Business Incentives and Minority Employment

September 1982

A report of the Wisconsin Advisory Committee to the United States Commission on Civil Rights prepared for the information and consideration of the Commission. This report will be considered by the Commission, and the Commission will make public its reaction. In the meantime, the findings and recommendations of this report should not be attributed to the Commission, but only to the Wisconsin Advisory Committee.

THE UNITED STATES COMMISSION ON CIVIL RIGHTS

The United States Commission on Civil Rights, created by the Civil Rights Act of 1957, is an independent, bipartisan agency of the executive branch of the Federal Government. By the terms of the act, as amended, the Commission is charged with the following duties pertaining to discrimination or denials of the equal protection of the laws based on race, color, religion, sex, age, handicap, or national origin, or in the administration of justice: investigation of individual discriminatory denials of the right to vote; study of legal developments with respect to discrimination or denials of the equal protection of the law; appraisal of the laws and policies of the United States with respect to discrimination or denials of equal protection of the law; maintenance of a national clearinghouse for information respecting discrimination or denials of equal protection of the law; and investigation of patterns or practices of fraud or discrimination in the conduct of Federal elections. The Commission is also required to submit reports to the President and the Congress at such times as the Commission, the Congress, or the President shall deem desirable.

THE STATE ADVISORY COMMITTEES

An Advisory Committee to the United States Commission on Civil Rights has been established in each of the 50 States and the District of Columbia pursuant to section 105(c) of the Civil Rights Act of 1957 as amended. The Advisory Committees are made up of responsible persons who serve without compensation. Their functions under their mandate from the Commission are to: advise the Commission of all relevant information concerning their respective States on matters within the jurisdiction of the Commission; advise the Commission on matters of mutual concern in the preparation of reports of the Commission to the President and the Congress; receive reports, suggestions, and recommendations from individuals, public and private organizations, and public officials upon matters pertinent to inquiries conducted by the State Advisory Committee; initiate and forward advice and recommendations to the Commission upon matters in which the Commission shall request the assistance of the State Advisory Committee; and attend, as observers, any open hearing or conference which the Commission may hold within the State.

Business Incentives and Minority Employment

-- A Report prepared by the Wisconsin Advisory Committee to the U.S. Commission on Civil Rights

ATTRIBUTION:
The findings and recommendations contained in this report are those of the Wisconsin Advisory Committee to the United States Commission on Civil Rights and, as such, are not attributable to the Commission. This report has been prepared by the State Advisory Committee for submission to the Commission and will be considered by the Commission in formulating its recommendations to the President and Congress.

RIGHT OF RESPONSE:
Prior to publication of a report, the State Advisory Committee affords to all individuals or organizations that may be defamed, degraded, or incriminated by any material contained in the monograph an opportunity to respond in writing to such material. All responses received have been incorporated, appended, or otherwise reflected in the publication.

LETTER OF TRANSMITTAL

Wisconsin Advisory Committee
U.S. Commission on Civil
September 1982

MEMBERS OF THE COMMISSION
Clarence M. Pendleton, Chairman
Mary Louise Smith, Vice Chairman
Mary F. Berry
Blandina Cardenas Ramirez
Jill S. Ruckelshaus
Murray Saltzman

John Hope III, Acting Staff Director

Dear Commissioners:

The Wisconsin Advisory Committee submits its report Business Incentives and Minority Employment as part of its responsibility to advise the Commission on civil rights matters within the state.

The state of Wisconsin, particularly the industrial communities in and around Milwaukee, have suffered from the consequences of economic decline now so familiar to many residents in the snowbelt and in cities around the nation. Racial minorities and women have endured a disproportionate share of the burden. The administration's program for economic recovery relies on financial incentives to the private sector to create productive, job-generating investment activity. The program is said to be particularly critical for minority communities. This report examines the implications of this business incentive approach to economic revitalization for racial minorities and women.

The Committee examined changes in minority employment in one state - South Carolina - which has long practiced this philosophy of economic development. In addition the Committee studied a business incentive program - industrial revenue bonds (IRB's) - recently implemented in Wisconsin. (Industrial revenue bonds are essentially federally subsidized loans for private businesses).

The major finding of this report is that racial minorities and women have not received a fair share of the jobs which have been created by incentive programs. In addition, the Committee found that this approach is simply not very effective in creating jobs. While the number of jobs in South Carolina has grown in recent years, racial minorities are underutilized in those businesses which moved into or were born in that state. Wisconsin, which has also experienced a net increase in total jobs, exhibited a similar pattern as minorities in the new businesses were employed at a rate below their representation in the private sector in that state. Despite the net increase statewide, the Milwaukee area suffered a reduction in jobs. Among those Milwaukee firms which ceased operations, minority employment was actually higher than among private firms generally in the city. A similar pattern was found for those South Carolina firms that closed down. So minorities did not receive an equitable share of new jobs that were created but they lost a disproportionate share of jobs as a result of shutdowns.

More significant is the pattern of minority and female utilization in Wisconsin firms receiving industrial revenue bond financing. According to state legislation authorizing IRB's a central objective of the program is to generate jobs in economically depressed communities. That legislation prohibits employment discrimination in bond projects. However, in a sample of Milwaukee firms receiving IRB's for which data were available, racial minorities and women were underutilized in 75 percent, minority and female employment was less than one-half their representation in the respective industries in that city in 25 percent, and the U.S. Equal Employment Opportunity Commission had issued reasonable cause notices of race or sex discrimination against 25 percent.

Among the recommendations of the Committee are the following:

- Congress, the state of Wisconsin, and any municipality in that state providing financial assistance as an incentive to private businesses should require recipients of such aid to meet equal opportunity requirements similar to those of Federal contractors under Executive Order 11246.

- The Equal Employment Opportunity Commission and the Office of Federal Contract Compliance Programs should jointly promulgate regulations that expressly address the discriminatory consequences of plant closings and relocations.

- Congress and the state of Wisconsin should enact legislation similar to several bills introduced at both the Federal and state levels in recent years that would protect employees, residents, and communities generally from the social costs of plant closings and economic dislocation.

- The U.S. Commission on Civil Rights should conduct a nationwide study of the impact of capital mobility and business incentives on minority and female employment.

Implementation of these recommendations would further the objective of equal employment opportunity and expedite the economic recovery sought by all. Economic growth, in and of itself, will not guarantee equal opportunity and that growth will not be achieved simply through tax breaks and other financial incentives to private industry. We strongly urge the Commission to aggressively pursue these recommendations of the Wisconsin Advisory Committee.

Respectfully,

Herbert Hill, Chairperson
Wisconsin Advisory Committee

MEMBERS
WISCONSIN ADVISORY COMMITTEE
U.S. COMMISSION ON CIVIL RIGHTS

Herbert Hill, Chair
Madison

Antonio L. Baez, Vice Chair
Milwaukee

Sara J. Bales
Green Bay

Ben Barkin
Milwaukee

Vivi Dilweg
Green Bay

Patricia Gorence
Milwaukee

Shirley Mae Hill
Onieda

Lynn E. Hughes
Milwaukee

Thomas J. King
Madison

Ann Peckham
Madison

Thomas B. Shropshire
Milwaukee

Betty Smith
Madison

Paul T. Spraggins
Milwaukee

ACKNOWLEDGMENTS

The Wisconsin Advisory Committee to the U.S. Commission on Civil Rights thanks the staff of our Commission's Midwestern Regional Office in Chicago, Illinois for its assistance in the preparation of this report.

This report was written by Gregory D. Squires, research/writer. Research assistance was provided by Thomas A. Lyson of Clemson University who also wrote Chapter III of the report. Herbert Hill, chair of the Wisconsin Advisory Committee, critically reviewed each draft and made valuable contributions to the final work. Ruthanne DeWolfe, consultant/expert, provided vital legal and editorial assistance. Invaluable assistance was also provided throughout the project by Delores Miller, Ada L. Williams, Mary K. Davis, support staff, and Bridget O'Berry, summer student.

The project was coordinated by Carmelo Melendez, civil rights analyst and staff to the Wisconsin Advisory Committee. The project was carried out under the supervision of Clark G. Roberts, regional director.

TABLE OF CONTENTS

Chapter I

Equal Opportunity in a Declining Economy

> State and local officials last week did not persuade any Wisconsin industries to come to South Carolina, but did "sow seeds of future harvests," said the executive director of the Newberry County Chamber of Commerce and Development Board....The industries contacted during the two-day stay were very complimentary of South Carolina and its business climate.[1]

At a time when many racial minorities are trapped in an endless depression and the nation's economy sputters from one recession to the next, public officials are increasingly looking toward the private sector to resolve these and related social problems. At all levels of government, public officials are offering a variety of financial incentives (e.g., tax abatements, industrial revenue bonds, (IRB's) investment credits, guaranteed loans) in hopes of stimulating economic growth by attracting industry, generating new jobs, and increasing employment opportunities for non-white workers. According to one count, the number of state and local financial incentive programs offered in the United States increased from 284 to 426 between 1966 and 1975.[2]

While these programs prove quite costly to public treasuries, at least in the short run - the Congressional Budget Office has estimated that the Federal government will lose $2.8 billion over the next five years as a result of industrial revenue bond tax exemptions,[3] it is not at all clear that they are in fact producing a net increase in jobs. For example, when the city of Columbus, Ohio attracted a hydraulic pump manufacturer from West Germany on the strength of a tax abatement, the Abex Corporation, a competitor, was forced out of business. No net increase in jobs resulted and the city lost substantial tax revenues.[4] Frequently, state and local governments find themselves offering financial incentives as a defense mechanism; not to provide an advantage over neighboring locations but simply to keep up with the competition. As the Madison, Wisconsin Director of Administation, Andre Blum stated, "You need it to compete, because everybody else has it."[5] Under these circumstances, of course, the anticipated growth does not occur (though the location of some jobs may change), the public treasury is further depleted, municipal services decline (which does not improve the "business climate") and some private sector organizations receive an unintended subsidy.

