



# Corporate Subsidies

## How economic development policies contribute to racial disparities

After years of recession followed by slow job growth, much of the public discourse is focused on how to grow our economy and create and retain jobs. Government interventions are frequently used to spur job creation and ensure a ready workforce, including investments in infrastructure development and job training programs.

Corporate subsidies are another type of public investment that are touted for their ability to create jobs, yet they are much more difficult for the public to understand and evaluate. The largest ones—such as the recently approved subsidy to build the new Minnesota Vikings stadium in Minneapolis—get a lot of attention. But many people do not know the extent to which private companies are subsidized in Minnesota. A 2009-10 analysis by the watchdog group Good Jobs First shows that \$78

million was spent on just five Minnesota corporate subsidy programs.<sup>1</sup>

Subsidy programs are officially justified in the name of keeping jobs in the state, attracting new busi-

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nesses to areas that need help the most, and spurring new job creation through strategic investments in training and capital. These are important goals,



### Race and Regionalism: How Growth and Development Policies Shape Racial Disparities in the Twin Cities Region

If you asked a visitor for their impression of the Twin Cities, you would be likely to receive a positive response. A high quality of life, an educated workforce and a clean environment are things that our region is known for. But for nearly a quarter of the population—our region's population of color and indigenous community—the Twin Cities do not live up to that promise. Despite our many resources, people of color here experience some of the worst disparities in the nation.

Dig into our history, and one will find a legacy of public policymaking that favored, either intentionally or as a

byproduct of poor decision-making, the needs of white people over those of people of color and indigenous people. An examination of some of these policies, many of which directly relate to the growth and development of our region, shows that racial discrimination was and is at the heart of what makes our region what it is today.

The good news is that there are strategies that can help reverse these disparities and sweep away the institutional barriers that have persisted. And our region has the added benefit of being able to rely on a rich network of community-based

organizations that can provide leadership and partner with policymakers to arrive at effective and sustainable solutions to these complex problems.

Over the next year, the Alliance for Metropolitan Stability will release a series of Race and Regionalism stories that illustrate some of our past failures as well as some of the ways communities and decision-makers are showing the way forward for equity.

To read other papers in the series, please visit [www.metrostability.org](http://www.metrostability.org). ■



especially when sustained high unemployment levels are causing deep pain to Minnesota families.

Despite their lofty goals, these programs have actually hurt some of the populations that need good jobs most in our state. In particular, communities of color are the most likely to be unemployed, but the least likely to benefit from subsidized job creation. Subsidy policy is not overtly racist, yet it is biased against urban communities, which is where a significant portion of Minnesota's people of color live.

As the Twin Cities persist near the top of annual lists of regions with the worst racial disparities in employment, our decision-makers need to be deliberate in examining the racial consequences of our job-creation policies. A closer look at how corporate subsidies are awarded in Minnesota can help us better understand the unintended consequences of these public investments, which are, as Good Jobs First puts it, "fueling inequality" in the Twin Cities.

### Minnesota's Subsidy Programs Fuel Job Flight

The primary interest of communities that provide corporate subsidies is to create or retain jobs. However, many deals in Minnesota have failed to create as many jobs as they promised. An analysis by the *Star Tribune* found that of 650 subsidy deals executed between 2004 and 2009, 125 companies failed to meet their hiring commitments. In fact, at least 46 companies produced no lasting jobs whatsoever.<sup>2</sup> One subset of Minnesota firms received \$37 million in subsidies, but created just 551 of the 2,111 jobs they promised.<sup>3</sup>

Instead of creating new jobs, many deals simply move existing jobs around, often luring jobs away from central cities and older suburbs. One troubling example of this is the Job Opportunity Building Zones (JOBZ) program, which is a state-administered program providing state and local tax exemptions to attract companies into targeted areas outside of the Twin Cities region. There is no doubt that rural areas of the state need more economic development, but rather than attracting new jobs, the structure of JOBZ often causes Minnesota towns and regions to compete with one another for existing jobs. The program subsidizes moves within city boundaries, moves between Greater Minnesota cities, and from the Twin Cities to Greater Minnesota (while disallowing the reverse). A

report issued by the Office of the Legislative Auditor says that rather than drawing new jobs from out-of-state, the JOBZ program has made local officials "feel obligated to offer (subsidies) in order to compete with other Minnesota communities."<sup>4</sup>

The data shows that regardless of the purpose of the program, subsidies drive growth away from the Twin Cities. Good Jobs First found that between 1999 and 2003, 86 Twin Cities corporations received more than \$90 million in subsidies to relocate 8,200 jobs. That's an average subsidy of almost \$11,000 per job. Eighty

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percent of those jobs moved further away from the core cities of Minneapolis and St. Paul.<sup>5</sup>

This intra-regional competition is one of the main problems with subsidy policy. Local cities are pitted against one another in a fight to attract the most jobs and the highest tax base. Outer-ring suburban communities typically benefit from the most new and relocated jobs, at the expense of the urban core.

