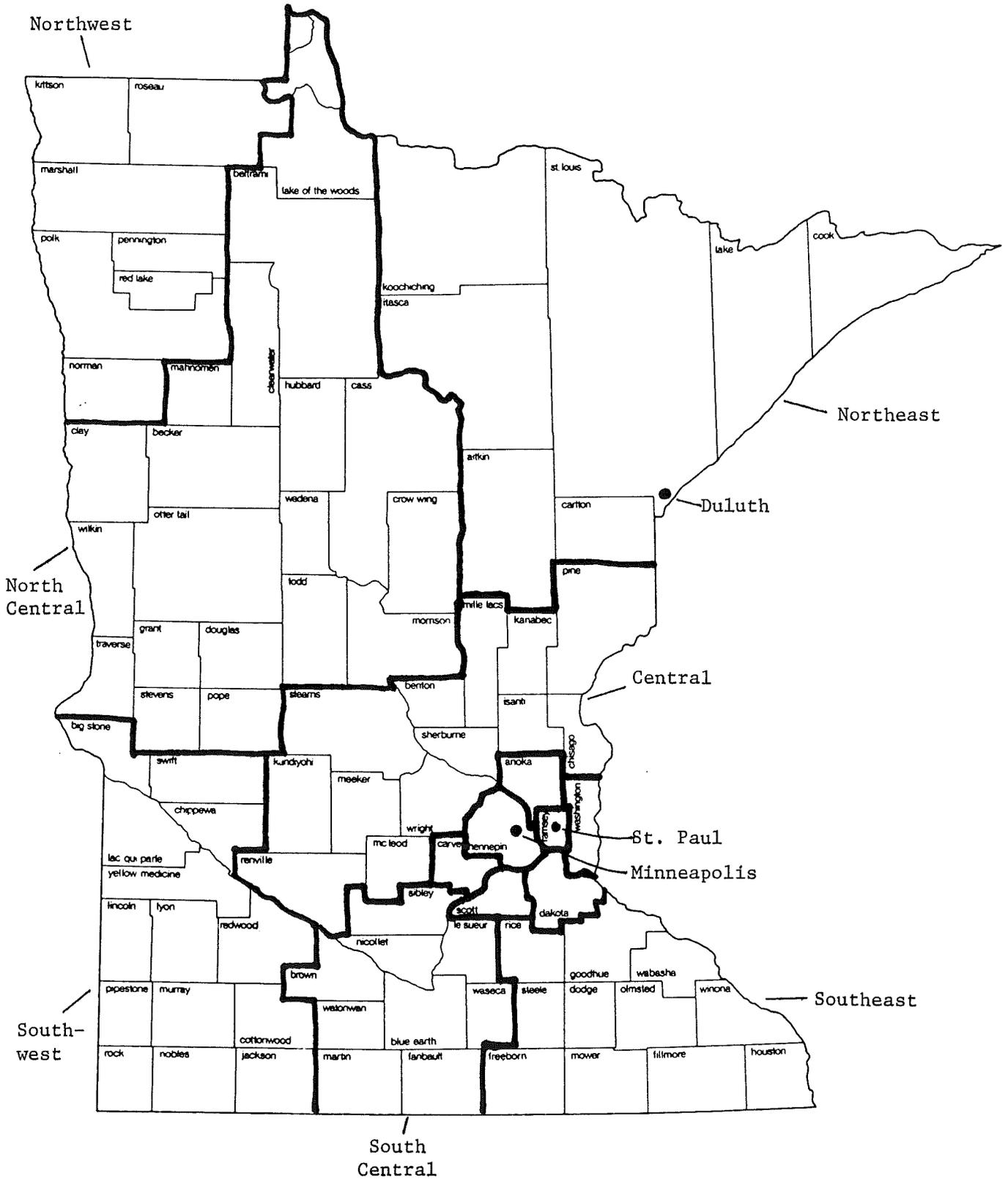
The geographic distribution of businesses participating in the survey matches the actual geographic distribution of all MEED businesses (as determined by DJT records) very closely, indicating that the survey group is representative of the population on this point.

5. U.S. Department of Labor, Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment: 1986, Washington, D.C.: U.S. Government Printing Office, 1987.
6. See retention rates for newly hired workers in John Bishop, Subsidizing On-The-Job Training: An Analysis of the National Survey of Employers, Columbus, Ohio: National Center for Research in Vocational Education.
7. John Bishop and Mark Montgomery, The Impact of Targeted Employment Subsidies on Employment at Subsidized Firms, Columbus, Ohio: National Center for Research in Vocational Education, 1984.
8. Peter Schwanse, "European Experience," in Robert Haveman and John Palmer (eds.), Jobs for Disadvantaged Workers: The Economics of Employment Subsidies, Washington, D.C.: Brookings Institution, 1982, pp. 297-324.