The policies of the current administration look to the private sector for the resolution of economic and related social problems to a far greater extent than past administrations. A critical, yet unexamined question that arises is how well do racial minorities and women fare relative to white males in firms that benefit from such financial incentives? As national economic policy shifts towards the public provision of incentives to the private sector to stimulate growth, it is imperative that the civil rights implications of such a policy be examined.

Several states, particularly in the south,[6] have in fact been practicing this kind of economic policy for several years. At the same time, the northeast quadrant of the country has suffered economic decline as have major cities around the nation. This study examines the employment opportunities of minorities and women in a typical "sunbelt" state (South Carolina) and "snowbelt" state (Wisconsin) to assess the civil rights implications of the "business incentive" approach to economic development. South Carolina was selected because it is widely recognized as having what the private sector considers one of the most favorable business climates in the nation.[7] As the South Carolina State Development Board proudly proclaims, "We provide new and expanding industry a flock of incentives and existing industry a tax climate that promotes profit."[8] Wisconsin, although hailed by the <u>Wall Street Journal</u>

as the star of the snowbelt,[9] has experienced industrial flight. And while Business Week praises Milwaukee for having "avoided most of the problems that have plagued other aging industrial cities,"[10] a closer examination reveals otherwise. This two-state case study will provide at least a preliminary assessment of the civil rights implications of what appears to be an emerging national policy for increasing minority and female job opportunities and for economic development in general.

Deteriorating Economic Status of Minorities and Women and the Federal Response

The past decade has not been good economically as almost everyone, from Business Week to the National Welfare Rights Organization, would agree. In the 1970s, U.S. manufacturers lost 23 percent of their share of the world export market following a 16 percent drop in the 1960s. During the 1970s the U.S. lost at least two million industrial jobs and experienced a drop in the rate of productivity growth. From 1948 to 1968, output per hour worked increased at an annual rate of 3.2 percent. From 1968 to 1973, productivity increased at an annual rate of 1.9 percent. And for the subsequent six years, it dropped to 0.7 percent.[11] If the nation's economy is faltering, the economic status of many minorities and women has reached crisis proportions as, once again, these difficulties fall unduly on their shoulders. In the words of Vernon Jordan, former President of the National Urban League, "half of all black Americans today are boat people without boats."[12] A few statistics illustrate the grim picture.

Between 1968 and 1980, the nation's official unemployment rate increased from 3.6 percent to 7.1 percent. For non-whites, however, the increase was much greater, from 5.6 percent to 13.3 percent compared to 3.2 percent and 6.3 percent for whites. In other words non-whites were slightly less than twice as likely to be unemployed than whites in 1968, but they were more than twice as likely to be unemployed in 1980.[13] And according to the Urban League, actual black unemployment in 1980 was closer to 25 percent,- taking into consideration the underemployed and discouraged workers - almost twice the official figure.[14] The female/male unemployment ratio actually declined, from 1.66 to 1.07 as did the Hispanic/white unemployment ratio between 1976 and 1980 from 1.66 to 1.60.[15] Other economic indicators were not so favorable for these two groups, however.

The earnings gap between white males and other groups has been maintained or has increased in recent years. Betwen 1967 and 1977, the median non-white family income as a percentage of white income declined from 59 percent to 57 percent.[16] During those years, the earnings of year-round full-time female workers compared to male workers remained virtually unchanged at just under 60 percent of male earnings.[17] And for Hispanics, median income dropped from 71 percent to 68 percent of comparable white income between 1972 and 1978.[18] While the number of poor people increased from 24.1 million to 24.5 million between 1969 and 1978, the increase was much greater among minorities and women. The ratio of the percentage of non-white poor to white poor increased from 3.39 to 3.52.[19] Comparable figures for women between 1970 and 1977 were 1.26 and 1.30 and for female headed families they were 4.58 and 5.76.[20] In other words, in 1970, female headed families were more than four and one-half times as likely than male headed families to be poor and in 1977 they were almost six times as likely to be poor. For Hispanics, the ratio declined between 1972 and 1978 from 2.53 to 2.48.[21]

In the face of the declining economic status of minorities and women, the current administration has recommended easing several civil rights requirements and has proposed spending cuts in civil rights enforcement efforts. In addition, it is calling for severe cutbacks in several social programs launched in efforts to improve the economic status of minorities and women and to protect basic constitutional rights of all citizens.[22]

A number of civil rights policy changes appear to be in the offing. The Attorney-General has already stated that the Justice Department will no longer pursue school busing as a remedy for segregated schools or affirmative action plans with numerical goals as remedies for employment discrimination.[23] The affirmative action requirements of Executive Order 11246 may be reduced or eliminated for some government contractors, and the order itself may be rescinded. Regulations may be issued requiring more stringent evidence of intent to support a violation of the Federal fair housing law.[24] According to the administration's 1983 budget proposals, the five principal Federal civil rights enforcement agencies will have 1,630 fewer staff positions and $51.3 million less spending power (a reduction of almost 25 percent) than in 1980.[25] Those agencies and the proposed staffing levels as a percentage of the 1980 authorized positions include the Equal Employment Opportunity Commission, 87 percent, Office of Federal Contract Compliance Programs of the U.S. Department of Labor, 66 percent, Civil Rights Division of the U.S. Department of Justice, 88 percent, Office for Civil Rights of the U.S. Department of Health and Human Services, 90 percent, and Office for Civil Rights of the U.S. Department of Education, 64 percent.[26]

The U.S. Commission on Civil Rights has concluded that: "...the proposed FY'83 budget would support neither critical enforcement activities nor the administration's own stated civil rights enforcement objectives...[it] is a new low point in a disturbing trend of declining support for civil rights enforcement that, unless halted, could leave our Federal civil rights laws little more than devalued pieces of paper."[27]

The administration has also proposed eliminating the Legal Services Corporation and the Economic Development Administration, and has already eliminated the Community Services Administration. Additional budget cuts have also been proposed for such programs and agencies as Title I of the Elementary and Secondary Education Act, Emergency School Aid Act, Bilingual Education Act, Small Business Administration programs aiding minority-owned enterprises, federally assisted housing programs, community health centers, and CETA.[28] Other areas to be cut include the National Endowment for the Humanities, National Institute for Mental Health, social science research, food stamps, school lunches, mass transportation, and others.[29] According to the Leadership Conference on Civil Rights the service cuts and tax policies projected by the administrtion will have particularly deleterious effects minority families largely because these proposals favor the wealthy (who are predominantly white) at the expense of the poor (who are disproportionately minority). For the years of 1981 and 1982, the net impact of tax and benefits changes will be to reduce by $560 the income of families earning under $10,000 and to increase by $15,025 the income of those earning over $80,000.[30] Planned tax cuts will reduce the average white household tax bill in 1983 by $1,019 compared with $542 per black household. Comparable figures for 1984 will be $1,369 and $632. [31]

This contradiction between the declining economic status of racial minorities and women and proposed cutbacks in civil rights enforcement and social spending is not the result of administration prejudice, insensitivity, or unfamiliarity with the facts. Rather, it flows directly from the administration's stated central domestic concern; restoring the economic vitality of the nation and its constituent parts. And its approach for doing so has been clearly delineated. Simply put, private industry must be provided with incentives (i.e., tax cuts and deregulation) to stimulate investment and, in turn, economic growth. Economic growth is the key to resolving not just the nation's economic problems, but its social problems - including discrimination -as well.

This approach to economic development was articulated by Business Week in its special issue "The Reindustrialization of America:"

> The leaders of the various economic and social groups that compose U.S. society should agree on a program for reindustrialization and present that program to Washington....Business, labor, and academic leaders should establish a forum to hammer out a new social contract for the U.S. Special groups must recognize that their own unique goals cannot be satisfied if the U.S. cannot compete in world markets. The drawing of a social contract must take precedence over the

> aspirations of the poor, the minorities, and the environmentalists. Without such a consensus, all are doomed to lower levels of living, fewer rights, and increasingly dirty air and water.[32]

In an earlier, and perhaps more candid observation Business Week acknowledged, "...it will be a hard pill for many Americans to swallow, the idea of doing with less so that big business can have more."[33]

Economic Decline, Uneven Development, and Civil Rights

For several years, state officials in South Carolina have implemented policies consistent with the current administration's economic philosophy. On the cover of a brochure entitled "Taxes in South Carolina," the State Development Board advises: "In South Carolina we know that healthy business is the goose that lays the golden egg. So we've developed special tax incentives to keep the goose alive."[34] The Greeneville Chamber of Commerce boasts that its community offers "a 'Right-to-Work' state with the lowest work stoppage rate and smallest organized work force."[35] Related advantages are: a progressive, pro-business climate; serious, dedicated, easily trainable and exceptionally productive labor force that still believes in the old fashioned work ethic; active conservative political support; and lower taxes.[36]

Specifically the South Carolina tax package features the following:

The fifth lowest per capita tax burden in the nation;

Exemption of all inventory taxes on stored goods moving into interstate commerce. Goods may be assembled, bound, joined, processed, disassembled, divided, cut, broken in bulk, relabeled or repackaged and still be exempt from inventory taxes no matter how long such goods are warehoused;

No manufacturer's inventory taxes. All inventories not sold or available for sale at retail, including raw materials, goods-in-process and finished goods, are exempt from taxation;

No state real or personal property tax;

Five year county property tax exemption for all new or newly expanded manufacturing facilities except for those levied for public schools and special taxes;

Sales tax exemption for all manufacturing production machinery, repair parts, industrial electricity and materials which become an integral part of the finished product;

Local property tax exemptions for all air and water pollution control and abatement equipment;

No wholesale sales tax;

Seven year carryover of net operating losses for new businesses and five year carryover for all other businesses;

Usage of IRS regulations on deductions for depletion and depreciation for state income tax purposes.[37]

In recent years several businesses have taken advantage of these attractions. Between 1970 and 1979, the number of business establishments in South Carolina grew by 35 percent compared to 29 percent nationwide. The number of private sector employees grew by 41 percent in South Carolina compared to 30 percent for the U.S.[38] Available research suggests, however, that racial minorities have not shared in the general economic growth of the sunbelt.[39]

Such growth does not occur in a vacuum. To a significant extent the prosperity that South Carolina and other sunbelt cities have enjoyed has been at the expense of Wisconsin and other snowbelt states. The Wall Street Journal, Busines Week, and others praise the state of Wisconsin's economy noting such favorable statistics as an increase of 47,000 jobs between 1972 and 1979, including a net gain of 22,800 manufacturing jobs in 1979. Yet this picture overlooks a very real process of disinvestment that is occuring in the Milwaukee area and the southeast industrial belt from Kenosha to Sheboygan.