Although it may seem as though these are just local officials doing what's best for their constituents, these decisions affect all Minnesotans. Furthermore, the state plays a key role in approving and overseeing many of these local subsidies. In effect, the state is authorizing local governments to use taxpayer dollars to benefit whiter communities and harm more diverse ones. This contributes to our growing disparities, hurting everyone in the long run and putting our entire economy at risk.

### The Effects of Corporate Subsidies on People of Color

The fact that subsidies help to draw jobs further away from the urban core is to the detriment of communities of color. Significantly more people of color live in St. Paul and Minneapolis than in the remainder of the state. When companies move away from the core cities, they are generally moving to whiter and more affluent communities. The Good Jobs First report shows that Census tracts that lost three or more firms were home to 18.1 percent people of color, while those that gained three or more firms were home to only 6.6 percent people of color.<sup>6</sup>

	Percent people of color	Proportion of adults working	Percent people in poverty
St. Paul	44.1%	68.2%	24.2%
Minneapolis	39.7%	69.1%	23.3%
Twin Cities region	23.7%	74.1%	11.3%
Minnesota overall	16.9%	74.3%	11.6%

Data obtained from Minnesota Compass, found at <http://www.mncompass.org/index.php>.

This is troubling because of Minnesota’s devastating racial disparities in employment. Black people are experiencing the worst employment disparities in the nation: the most recent data from the Economic Policy Institute in Washington, D.C., shows that black workers are 3.3 times more likely to be unemployed than white people in the Twin Cities.<sup>7</sup> Other races are not faring much better. Hispanics, Southeast Asians, and American Indians are significantly less likely to be employed than whites in Minnesota. In fact, only 53 percent of American Indian people participate in Minnesota’s workforce, a statistic that is often obscured by the fact that comparative data from other regions is not available. The unemployment rate for white people, on the other hand, is lower in the Twin Cities than in the nation as a whole. If subsidy programs are designed to employ the people who need jobs most, communities with large populations of color should be at the top of the list.

	Proportion of adults working in Minnesota 2008-2010
White	78.3%
Hispanic	70.3%
Southeast Asian	65.8%
Black (foreign born)	64.8%
Black (U.S. born)	57.1%
American Indian	53.0%

Data obtained from Minnesota Compass, found at <http://www.mncompass.org/index.php>.

Of course, just because jobs move farther away from communities of color doesn’t mean people of color can’t obtain those jobs; many people make long commutes to work. But the issue is complicated by the fact that as jobs move outward, workers of color

are the least likely to be able to access them. Linking people of color to disparate job centers is difficult in the Twin Cities because they are four times more likely to be transit-dependent than whites. Our region’s transit system, while expanding, still isn’t extensive enough to allow many people to access suburban and exurban jobs<sup>8</sup> Good Jobs First’s analysis found that 70 percent of the subsidies studied moved jobs to locations where driving was the only commuter choice, effectively eliminating many people of color’s ability to keep or compete for employment.<sup>9</sup>

### Fiscal Disparities Act Attempted to Curb Intra-Regional Competition

To their credit, Minnesota lawmakers identified the problem of intra-regional competition decades ago and put a system in place to combat its effects. In 1971, the Minnesota Legislature passed the Charles R. Weaver Metropolitan Revenue Distribution Act. More commonly known as the Fiscal Disparities Act,

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the law attempted to equalize the tax base disparities in the Twin Cities region by requiring each municipality to redistribute 40 percent of its incremental growth in commercial industrial property tax revenue among the region’s cities, school districts and counties.<sup>10</sup> The effect has been to redistribute some of the tax base from the burgeoning southern and western suburbs to the rest of the region. The law made the Twin Cities region one of the national leaders in progressive policy to eliminate fiscal disparities between intraregional cities.

But thanks to urban sprawl, the Fiscal Disparities Act is not as effective as it could be. When the Fiscal Disparities Act was passed, the Twin Cities metropolitan area was only comprised of seven counties. Forty years later, the region has 11 counties, and for all practical purposes also includes two adjacent Wisconsin counties. The region has grown, but the policy has not been altered to reflect the metro area’s actual size. This means that the furthest-fringe suburban counties get to keep 100 percent of additions to their tax base, while the original seven metro counties must share 40 percent of their tax base increases.