APPENDICES

APPENDIX A

AREAS SERVED BY MEED LOCAL SERVICE PROVIDERS



APPENDIX B:

DETAILED INDUSTRIAL TYPE OF MANUFACTURING AND SELECTED SERVICES
FIRMS PARTICIPATING IN 1987 MEED SURVEY

<u>A. Manufacturing</u>	<u>Number</u>	<u>Percent</u>
High Technology	18	7.2%
Food and Kindred Products	18	7.2%
Apparel	9	3.6%
Lumber	10	4.0%
Furniture and Fixtures	23	9.2%
Paper and Allied Products	8	3.2%
Printing and Publishing	25	10.0%
Chemicals	3	1.2%
Rubber and Plastic Products	11	4.4%
Leather Products	2	.8%
Stone, Clay and Glass	7	2.8%
Fabricated Metals	17	6.8%
Machinery--non electrical	21	8.4%
Machinery--electrical	2	.8%
Transportation Equipment	4	1.6%
Alternative Energy Products	2	.8%
Miscellaneous Manufacturing	64	25.7%
Unknown	5	2.0%
TOTAL MANUFACTURING	<u>249</u>	<u>99.7%</u>

<u>B. Selected Services</u>	<u>Number</u>	<u>Percent</u>
Personal Services	44	12.3%
Hotels and Lodging Places	16	4.5%
Amusement and Recreation Services	25	7.0%
Business Services	87	24.3%
Professional and Related Services	89	24.9%
Repair Services	54	15.1%
Miscellaneous Services	35	9.8%
Unknown Services	8	2.2%
TOTAL SELECTED SERVICES	<u>358</u>	<u>100.1%</u>

10. How would you describe the performance of your business over the past year?
- better than average
 - average
 - worse than average
11. What percent of your business' total assets is invested in plant and equipment?
- less than 5 percent
 - 6 - 10 percent
 - 11 - 20 percent
 - 21 - 40 percent
 - 41 percent or more
12. Given the nature of your business, do you have plans of buying machinery/equipment that will reduce your workforce within the next year?
- Yes No
13. If answered yes to (12) above, what percent of your workforce do you think will be replaced?
- less than 10 percent
 - 11 - 25 percent
 - 26 - 50 percent
 - more than 50 percent
14. Do you have any plans (short- or long-term) of relocating your business to another state?
- Yes No

MEED INFORMATION

15. How many employees have you hired through MEED since July 1985?
16. Have any of your MEED employeed:
- (a) quit before completing six months (How Many?) _____
 - (b) been fired before completing six months (How many?) _____
 - (c) quit after completing six months (How many?) _____
 - (d) been fired after completing six months (How many?) _____
17. Would you have expanded your workforce to its present size without the MEED subsidy?
- Yes Give reasons _____

- No Give reasons _____

18. For each job filled by a MEED employee, please provide the following information:

	<u>EXAMPLE</u>	<u>Job 1</u>	<u>Job 2</u>	<u>Job 3</u>	<u>Job 4</u>
Job type	Clerical	_____	_____	_____	_____
# MEED employees hired	<u>2</u>	_____	_____	_____	_____
# retained after subsidy	<u>1</u>	_____	_____	_____	_____
Hourly wage during subsidy	<u>\$4.00</u>	_____	_____	_____	_____
Hourly wage after subsidy	<u>\$4.10</u>	_____	_____	_____	_____
Did you provide any special training on-or off-the job?	<u>Yes, trained employee in word processing</u>	_____	_____	_____	_____

19. Please respond to the following statements regarding MEED's impact on your business. (Circle one number for each statement.)

	<u>Strongly Agree</u>	<u>Agree</u>	<u>Disagree</u>	<u>Strongly Disagree</u>	<u>Don't Know Not Applicable</u>
1. My business would have survived without the MEED subsidy.	1	2	3	4	5
2. The subsidy did not improve my firm's performance.	1	2	3	4	5
3. MEED made it possible for me to invest in machinery/equipment that my firm needs.	1	2	3	4	5
4. Hiring MEED workers made it possible to expand production/scale of operations.	1	2	3	4	5
5. The six month subsidy is too short.	1	2	3	4	5
6. The twelve months without subsidy is too long.	1	2	3	4	5
7. I am very satisfied with the performance of my MEED employees.	1	2	3	4	5
8. MEED made it possible for my business to diversify into new areas.	1	2	3	4	5
9. I was able to fill the jobs with a minimum of red tape.	1	2	3	4	5
10. The rules were easy to understand.	1	2	3	4	5