During those same eight years the industrial corridor lost 4,000 jobs.[40] Between 1968 and 1975, 76 Milwaukee firms employing over 16,000 workers shut down, reduced operations, or moved out of the city.[41] According to William Ryan Drew, Commissioner of Milwaukee's Department of City Development, the city lost 52,000--jobs 35,000 in manufacturing--between 1967 and 1974. Over 1000 firms relocated from city to suburban locations in Milwaukee, Racine, and Kenosha.[42] Between 1967 and 1978, manufacturing employment declined by 9 percent in Milwaukee County. As a proportion of total employment in the city, manufacturing employment declined from 50 percent in 1960 to 30 percent in 1981.[43] Additional statistics provided by the state Department of Development indicate that between 1976 and 1980 Wisconsin gained over 32,000 new jobs due to relocations from other states, expansions of firms headquartered in Wisconsin or in other states, and new businesses.[44] However, the state lost just over 10,000 jobs due to plant closings and out-of-state relocations, with the vast majority of losses due to closings.[45] No data are available for the number of jobs created by Wisconsin based firms in other states or for job losses resulting from contractions of Wisconsin businesses. The net gain--approximately 22,000 jobs--overlooks a substantial job loss in the southeast industrial corridor. For example, the city of Milwaukee gained 1,726 jobs from relocations, expansions, and new businesses, but lost 2,175 from plant closings.

The fact that total employment in Wisconsin is increasing, principally as a result of growth in service industries, does not offset the problems created by the manufacturing decline in the southeast portion. For one thing, those individuals who lose their jobs in manufacturing are rarely the same individuals who get the service related positions. Even if they were, service jobs are lower paid, provide fewer benefits, and have less security--in part because they are less likely to be in union shops--than manufacturing jobs. In essence, this represents a shift of wealth and power from organized blue collar workers to corporate interests. A major cause of the movement of business from the "snowbelt" to the south and to foreign locations is the pursuit of lowr labor costs and a union-free labor force.[46] For example, after Allis-Chalmers built new plants in every southern state except Georgia as well as in Mexico, Colombia, and Argentina, reducing employment in the Milwaukee facility from 20,000 to 3,700 and in other northern facilities, company spokesman David Scott stated, "We've either got to get away from the U.A.W. or get out of the business.[47]

Allen-Bradley, another household word in Milwaukee, has also looked southward (North Carolina, Texas, and Mexico) in its recent expansion activity. In addition it has looked to suburban Milwaukee and rural Wisconsin where wages are lower and unions are scarcer.[48] (During 1968, the Allen-Bradley Company, a major United States government contractor, received nationwide attention as civil rights advocates repeatedly held public demonstrations to protest against this company's discriminatory employment practices.[49] After complaints were filed with the Office of Federal Contract Compliance, the U.S. Department of Labor conducted an extensive investigation with public hearings and concluded that the company was in violation of Federal equal employment contract requirements.[50] Although the investigative panel urged that Allen-Bradley be denied government contracts, the Labor Department instead negotiated an agreement which had only a limited effect in obtaining compliance.[51] An interesting aspect of this case is that the labor union representing workers employed by Allen-Bradely, the United Electrical, Radio and Machine Workers (U.E.), had for many years acquiesced in the discriminatory pattern despite the much proclaimed civil rights policy of the union's leftist national leadership.)[52]

Altogether, the city of Milwaukee's share of metropolitan area employment has declined from 66 percent to 44 percent since 1960.[53] These developments have been particularly problematic for Milwaukee's black community. Between 1950 and 1980, Milwaukee County's white suburban population remained over 98 percent of the total while the white proportion of the city declined from 96 percent to 73 percent. Between 1950 and 1970, the unemployment rate in the city as a proportion of the suburban rate has increased from 1.30 to 1.67 while the median family income of city residents has declined from 88 percent to 81 percent of the suburban median.[54] In December 1977 the <u>New York Times</u> noted that in Milwaukee, "the official unemployment rate for black adults is 19.8 percent, the highest rate for blacks in the nation, while the rate for white adults is 5.3 percent, one of the lowest in the country."[55]

There are many reasons, of course, for the pattern of uneven development that the United States has experienced in recent years. The financial incentives provided by South

Carolina and other states no doubt have been an attraction for the Wisconsin and other snowbelt firms that have relocated or expanded in the sunbelt. One factor which has taken on added significance recently in light of the administration's apparent flexibility regarding anti-trust regulations involves the accelerated conglomerate merger activity of the past decade.

Contrary to popular beliefs, enterprises with declining profits or growing losses are not the only ones that close down or relocate. In many instances, a subsidiary of a conglomerate will be shut down because it did not achieve profit levels arbitrarily determined by the parent corporation as necessary for further operation. In other cases, what appears to be a losing proposition is little more than the result of the subsidiary being used as a "cash cow" by the parent corporation. That is, revenues generated by the subsidiary are drained off by the parent, adequate reinvestment in that subsidiary does not occur, and ultimately the business "fails." This process appears to account for the now infamous shutdown of the Campbell Works of Youngstown, Ohio's Sheet and Tube Company, rather than "natural" market forces, government regulations, or foreign competititon as the parent company, Lykes Corporation, originally contended.[56] According to some this process is also responsible for the closing of Milwaukee's North Avenue Sears department store whose revenues were utilized to finance suburban stores. And recently seven percent of Pabst was purchased by a Minnesota business representative nicknamed "Irwin the Liquidator" known for his buying of companies strictly for the purpose of liquidating their available capital.[57]

Also contrary to conventional wisdom it is small firms which are generating most new jobs. Between 1960 and 1976 over two-thirds of all new jobs created in the United States were in firms with less than 20 employees. Companies with over 500 employees created only 13 percent of all new jobs.[58]

Wisconsin has not escaped these developments. The number of Wisconsin firms taken over by out-of-state conglomerates went from 22 in 1977 to 32 the following year. (In fact, by 1978, multinational corporations headquartered outside of Wisconsin, and in some cases outside the country, controlled more employment in the state than locally owned firms.) In 34 of these 54 companies 1978 employment was 3,714 employees below the average level of employment for the three years prior to the mergers. According to a study by Anderson/Roethle and Associates, management consultants specializing in mergers and acquisitions, there were 110 corporate consolidations involving Wisconsin companies in 1981 resulting in a net outflow of corporate control over capital of $4.27 billion in sales. This compares with a net loss of $49 million in 1977, $287.9 million in 1978, and $706.8 million in 1980. In 1979, there was a net in-flow of $416.3 million. And there are several more mergers in the works for 1982, according to the consulting firm's report.[59]

Among the consequences for local communities of such outside control are the following: movement of banking and other financial functions to new headquarters; loss of professional services (e.g., legal, accounting, insurance); reduction in economic expansion; reduced commitment to non-profit organizations and other community activity; erosion of tax base; and conflict between local managers and stockholders.[60] Again, the net increase in jobs within the state camouflages a downward economic trend for the state of Wisconsin.

State and local officials in Wisconsin are aware of the economic difficulties facing their communities and they have responded with their own business incentives. The following excerpt from Wisconsin's industrial revenue bond act reveals that awareness and how at least some public officials intend to resolve these difficulties:

> It is found and declared that industries located in this state have been induced to move their operations in whole or in part to, or to expand their operations in, other states to the detriment of state, county and municipal revenue raising through the loss or reduction of income taxes, real estate and other local taxes, and thereby causing an increase in unemployment; that such conditions now exist in certain areas of the state and may well arise in other areas; that economic insecurity due to unemployment is a serious menace to the general welfare of not only the people of the affected areas but of the people of the entire state; that unemployment results in

> obligations to grant public assistance and in the payment of unemployment compensation; that the absence of new economic opportunities has caused workers and their families to migrate elsewhere to find work and establish homes, which has resulted in a reduction of the tax base of counties, cities and other local governmental jurisdictions impairing their financial ability to support education and other local governmental services; that security against unemployment and the preservation and enhancement of the tax base can best be provided by the promotion, attraction, stimulation, rehabilitation and revitalization of commerce, industry and manufacturing; that there is a need to stimulate a larger flow of private investment funds from banks, investment houses, insurance companies and other financial institutions. It is therefore declared to be the policy of this state to promote the right to gainful employment, business opportunities and general welfare of the inhabitants thereof and to preserve and enhance the tax base by authorizing municipalities to acquire industrial buildings and to finance such acquisition through the issuance of revenue bonds for the purpose of fulfilling the aims of this section and such purposes are hereby declared to be public purposes for which public money may be spent and the necessity in the public interest for the provisions herein enacted is declared a matter of legislative determination....
>
> It is found and declared that the revitalization of the central business districts of the municipalities of this state is necessary to retain existing industry in, and attract new industry to, this state and to protect the health, welfare and safety of residents of this state.[61]

Since 1973, over 1000 projects have been funded with industrial revenue bonds (IRBs) worth over $1.6 billion.[62] (IRBs are issued by a municipality on behalf of a business seeking to build or expand. Because earnings from the bonds are exempt from Federal income tax, investors are willing to accept a lower rate of return. Therefore, IRB's reduce the amount of interest that businesses must pay when financing a project.) In addition to attracting new businesses and facilitating expansion of existing firms, such financing is also viewed as a vehicle to stimulate investment in economically depressed neighborhoods, generally urban centers with substantial minority populations.

