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Dayton's job plan — and how to make it better

By Louis D. Johnston | 01/18/12

Gov. Mark Dayton released his "Jobs Plan for Minnesota" [PDF] last week. The plan attacks three important problems but neglects three others.

Three problems tackled

First, many businesses cannot afford to hire needed workers at the going wage. In particular, businesses compare the benefit from hiring an additional worker with the cost of hiring that worker. Hiring another worker makes sense if the additional benefit outweighs the additional cost. The job plan reduces the cost of hiring an additional worker through the New Jobs Tax Credit. The credit provides $3,000 in 2012 and $1,500 in 2013 for hiring an unemployed worker, a veteran or a recent graduate, and thus makes it more likely that a firm will hire a new employee.

A second employment problem is that there is insufficient demand for the goods and services firms produce, so there is no point in hiring more workers. The governor's plan aims at this problem through a bonding bill. For example, the bonding bill will make it profitable for construction firms to hire workers at current wages because they will have new projects that require more workers.

The governor's plan zeroes in on the "skills gap" as the third problem. Briefly, some businesses want to hire workers but can't find people with the necessary skills. The prescription for this malady is to promote training and match up potential employees with employers. The job bill does this by expanding the fastTRAC program and by creating a Minnesota Opportunity Grants Pilot Program.

Three problems missed

Unfortunately, the job plan ignores three other important problems.

First, employers may have trouble connecting with skilled employees. In particular, job seekers know the importance of networking in order to find a new position, yet the state could do much more to promote these matches. The Department of Employment and Economic Development could use more resources to ramp up its job-seeking tools and promote their use throughout the state. We must ensure that there are not job seekers living near Willmar who have the skills needed by businesses in Willmar but they are unaware of each other.

Second, workers might be geographically stuck. Suppose a company in Hibbing needs the skills of a person currently living near Austin, but the Austin resident cannot move because he or she is unable to sell their house. The state could ease this problem by devoting part of the bonding bill to setting up a mortgage-relief fund or a fund to help people move within the state for employment reasons.

Third, the market I sketched above presumes that wages will rise and fall in order to equilibrate the market. One way to deal with the skills gap is for firms to offer higher wages in order to attract workers who possess desired skills. The jobs bill short circuits these mechanisms by having the government subsidize firms who need skilled workers. Is this the right way to go? If firms and industries need skilled workers, and if the payoff to hiring those workers will mostly flow to the firms, why should society as a whole subsidize this?

Long-run concerns

One final concern I have is whether or not this plan promotes long-run growth. The plan as it currently stands doesn't necessarily do this. The job tax credit, for instance, could simply lead to a temporary bump in hiring but no improvement in long-term employment.

Here are two suggestions to improve this part of the plan. One is to make sure that the bonding bill focuses on projects that increase Minnesota's productive capacity. As Susan Riley and I discussed two weeks ago, investments in water and sewer systems along with expansion of pre-K education make the most sense.

Second, link the job tax credit to the need to increase the pool of skilled workers. The governor's job plan proposes a $3,000 credit in the first year and $1,500 in the second for hiring a worker. How about increasing the credit $4,500 in the first year, $3,000 in the second year, and $1,500 in the third year on the condition that the firm invests in training the new worker?

We have an opportunity to both promote short-term employment and long-run growth. Let's grab it.