The obvious fix to this problem would be to expand the Fiscal Disparities Act to the full metro area. But because the law is unpopular in tax-rich counties, there has not been enough political will to expand its reach. As a result, the most distant and least diverse areas of the metro area have the strongest fiscal incentive to attract jobs and tax base from the rest of the region.

	Percent people of color
Metropolitan counties included in the Fiscal Disparities Act	19.4%
Metropolitan counties exempt from the Fiscal Disparities Act	4.4%

Based on the MN-WI 13-county MSA. Data obtained from the U.S. Census Bureau American Community Survey Demographic and Housing Estimates, Five-Year Estimates 2006-2011.

## Planning, Coordination and Attention to Equity Could Improve Subsidy Policy

Corporate subsidies aren't designed to help eliminate racial employment disparities, but perhaps they should be. When choosing to subsidize private enterprise, our public policymakers have a special

obligation not to harm the public. Designing our subsidy policy with race in mind could provide a double bottom line by simultaneously catalyzing job growth and closing the employment gap.

If we don't take a more strategic and coordinated approach, residents of core areas will keep paying taxes to fund the relocation of jobs away from their communities. And with thousands of people of all races out of work, we must invest in proven job creation strategies and proactively target communities that need jobs the most. In the Twin Cities, that means those policies must have clear strategies for benefiting people of color.

Our economy depends on the success of all of our residents. The national equity group PolicyLink predicts that by 2040, a majority of people in our nation will be of color.<sup>12</sup> As our nation, our state and our region become more diverse, our overall economic security is tied more than ever to the prosperity of people of color. To end our region's long-standing racial disparities, we must talk openly about how our public policies contribute to them, intentionally design policies to address them and strategically invest in programs that will benefit everyone. ■



### Alliance for Metropolitan Stability

A coalition of grassroots organizations that advances racial, economic and environmental justice in growth and development patterns in the Twin Cities region.

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## Sources

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<sup>2</sup> David Shaffer and Glenn Howatt. *Where are the Jobs?* Minneapolis Star Tribune. March 30, 2011. Retrieved July 25, 2012, at <http://www.startribune.com/investigators/118656869.html?refer=y>.

<sup>3</sup> Ibid.

<sup>4</sup> Office of the Legislative Auditor, State of Minnesota. *Evaluation Report: JOBZ Program*. February 2008.

<sup>5</sup> Greg LeRoy and Karla Walter. *The Thin Cities: How Subsidized Job Piracy Deepens Inequality in the Twin Cities Metro Area*. Good Jobs First, December 2006, p. 1.

<sup>6</sup> Ibid, p. 16.

<sup>7</sup> Algernon Austin. *Black Metropolitan Unemployment in 2011*. Economic Policy Institute. Retrieved July 25, 2012, at <http://www.epi.org/publication/ib337-black-metropolitan-unemployment/>.

<sup>8</sup> LeRoy and Walter, p. 15.

<sup>9</sup> Ibid, p. 11.

<sup>10</sup> Myron Orfield. *MetroPolitics: A Regional Agenda for Community and Stability*. Brookings Institution Press, 1997, p. 64.

<sup>11</sup> Joe Mahon. *Are economic development incentives doing their JOBZ?* Federal Reserve Bank of Minneapolis FedGazette. October 1, 2010. Retrieved July 25, 2012, at [http://www.mpls.frb.org/publications\\_papers/pub\\_display.cfm?id=4556](http://www.mpls.frb.org/publications_papers/pub_display.cfm?id=4556).

<sup>12</sup> Sarah Treuhaft, Angela Glover Blackwell and Manuel Pastor. *America's Tomorrow: Equity is the Superior Growth Model*. Retrieved July 25, 2012, at [http://www.policylink.org/atf/cf/%7B97c6d565-bb43-406d-a6d5-eca3bbf35af0%7D/SUMMIT\\_FRAMING\\_SUMMARY\\_WEB.PDF](http://www.policylink.org/atf/cf/%7B97c6d565-bb43-406d-a6d5-eca3bbf35af0%7D/SUMMIT_FRAMING_SUMMARY_WEB.PDF).

<sup>1</sup> LeRoy and Walter, p. 14-15.

<sup>1</sup> Algernon Austin. *Working Twice as Hard: African Americans and the American Labor Market*. Economic Policy Institute. September 1, 2010. Retrieved July 25, 2012, at [http://metrostability.org/efiles/Austin\\_MCF.pdf](http://metrostability.org/efiles/Austin_MCF.pdf).

<sup>1</sup> Good Jobs First. *Subsidy Tracker*. Retrieved July 25, 2012, at <http://www.goodjobsfirst.org/subsidy-tracker/mn-mape-usa>.