State guidelines prohibit discrimination in employment and subcontracting. They also forbid the use of IRB's for construction of facilities that would be used to discriminate in access or employment on the basis of race, creed, sex, handicap, ethnic origin, age, or marital status.[63] However, there is no mechanism in place for state regulation of the IRB program.[64]

A municipality can waive the non-discrimination provision by adopting a statement giving the reasons for the waiver.[65] According to Milwaukee officials involved in administering IRB's and leading bond counsels in that city, municipalities frequently do waive the clause and, in some cases, develop a separate written agreement to assure non-discrimination. The principal reason for this procedure is to assure that the financing of the IRB is not delayed up and to assure that bond purchasers are not punished for alleged or real acts of discrimination by the companies receiving the IRB financing. Because of the ambiguity of the non-discrimination provision, some concern has been expressed that frivolous legal actions could forestall the issuance of a bond. Waiving this provision in accordance with state guidelines avoids this eventuality. Waiving the non-discrimination clause is not, therefore, an action taken to permit discrimination or subvert civil rights requirements. In fact, part of the rationale often provided when the clause is waived is the belief that it adds no substantive rights not already protected by other civil rights laws. Without the waiver, however, litigation, whether meritorious or not, could discourage investors and possibly prohibit sale of the bond. When the clause is not waived or a separate nondiscrimination agreement is executed, companies are obligated to comply with their pledge of non-discrimination. Compliance is difficult to monitor, however, because companies are not required to report or even maintain records pertaining to the demographic characteristics of their work force.[66]

According to the Wisconsin Department of Development, in the first six years of the program projects financed by IRB's have created over 11,000 new manufacturing jobs, expanded health care facilities and environmental protection efforts, and generally contributed to the economic growth of the state.[67] Others have drawn different conclusions. According to one report, 90 percent of all projects financed by IRB's were in-state relocations: no new jobs were created for Wisconsin residents.[68] The same report concluded that while five IRB financed projects represented moves into the city of Milwaukee, another 31 were relocations out of the city. Other concerns noted by the state's Legislative Audit Bureau are: the growing loss to the Federal treasury resulting from the tax exemption granted IRBs; the possibility that some of the benefits associated with IRBs would have occured without these bonds; appropriateness of using public support to provide a competitive advantage to selected private enterprises; and failure of municipalities in reviewing IRB projects to assure they are being used for the stated purposes. In one case, a banker-real estate developer-attorney millionaire arranged for his village board to issue a $600,000 IRB to finance a new building for his bank. According to the village resolution, the project was to be located in a blighted area. Instead, it was built in a subdivision he was developing on the outskirts of town. This same individual served as the attorney representing both the bank and the village in negotiating the terms of the bond.[69]

Yet the push for additional incentives goes on, perhaps, as Andre Blum suggested, simply to keep up with what everyone else is doing.[70]

The flight of capital from the snowbelt to the sunbelt is part of a much larger process of uneven development that involves far more than inter-regional relocations of businesses. In fact the movement of capital, jobs, and people to the sunbelt is more a consequence of the far greater growth in the number new firms and the expansion of existing firms in that region. While some companies do move their entire operations from the Northeast to the South, such relocations account for a relatively small part of the growth of the South and decline of the Northeast. Another dimension of capital mobility is relocation or expansion within states and regions, and more importantly from central cities to their suburbs. At the other extreme is the flight of some corporations out of the country altogether. Perhaps most devastating, however, is the simple shutdown of some businesses.[71]

To assess the impact of business incentives and the concomitant economic dislocation on employment opportunities for minorities and women, this report examines the effects of such developments in one sunbelt and one snowbelt state - South Carolina and Wisconsin. In addition, minority and female participation in one specific government supported incentive effort - Wisconsin's industrial revenue bond program - is examined. The findings suggest what may well be the consequences for minority and female job opportunities of the administration's current economic policy and general approach to domestic social problems.

----

[1] Greenville News, Apr. 26, 1982.
[2] Barry Bluestone and Bennett Harrison, Capital and Communities: The Causes and Consequences of Private Disinvestment (Washington, D.C.: The Progressive Alliance, 1980), p. 225 (hereafter cited as Capital and Communities).
[3] Marc Eisen, "Revenue Bonding Grows More Popular," Isthmus, June 13, 1980 (hereafter cited as "Revenue Bonding").
[4] Capital and Communities, p. 240.
[5] "Revenue Bonding."
[6] For purposes of this study, unless otherwise noted, the South or sunbelt includes: Texas, Oklahoma, Arkansas, Alabama, Mississippi, Georgia, Florida, South Carolina, North Carolina, Virginia, Tennessee, Kentucky, Maryland, Delaware, West Virginia, and Louisiana. The northeast or snowbelt includes: Pennsylvania, New York, New Jersey, Connecticut, Rhode Island, Massachusetts, Vermont, New Hampshire, Maine, North Dakota, South Dakota, Nebraska, Kansas, Minnesota, Iowa, Missouri, Wisconsin, Illinois, Indiana, Ohio, and Michigan.
[7] A Study of Manufacturing Business Climates of the Forty-Eight Continuous States of America: 1980. Alexander Grant and Company, prepared in cooperation with the Conference of State Manufacturers' Associations. Richard B. McKenzie, "The Case for Plant Closures," Policy Review, Winter 1981.
[8] South Carolina 1981 Industrial Directory, South Carolina State Development Board, back cover.
[9] Barbara Zack Quindel, "National and International Context of Runaway Shops," talk given at Institute for Community Education Conference in Milwaukee, Spring 1981 (hereafter cited as "Context of Runaway Shops"), p. A-7.
[10] Business Week, Dec. 24, 1979, cited in Peter E. Marchetti, "Runaways and Takeovers: Their Effect on Milwaukee's Economy," Urbanism Past and Present, Summer 1980 (hereafter cited as "Runaways and Milwaukee's Economy"), p. 1.
[11] Business Week, special issue "The Reindustrialization of America," June 30, 1980 (hereafter cited as "Reindustrialization of America"), pp. 6, 10.
[12] Vernon E. Jordan, Jr., letter soliciting support for the National Urban League, May 1981.
[13] Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor (hereafter cited as CPS), 1968 and 1980.
[14] Vernon E. Jordan, Jr., "Introduction," The State of Black America 1981 (New York: National Urban League, Inc., 1981), p. v.
[15] CPS, 1968 and 1980. "Noticias de la Semana," U.S. Department of Labor, Apr. 10, 1981.
[16] U.S. Bureau of the Census, Current Population Reports, Special Studies Series, P-23, No. 80, "The Social and Economic Status of the Black Population in the United States: An Historical View, 1970-1978," 1979 , pp. 31, 189.

[17]U.S. Bureau of the Census, Current Population Reports, Special Studies Series, P-23, No. 100, "A Statistical Portrait of Women in the United States: 1978," 1980 (hereafter cited as "Portrait of Women"), p. 73.
[18]U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 123, "Money Income of Families and Persons in the United States: 1978," 1980, pp. 50, 51.
[19]U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 124, "Characteristics of the Population Below the Poverty Level: 1978," 1980 (hereafter cited as "Poverty Level"), p. 2.
[20]"Portrait of Women," pp. 80, 81.
[21]"Poverty Level," p. 2.
[22]U.S. Commission on Civil Rights, Civil Rights: A National, Not a Special Interest June 25, 1981, (hereafter cited as National Interest).
[23]According to the Leadership Conference on Civil Rights the U.S. Department of Justice under the current administration has failed to enforce the civil rights laws as passed by Congress and interpreted by the courts, thus cooperating "in the corruption of the legal process by allowing decisions to be shaped by appeals from politicians not based on law." (Leadership Conference on Civil Rights, "Without Justice: A Report on the Conduct of the Justice Department in Civil Rights in 1981-82 " Feb. 1982.) The Justice Department rejected these charges as untrue and asserted it has "clearly manifested a strong commitment to the enforcement of a broad array of federal civil rights statutes." (U.S. Department of Justice, "The Civil Rights Policy of the Department of Justice: A Response to the Report of the Leadership Conference on Civil Rights," Apr. 1982.
[24]Clark G. Roberts, "Do Civil Rights Have a Future?" Speech delivered at conference entitled "Law and Social Changes," Muncie, Indiana, June 18, 1981 (hereafter cited as "Civil Rights Future").
[25]U.S. Commission on Civil Rights, The Federal Civil Rights Enforcement Budget: Fiscal Year 1983, June 1982, pp. 6, 64.
[26]Ibid., pp. 53, 44, 33, 25, 15.
[27]Ibid., pp. 67, 68.
[28]National Interest.
[29]"Civil Rights Future."
[30]"News," Leadership Conference on Civil Rights, May 4, 1982.
[31]John Carl Scholz, "The Racial Implications of the 1981 Tax Act," paper prepared for symposium of the Leadership Conference on Civil Rights, May 4, 1982, p. 4.
[32]"Reindustrialization of America," p. 27.
[33]Quotation cited in Richard Flacks, "Populism in Search of the People," Working Papers, Jan/Feb 1981, p. 27.
[34]"Taxes in South Carolina," State Development Board, Oct. 1980 (hereafter cited as "Taxes in South Carolina").

[35] Do These High Technology Companies Know Something You Don't?, undated publication obtained from the Greenville Chamber of Commerce.
[36] "Do These Companies Know Something You Don't," undated brochure obtained from the Greenville Chamber of Commerce.
[37] "Taxes in South Carolina."
[38] U.S. Bureau of the Census, County Business Patterns 1970, CBP-70-1, 1971. U.S. Bureau of the Census, County Business Patterns 1979, CBP-79-1, 1981.
[39] Robert D. Bullard, "Black Housing and the Quality of Life: Persistent Barriers," paper presented at the First Oliver C. Cox Lecture Series, John F. Kennedy School of Government, Harvard University, Mar. 19, 1981, p. 11. Ray Marshall, Rural Workers in Rural Labor Markets (Salt Lake City: Olympus Publishing Co., 1974) Chapter 3.
[40] "Context of Runaway Shops," pp. A-7, 8.
[41] "Runaways and Milwaukee's Economy," p. 1.
[42] Steve Horowitz, "The Decline of the Midwest: Part Three - Economic Realities Far From Truth," The Milwaukee Community Journal Feb. 11-Feb. 18, 1981 (hereafter cited as "Decline of Midwest"), p. 7.
[43] "Runaways and Milwaukee's Economy," p. 1. Jack Norman, presentation at Institute of Community Education Conference "Who Rules Milwaukee," April 1981 (hereafter cited as Norman presentation), p. 1.
[44] Data supplied by Wisconsin Department of Development, Commission files.
[45] Roger M. Nacker, Director of Research, Bureau of Research, Wisconsin Department of Development, telephone interview, Feb. 22, 1982.
[46] Capital and Communities.
[47] "Runaways and Milwaukee's Economy," p. 2. Norman presentation, p. 2.
[48] Norman presesntation, p. 2.
[49] "Allen-Bradley Accused of Bias," Milwaukee Journal, Mar. 19, 1968. Part 2, p. 2, "Allen-Bradley Ignores LBJ," Milwaukee Star, May 18, 1968, p. 4, "Allen-Bradley Readies Negotiation Team," Milwaukee Sentinel, June 1, 1968, p. 1, "Allen-Bradley Gets Warning on Bias," Milwaukee Journal, August 6, 1968, p. 24, "Youth Council March Pushes Job Demand," Milwaukee Sentinel, August 8, 1968, p. 4, "Groppi Vows Long Struggle, "Milwaukee Journal, August 8, 1968, p. 12, "Groppi Demands Hearing," Milwaukee Journal, August 14, 1968, Part 2 p. 1.
[50] "Bias Hearing Opens,"Milwaukee Sentinel, August 21, 1968, p. 2, see also James E. Jones, Jr., "Federal Contract Compliance in Phase II - - The Dawning of the Age of Enforcement of Equal Employment Obligations," Georgia Law Review Vol. IV, June 1970, p. 756.
[51] Secretary of Labor Decision, "In Matter of Allen-Bradley Co.," OFCC Docket No. 101-68, August 1969, cited in Government

Contracts (Washington, D.C.: U.S. Government Printing Office, 1973) paragraph 2746, June 14, 1972, "Plan Accepted by Secretary of Labor," Government Contracts (Washingon, D.C.: U.S. Government Printing Office, 1973) paragraph 1624, Mar. 22, 1973.

[52]For an interesting discussion see Donald T. Critchlow, "Communist Unions and Racism: A Comparative Study of the United Electrical, Radio and Machine Workers and the National Maritime Union to the Black Question During World War II,"Labor History, Vol. XVII, 1976, pp. 230-244.

[53]"Decline of Midwest," p. 6.

[54]Ronald S. Edari, "The Structure of Racial Inequality in the Milwaukee Area," in John P. Blair (ed.) Milwaukee's Economy (Federal Reserve Bank of Chicago, 1978) (Hereafter cited as "Racial Inequality in Milwaukee), pp. 88, 97, 101. U.S. Bureau of the Census, Advance Reports PHC80V051, 1980 Census of Population and Housing - Wisconsin, 1981.

[55]Ben A. Franklin, "For Blacks, Milwaukee Proves a Hard Place to Find a Job," New York Times, Dec. 31, 1977.

[56]Capital and Communities, Chapters IV, V. William Foote Whyte, "In Support of the Voluntary Employee Ownership and Community Stabilization Act," Mar. 20, 1978. Robert H. Hayes and William J. Abernathy, "Managing our way to economic decline," Harvard Business Review July-August 1980.

[57]"Context of Runaway Shops," pp. A-8, B-4(b).

[58]David Birch, "The Job Generation Process," M.I.T. Program on Neighborhood and Regional Change," 1979 (hereafter cited as "Job Generation").

[59]Ray Kenny, "State Seen as Loser in Acquisitions," Milwaukee Journal, Jan. 18, 1982.

[60]"Runaways and Milwaukee Economy," pp. 4-6.

[61]Wis Stat. Sec. 66.521 (1)(a)(c).

[62]Industrial Revenue Bond Projects by County and Municipality, Feb. 19, 1982, Wisconsin Department of Development. Roger Nacker, telephone interview, Mar. 4, 1982.

[63]Wis. Stat. Sec. 66.521(11)(b)1.

[64]Roger Nacker, telephone interview, Mar. 8, 1982. Pat Walsh, Urban Development Coordinator, city of Milwaukee, telepone interview, Mar. 8, 1982 (hereafter cited as Walsh inteview).

[65]Wis. Stat. Sec. 66.521(11)(b)2.

[66]Walsh interview. Stephen Richman, attorney, Quarles and Brady, telephone interview, Mar. 8, 1982. Richard Weiss, attorney, Foley and Lardner, telephone interview, June 22, 1982.

[67]"Economic Impact of Industrial Revenue Bond Usage in Wisconsin," Wisconsin Department of Development, May 1980.

[68]Margaret Thompson, "Municipal Bonds Set Up Industrial Checkerboard," ECO Bulletin, June 1980.

[69]Tom Loftus, State Representative, testimony presented to Subcommittee on Oversight of the Committee on Ways and Means, U.S. House of Representatives, "Small Issue," Industrial

Development Bonds (Washington, D.C.: U.S. Government Printing Office, 1981), pp. 946-7.

[70] "Revenue Bonding."

[71] "Job Generation." _Capital and Communities_. Illinois Advisory Committee to the U.S. Commission on Civil Rights, _Shutdown: Economic Dislocation and Equal Opportunity_, June 1980.

Chapter II

Reindustrialization and Minority Employment

"Reindustrialization" is widely accepted as the key to revitalizing the nation's economy and as a first step toward resolving major social problems, particularly the job plight facing minorities and women. Though certainly not without its critics this theme has been echoed by the nation's top policymakers, leading intellectuals, and the popular press.

Economic growth, the principal objective of this approach, requires that the United States modernize its industrial plant and become more competitive in the international economy. The focus of economic policy, according to this perspective, must shift from distribution of existing wealth to the creation of greater wealth.

In his address to Congress on economic recovery, President Reagan justified his administration's program on the grounds that it was "essential...to make America competitive once again in the world market."[1] And according to one of his economic advisors, Stanford University's Michael J. Boskin, "The group in the population with the greatest stake in a pro-growth set of economic policies, even if that means temporary sacrifice by slowing social spending, is blacks."[2]

To achieve that growth, economic policy and resources must shift from the stimulation of demand or consumption to the stimulation of supply or investment, hence the popular term "supply-side economics."[3] In other words, additional incentives are necessary to encourage individuals and businesses to save, invest, and produce. Without those incentives, savings and investment capital will continue to dwindle, entreprenuers will not be able to operate profitable businesses, and the number of jobs will decline. Perhaps most importantly, entrepreneurship itself will be stifled. In his Wealth and Poverty (described by the head of the Reagan transition team as "a brilliant book that will serve as an inspiration and guide for the new administration"),[4] George Gilder argued that since "wealth is a product less of money than of mind,"[5] the key to economic growth is to unleash the entrepreneurial spirit. A willingness to work hard, take risks, and have faith in the future are the qualities that must be encouraged to increase the nation's wealth. Entrepreneurship is particularly vital to the economic salvation of blacks according to Gilder.

By incentives, advocates of supply-side economics generally point to tax cuts and deregulation. Such policies, it is claimed, will increase the propensity for work, saving and entrepreneurial risk-taking on the part of individuals, and productive, job creating investment by business. The resulting economic growth will yield larger tax revenues despite the lower tax rates. In its recent Governor's Task Force on the Economy, the state of South Carolina explicitly endorsed this philosophy. In noting that "Government must help provide the incentives to entice new industry to locate here and existing industry to expand here" the report calls for a "tax structure and investment incentive program...in line with neighboring states" (South Carolina's property tax on manufacturing plants is one of the highest among southeastern states according to the report), and in recognition of the state's "massive regulatory costs," a matching of "regulatory reform at the Federal level with similar reform at the State level."[6]

While such incentives are critical for economic growth generally, they are particularly important for the revitalization of the most depressed areas, notably the predominantly black inner city neighborhoods of major metropolitan areas. In the words of Congressman Jack Kemp (R-NY):

> ...economic activity is at present deterred by government actions -- especially taxation and regulation. These actions discourage would-be entrepreneurs and others who would otherwise go into business in these areas. Therefore, a significant rollback of taxation and counter-productive regulation in such areas should create new opportunity for economic activity.[7]

It is interesting to note that, according to the South Carolina report, one barrier to attracting new industry to that state's black communities is "concern about the propensity of Blacks to join labor unions and to be involved in other related labor relations problems."[8]

The supply-side approach to economic development calls for government to get out of the way of the private sector. This is reflected in the President's 1981 program for economic recovery (reiterated in his 1982 "State of the Union" speech) which contains four fundamental elements: (1) reductions in personal tax rates and business taxes; (2) social spending cuts and other measures to reduce the budget deficit; (3) reductions in the burden and the intrusion of Federal regulations; and (4) a new commitment to a stable monetary policy.[9] Such a Federal posture represents a sharp change from the past 40 years in which government has actively intervened in efforts to solve social problems. The turnabout is justified by the administration and its supporters on the grounds that "the government's job is <u>not</u> to divide up prosperity and poverty. It is to encourage the first and attack the second."[10] In addition, "The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change."[11]

Blacks stand to gain the most by freeing up the market according to supply-side advocates.[12] They argue that regulations such as minimum wage laws, rent controls, and occupational licensing reduce options available to people in the private economy with minorities suffering the most. Gilder claims that government agencies, including civil rights enforcement offices, foster dependence and stifle what he views as the principal hope of the black community, the greater aggressiveness and leadership qualities of men which he asserts are biologically determined.[13] Since, according to Gilder, entrepreneurship is the source of wealth, and males possess those traits conducive to the entrepreneurial spirit, it is the male who represents the potential salvation of the black community. Feminism, therefore, hinders black economic advance since "The main impact of feminism is to take jobs and promotions away from these men and give them to educated women."[14] Though few others share Gilder's biological analysis, he is not alone in lamenting the debilitating dependency-inducing effects of government social programs.[15]

If there is any single public policy proposal that epitomizes the business incentive or supply-side approach it would be the enterprise zone concept. Enterprise zones were originally introduced in England to generate economic growth in that nation's urban centers. Many United States policymakers, business leaders, and academicians have endorsed this proposal as a free enterprise solution to economic development and job creation in depressed areas. Essentially it calls for local, state and Federal officials to designate selected neighborhoods as enterprise zones which are considered to be economically depressed on the basis of unemployment, poverty and related demographic data. A variety of taxes and regulations are reduced or waived altogether for businesses that locate or expand in such areas or employ a given number of areas residents.[16]

Under the administration's proposal, released in March of 1982, the U.S. Department of Housing and Urban Development would be empowered to designate 25 zones per year, selected from areas nominated by both state and local governments. For most firms located in the zones 75 percent or more of the corporate income tax and all capital gains taxes would be eliminated. Zones also designated as "foreign trade zones" would be provided relief from tariffs and duties. Employers would also receive a 10 percent income tax credit for payroll paid to qualified zone employees in excess of payroll paid to such employees in the year prior to zone designation and a 50 percent income tax credit for wages paid to employees who were disadvantaged when hired. Employees would receive a five percent income tax credit for wages earned in the zone. In addition, industrial revenue bonds would be available to small businesses within zones even if such bonds become unavailable elsewhere. Regulatory agencies would be given discretion to relax or eliminate requirements not mandated by Federal law. However, this would not apply to minimum wage or civil rights requirements or other regulations where relaxation would harm public safety or health.

Eligibility for zone designation would be based on several factors including the unemployment rate and poverty status of the area, commitments made by local private entities, and incentives offered by state and local governments. Such incentives - that is further tax and regulatory relief - could include easing or elimination of zoning laws, occupational licensure requirements, building codes, usury laws, price controls, and permit requirements. In addition, state and local governments could provide tax incentives or contracts to private sector organizations - businesses or neighborhood associations - to provide services on a competitive basis that are ordinarily provided by government monopolies. Examples include garbage collection, road repair, and day-care.[17] For some supporters of the enterprise zone concept these proposals do not go far enough because they leave intact such requirements as the minimum wage and most occupational safety and environmental regulations.[18]

Dissenting Opinions

Despite the consensus which has emerged over the business incentive approach to economic development, support has not been unanimous. Criticism has emerged from academic, government, and even business circles. The basic criticisms are that such incentives are premised on faulty assumptions and policies built on those assumptions therefore will not lead to the desired results: they will exacerbate rather than resolve current economic problems. That is, supply-side economic policies will not increase productivity or create jobs and they will result in a transfer of wealth from lower income to higher income (and therefore from minority to non-minority) groups.

Supply-side advocates base their analysis on a faulty psychological assumption regarding the behavior of large and small business executives and investors according to some critics. In response to the notion that business executives require additional incentives in order to work harder to find profitable incentives John Kenneth Galbraith concluded, "Whatever the faults of our affluent, no one has ever doubted a certain diligence in their effort to get more."[19]

Critics acknowledge that planned reductions in Federal jobs, business incentives, and particularly increased defense spending will add some private sector jobs. Administration estimates project that while 300,000 Federal jobs will be eliminated by 1984, these losses will be offset by gains in the private sector. But as economists Martin Carnoy and Derek Shearer contend, those who lose their Federal jobs will not be the same individuals who obtain the new ones. Minorities and women will be hurt the most by Federal job reductions while white males will benefit disproportionately from the technical and executive positions to be created in the private sector, primarily in defense related corporations.[20]

The business incentive school fails to recognize the contributions to productivity resulting from regulation some critics contend. In her review of several annual reports of major corporations, Ruth Ruttenberg found that government regulation is frequently a major stimulus for the creation of new products, new jobs, and basic technological innovation. Union Carbide, American Cyanamid, 3M, DuPont, Kaiser Aluminum, Monsanto, and Atlantic Richfield are just some of the corporations that boast of past profits and future opportunities from products developed in response to health, safety, and environmental regulations.[21]

More directly, the linkages between taxation and regulation with economic growth have been challenged. It is noted that the nations which have surpassed the U.S. in productivity growth (e.g., Japan and several Western European countries, particularly West Germany) generally have higher personal and corporate tax rates, more extensive government regulation, higher government expenditures, and a less unequal distribution of income.[22]

Some business representatives see advantages to certain government regulations that, if eliminated as currently proposed, would actually worsen the business climate. In response to an Illinois state enterprise zone proposal, the owner of one Chicago television repair shop said, "I don't think I'd want freedom from regulation. I don't want to put money into something and then have a dirty-book store come in next door." In reference to that same proposal, others claim that while the tax breaks might be welcome, the incentives are not sufficient for them to open a shop in a neighborhood that customers would be afraid to enter.[23]

Economist Robert Lekachman claims the President's program for economic recovery is riddled with internal contradictions and, therefore, is doomed to fail.[24] Lekachman notes that in seeking to achieve the goal of a stable monetary policy the supply of money, and therefore credit, is restricted. These restrictions cause interest rates to rise, which discourages borrowing for investment. Therefore, investment activity anticipated as a result of the tax cuts cannot occur. As a result, new jobs are not created. Small businesses which create most new jobs simply cannot afford to borrow at such high rates while large corporations who can afford to do so direct their investments towards conglomerate mergers and takeovers rather than job generating endeavors. The tax cuts therefore constitute a drain on the Federal treasury in both the short and long runs. Declining revenues, coupled with the administration's increased defense expenditures force the Federal government into increased deficit spending. Such borrowing further restricts the supply of credit available to the private sector and exacerbates the vicious cycle.

The most fundamental attack on the philosophical underpinnings of the business incentive approach is the argument that current economic woes are rooted in the absence of adequate public control over capital investment. According to this agrument the severe public costs associated with private capital allocation, particularly when shutdowns and relocations occur (e.g., job losses, decline in local tax bases and municipal services, rising mental and physical health problems, rising crime and other social disorders, exacerbation of racial tensions and inequalities), require greater public control rather than decreased public involvement.[25] M.I.T. economist Lester C. Thurow suggested, "The lack of government planning, worker participation, and social spending may in fact be at the heart of our poor performance in recent decades."[26]

The impact of existing business incentives is frequently cited as evidence that this approach will not achieve the anticipated results. While over two-thirds of the tax free financing in the past 20 years has gone to companies employing 5,000 or more people, more than two-thirds of new jobs have been created by firms employing 20 or fewer people. So the financial incentives have generally been going to those who create few jobs while those who do generate new jobs receive little aid.[27] It is argued that at best, such incentives amount to little more than "smokestack chasing" where existing jobs may move from one area to another, or jobs that would have been created anyway may be attracted to the community offering the most attractive financial picture. The dollar value of such incentives is rarely sufficient to encourage an employer to pack up and relocate. But if a relocation or expansion is already under consideration, a package of financial incentives offered by a particular community may attract that employer, according to this perspective. One result is that municipalities and states compete with each other for available jobs providing an unintended subsidy for the private sector, and either reducing public services or increasing the non-business taxes of the community. In addition, virtually no package of incentives can match the subsistence wages paid in many foreign countries that are already attracting many American corporations. Most importantly, few new jobs are created.[28]

Another difficulty that has been attributed to the business incentive approach, and particularly the President's proposal for economic reform, is that such policies are unfair to the northeastern and midwestern states (particularly the urban communities), and are ultimately detrimental for the nation as a whole. These economic development proposals would, it is argued, exacerbate the regional biases of Federal spending, tax policies, and regulatory activity of the post-World War II decades.[29] In addition, they would expedite the deterioration of major metropolitan areas creating massive social costs in the wake of increasing unemployment and racial tensions.[30]

If additional capital became available to the private sector, recent investment activity indicates that such funds would not necessarily be used for productive, job generating endeavors according to some critics. The steel industry, for example, has been using its available capital to increase non-steel holdings in recent years.[31] Much capital that would be available for productive investment has been utilized instead to finance conglomerate mergers resulting in the change of ownership but in no new production or jobs.[32] Speculative investments such as gold, real estate, and rare works of art divert additional capital.[33] And uncertainties about the future has caused many investors to purchase short-term financial instruments like treasury bills and certificates of deposit rather than invest in new plants and equipment.[34] For these reasons, critics contend that across the board tax breaks aimed at increasing the supply of capital for investment will not lead to the desirable job-producing investment activities.

A related criticism is that the nation's current economic decline is primarily attributable more to management decision-making rather than government regulation, tax policy or related concerns frequently cited by the business community. By focusing on short-term profits United States business managers have neglected research and development activities and other factors related to long-term technological competitiveness. This shortsightedness, it is argued, has hurt nobody more than the business community itself.[35]

Perhaps the most direct critique of the business incentive or supply-side approach to economic development is that, as with trickle-down theories generally (a term which even the chief architect of supply-side policies acknowledges characterizes this approach[36]), nothing trickles down. Whereas trickle-down theories assume that as total wealth increases all groups including the poorest, become richer, in this case wealth has actually flowed from the poor to the rich accordiing to some critics. Contrary to what the theory predicts, there is evidence that tax incentives for private businesses, deregulation, and reduced Federal expenditures for social programs actually result in a flow of wealth from lower and middle income consumers and workers to upper income owners of capital and other stockholders.[37] Slashing social programs creates downward pressures on wages as workers' fears of unemployment grow. Reduced wages means higher profits which, Columbia University's Frances Fox Piven and Richard A. Cloward argue, is the ultimate objective of the administration's chief supporters.[38] Arthur Schlesinger, Jr. has concluded, "class warfare is the direction in which the 'neo-conservatism' of the Reagan administration is taking us."[39]

Whether called supply-side economics, business incentives, or reindustrialization, current Federal economic policies are being criticized as detrimental to employment opportunities of racial minorities and women as well as to the economic vitality of entire communities, particularly minority neighborhoods.

---

[1]Ronald Reagan, "Address by the President to a Joint Session of Congress on a Program for Economic Recovery," Feb. 18, 1981 (hereafter cited as "Address by the President"), p. 7.

[2]"A Guide to Understanding the Supply-Siders," Business Week, Dec. 22, 1980 (hereafter cited as "A Guide to the Supply-Siders"), p. 78.

[3]"A Guide to the Supply-Siders," pp. 76-78. Ronald Reagan, Donald Regan, David Stockman, and Murray Weidenbaum, "Remarks of the President at Breakfast With Editors," Feb. 19, 1981, pp. 1-9.

[4]George Gilder, Wealth and Poverty (New York: Basic Books, Inc., 1981) (hereafter cited as Wealth and Poverty), back cover.

[5]Wealth and Poverty, p. 54.

[6]Governor's Task Force on the Economy, undated (hereafter cited as Task Force), pp. 5, 33, 51,52.

[7]Jack Kemp, "News Release" June 3, 1981 (hereafter cited as "News Release"), p. 3.

[8]Task Force, p. 23.

[9]Summary Fact Sheet: The President's Economic Program, Feb. 18, 1981. "Excerpts from President's Address," Chicago Sun-Times, Jan. 27, 1982.

[10]"The Urban Jobs and Enterprise Zone Act: Some Questions and Answers," undated document supplied by the office of Rep. Jack Kemp (hereafter cited as "Questions and Answers").

[11]"Address by the President," p. 9.

[12]"A Guide to the Supply-Siders," p. 78. Thomas Sowell, "The Uses of Government for Racial Equality," National Review, Sept. 4, 1981, pp. 1009-1016. John E. Peterson, "War on Poverty: His Bill Would Lure Jobs to Inner-Cities," The Detroit News, May 26, 1980. "Questions and Answers." Thomas Sowell, Ethnic America (New York: Basic Books, 1981) (hereafter cited as Ethnic America). Walter Williams, "Government Sanctioned Restraints that Reduce Economic Opportunities for Minorities," Policy Review, Fall 1977.

[13]Wealth and Poverty, pp. 135, 135,

[14]Wealth and Poverty, p. 137.

[15]Ethnic America.

[16]"The Administration's Enterprise Zone Proposal," Office of the Press Secretary, The White House, Mar. 23, 1982 (hereafter cited as "Administration Proposal"). Peter Tropper, "Enterprise Zones: A Push From The 'Invisible Hand' For America's Cities," Northeast-Midwest Institute, July 1981.

[17]"Administration Proposal."

[18]"Greenlining in Detroit," The Wall Street Journal, July 18, 1980.

[19]John Kenneth Galbraith, "And Let's Not Weep for the Rich," Chicago Tribune, June 28, 1981.

[20]Martin Carnoy and Derek Shearer, "Reaganomics: The Supply Side of the Street," The Nation, Nov. 7, 1981.
[21]Ruth Ruttenberg, "Regulation is the Mother of Invention," Working Papers, May/June 1981.
[22]Lester Thurow, "The Myth of the American Economy," Newsweek, Feb. 14, 1977 (hereafter cited as "The Myth"). Lester Thurow, The Zero-Sum Society: Distribution and the Possibilities for Economic Change (New York: Basic Books, 1980). Mark Green, "Reagan's Cowboy Capitalism," The Nation, March 7, 1981.
[23]"Enterprise Zone: Latest Way to Fight Urban Blight," Chicago Tribune, Sept. 10, 1981.
[24]Robert Lekachman, Greed is Not Enough: Reaganomics (New York: Pantheon Books, 1982).
[25]Illinois Advisory Committee to the U.S. Commission on Civil Rights, Shutdown: Economic Dislocation and Equal Opportunity, 1981.
[26]"The Myth."
[27]David Birch, "The Job Generation Process," M.I.T. Program on Neighborhood and Regional Change, 1979, p. 8. Ralph Nader and Jerry Jacobs, "Battle to Lure Industry Costly," Chicago Tribune, Nov. 12, 1979. William Street, "Better Late Than...Myths of Economic Development," Plant Closings Bulletin, Summer 1981 (hereafter cited as "Better Late").
[28]Bennett Harrison and Sandra Kanter, "The Great State Robbery, Working Papers, Spring 1976. Jeremy Rifkin and Randy Barber, The North Will Rise Again: Pensions, Politics and Power in the 1980s (Boston: Beacon Press, 1978). "Better Late." Stanley Aronowitz and Cary Goodman, "Ghetto Enterprise Zones: A Walk on the Supply Side," The Nation, Feb. 21, 1981.
[29]Thomas Bender, "The Carter Urban Report: A Nation of Immigrants to the Sun Belt," The Nation, Mar. 28, 1981. "Unfairness in Reagan Plan," Chicago Sun-Times, Feb. 24, 1981. "A Review of the Office of Management and Budget's 'Regional Analysis of the President's Economic Recovery Program,'" Northeast-Midwest Institute, April 24, 1981.
[30]Felix Rohatyn, "Reagan's Strategy Doesn't Go Far Enough," Chicago Sun-Times, Feb. 24, 1981. Felix Rohatyn, "Reconstructing America," The New York Review of Books, Mar. 5, 1981.
[31]Staughton Lynd, "Reindustrialization: Brownfield or Greenfield?," Democracy, July 1981. Robert H. Hayes and William J. Abernathy, "Managing our way to economic decline," Harvard Business Review, July-August 1980. (hereafter cited as "Managing").
[32]Robert B. Reich, "Alternative to Supply Side: The True Road to Industrial Renewal," The Nation, Mar. 7, 1981.
[33]John Judis, "The Way the World Doesn't Work," Working Papers, May/June 1981.
[34]"Supply-Side Economics," Monthly Review, Mar. 1981.
[35]"Managing."

[36]William Greider, "The Education of David Stockman," The Atlantic Monthly, Dec. 1981.
[37]Michael I. Luger, "Some Micro-Consequences of Macro-Policies: The Case of Business Tax Incentives (BTIs)," unpublished paper scheduled to appear in Proceedings of the National Tax Association, 1981.
[38]Frances Fox Piven and Richard A. Cloward, "Social Programs: Keeping Labor Lean and Hungry," The Nation, Nov. 7, 1981.
[39]Arthur Schlesinger, Jr., "Neo-Conservatism and the Class Struggle," The Wall Street Journal, June 2, 1981.

Chapter III

Business Incentives, Economic Dislocation, and Equal Opportunity

For the past few decades sunbelt states have experienced substantial economic growth while the snowbelt states have stagnated or declined, in part as a consequence of the host of financial incentives offered by southern communities to private businesses. South Carolina is perhaps the best known state for this approach to economic development. In recent years most snowbelt states have introduced their own incentives in efforts to compete with growth areas and bolster their sagging economies. Few outright relocations from one region of the country to another have occured. The South has out paced the North principally as a result of a far greater increase in the number of new firms and expansions of existing businesses, many of which are headquartered in snowbelt states including Wisconsin. Relocations do occur but generally within regions, particularly from central cities to the respective suburban rings. Such uneven regional development has many costs. The new business that one community gets is sometimes a business that another has lost. More critical is the number of firms that simply shut down.

To asses the impact of business incentives on minority and female employment this chapter examines the labor force composition by race and sex of firms in South Carolina and Wisconsin which between 1975 and 1980 were involved in the following types of developments; closures or relocations out of state (the vast majority of these were closures); new businesses and relocations into the state (the majority of which were new businesses - either new operations or new branches of existing firms); and relocation between Milwaukee and that city's suburbs. In addition minority and female employment in those Milwaukee firms benefiting from a business incentive program recently implemented in Wisconsin -industrial revenue bonds (IRB's) - is also examined.

Data collected by the Equal Employment Opportunity Commission (EEOC) and information supplied by the state of Wisconsin are used to address these two issues. The EEOC data are taken from EEO-1 reports that must be filed annually by any company with 100 or more employees or any firm with 50 or more workers and Federal government contracts worth $50,000 or more. Each EEO-1 report breaks down a company's employment by race and sex according to a nine category occupational scheme.[1] The report also provides the name and address of the establishment, and in the case of branch plants, the name of the parent company. By matching identification numbers[2] on reports filed in two different years, it is possible to identify companies that have shut down, the birth of new companies or branch plants, and firms that have moved from one location to another. In this report data from the EEO-1 reports filed in 1975 and 1980 are used.

There are several limitations of these data that must be acknowledged. First, because of the cost, the present analysis is confined to only two states, Wisconsin and South Carolina. Obviously plant closings and relocations along with the business incentive approach transcend these two states. Second, the time frame is restricted to the years 1975 through 1980, even though the issues of concern in this report have been debated for at least the past two decades. Nevertheless, in this five year time span a sufficient number of companies closed, began operations, or relocated to permit preliminary conclusions about the impact of business incentives and the subsequent capital mobility on employment opportunities for racial minorities and women.

A third limitation concerns the nature of the EEOC data. Less than two percent of all private businesses (60 thousand out of 35 million) employing 65 percent of all private sector employees (42 million out of 65 million) are required to submit EEO-1 reports. Further, about 20 percent of the companies required by law to complete EEO-1 reports do not file reports in a given year. Therefore the EEO-1 data base for the present analysis is taken from a survey which covers slightly over half of the private sector work force.[3]

A fourth limitation is the fact that the EEO-1 reports contain no information on why companies open, close, expand, or relocate. That is, motive or intention cannot be discerned directly from these reports. If a group of firms took a particular investment decision in order to be closer to raw materials or markets, to avoid unionized workers, to evade equal opportunity requirements, or for any other reason or combination of reasons, they cannot be determined solely on the basis of EEO-1 reports.

The most obvious omissions are small firms. Yet the smaller firms constitute a significant proportion of all relocations, births, and deaths.[4] The result of this omission is to produce a more conservative set of results than would have been obtained from a total universe of companies.

Information about the recipients of IRB's in Milwaukee was obtained from the Department of Development and the Office of the Governor of the State of Wisconsin. This list of IRB recipients includes the name of the firm receiving the IRB, the location of the company, and the amount received. By matching names from the IRB list to information on the EEO-1 reports, the effect of this particular business incentive on minority and female employment can be ascertained.

There are some limitations of the IRB data that must also be acknowledged. First, not all IRB recipients have filed EEO-1 reports. Smaller firms (i.e., under 100 employees except for those with 50-99 employees and federal contracts worth $50,000 or more) are generally missing. Second, the date the IRB was issued is not known. Consequently, the length of time a firm was operating with IRB financing is not known. Finally, while the EEO-1 tapes provide data on the race and sex composition of a firm's work force, changes, if any, in this composition brought about by IRB financing cannot be determined.

Despite these qualifications, the following analysis constitutes a systematic exploration of the effects of business incentives and the concommitant plant closings, relocations, births, and branch expansions on minority and female employment in a frostbelt and a sunbelt state. Further, this analysis represents the first attempt to document the effects of an increasingly popular business incentive on minority and female employment.

FINDINGS

Table 1 presents an overview of the relevant characteristics of the employed civilian work force in South Carolina, Wisconsin, the Milwaukee SMSA,[5] the city of Milwaukee, and the Milwaukee suburbs. These data are from unpublished reports from a 1980 Current Population Survey supplied to us by the Bureau of Labor Statistics (referred to as BLS in the tables) and from the 1975 and 1980 EEO-1 tapes (referred to as EEOC-75 and EEOC-80 in the tables).[6] The information in Table 1 defines the general characteristics of state, city, and suburban labor markets (according to the BLS), and the characteristics of the work force of the firms that are required to submit EEO-1 reports. Together, the figures in Table 1 serve as the basis of comparison for the findings presented in the subsequent tables.

As might be expected, according to both the BLS estimates and the EEOC-75 and EEOC-80 aggregate data, South Carolina has the higher proportion of minority workers in the study areas, over one-quarter of all workers in that state. The city of Milwaukee also contains a substantial number of minority workers, about 17 percent according to BLS. The work force

Table 1. Race and Sex Composition of Labor Force According to BLS Estimates and EEO-1 Reports.

		All Workers				Prof/Tech/Manage		
		Employment (N)	Minority (%)	Female (%)	Female Minority (%)	Minority (%)	Female (%)	Female Minority (%)
South Carolina (total)	BLS	1,216,000	26.4	43.3	12.7	11.6	37.8	5.8
	EEOC75	421,790	24.8	40.3	10.6	5.9	22.1	2.6
	EEOC80	479,285	27.5	43.5	12.9	8.3	26.3	3.3
Wisconsin (total)	BLS	2,232,000	3.6	43.2	1.6	2.0	36.0	.8
	EEOC75	679,491	6.4	36.6	2.2	2.4	25.7	.8
	EEOC80	770,626	7.4	40.5	3.1	3.2	31.7	1.2
Milwaukee (city)	BLS	291,000	16.8	45.0	7.9	9.3	41.3	4.1
	EEOC75	204,907	12.3	36.3	4.8	4.3	25.4	1.8
	EEOC80	207,018	14.1	40.7	6.3	5.5	32.2	2.4
Milwaukee (SMSA)	BLS	701,000	7.3	43.5	3.4	3.6	34.9	1.6
	EFOC75	291,433	10.7	37.7	4.0	3.7	26.0	1.4
	EEOC80	323,084	12.4	41.7	5.4	4.8	31.7	1.9
Milwaukee (Suburbs)	BLS	....		No Estimates	....			
	EEOC75	86,526	6.9	41.1	2.0	1.8	27.8	.4
	EEOC80	116,066	9.4	43.5	3.7	3.1	30.6	.7

in the Milwaukee suburbs and in the rest of Wisconsin, on the other hand, is more racially homogeneous with racial minorities representing less than four percent of the statewide civilian labor force. Minority females account for between one-third to one-half of all minority workers in the study areas. Overall, women, both minority and non-minority, comprise about 40 percent of the work force.

The proportion of professional/technical/managerial workers who are female and minorities is also reported in Table 1. These occupations are commonly assumed to be the most desirable positions in the labor market. According to BLS and EEOC data, both women and racial minorities are underrepresented at this level. For example, in the city of Milwaukee, minorities account for about 17 percent of the civilian work force, (BLS data) but only 9 percent of the professional/technical/managerial workers. Women in Milwaukee account for 45 percent of the work force but only 41 percent of the professional/technical/managerial workers. In South Carolina, racial minorities make up 26.4 percent of the civilian work force, but only 11.6 percent of the professional/technical/managerial workers. Women account for 43.3 percent of the statewide work force but just 37.8 percent of the prefessional/technical/managerial workers. For both racial minorities and women, similar underrepresentation exists in the Milwaukee SMSA, the Milwaukee suburbs and the state of Wisconsin.

Shutdown and Relocation Out of State

Using the figures in Table 1 for comparative purposes, and especially focusing on the aggregate EEOC-75 and EEOC-80 figures,[7] minority and female employment patterns in firms that shutdown or left the city of Milwaukee, and the states of Wisconsin and South Carolina were examined. In South Carolina, Table 2 reveals that 562 EEOC-75 firms that employed over 100,000 workers closed down or left the state between 1975 and 1980 (over 99 percent of these firms shut down). The rate of minority employment in these firms was 25.6 percent compared to an EEOC-75 average of 24.8 percent. The relative differences are even larger at the professional/technical/managerial ranks than at the lower levels, especially for racial minorities. Minorities held 6.9 percent of all upper level jobs in firms that shutdown compared to an EEOC-75 average of 5.9 percent Women held 22.6 percent of these positions compared to an EEOC-75 average of 22.1 percent. This means that the rate of minority employment in the professional/technical/managerial

Table 2. Firms that Shutdown or Relocated to Another State Between 1975 and 1980.

Place	All Workers					Prof/Tech/Manage		
	Firms	Employment	Minority	Female	Female Minority	Minority	Female	Female Minority
	(N)	(N)	(%)	(%)	(%)	(%)	(%)	(%)
South Carolina*	562	108,311	25.6	36.7	10.6	6.9	22.6	3.2
Wisconsin (total)**	930	131,988	6.4	34.0	2.5	2.8	16.5	1.0
Milwaukee City**	247	38,127	12.9	32.4	5.6	5.2	17.4	2.2

*Less than one percent are relocations.

**Less than two percent are relocations.

ranks was 16.9 percent higher and female employment was 2.3 percent higher in firms that shut down compared to those that did not.

In Milwaukee, 247 EEOC-75 firms that employed over 38,000 workers either shutdown or moved to another state between 1975 and 1980 (over 98 percent of these firms shut down). Like South Carolina, minority representation in firms that ceased operations was 4.9 percent higher than EEOC-75 averages (12.9 percent vs. 12.3 percent). Minority women and minority professionals were especially hurt by the shutdown or relocation EOC-75 establishments. In Wisconsin as a whole, racial minorities held about 6.4 percent of the jobs lost through shutdowns and relocations. This is at the state average for all EEOC-75 companies, but well above BLS estimates (3.6 percent) of minority representation in the Wisconsin labor force.

In both South Carolina and Wisconsin minorities had been employed in firms which ceased operations between 1975 and 1980 in the respective states at a higher level than they were represented among all private sector firms reporting to the EEOC in 1975. The discrepancy was larger in the more attractive occupational classifications. Women were not adversely affected generally but did lose a disproportionate share of jobs at the higher levels.

New Business and Relocation into State

The number of jobs lost due to shutdowns and relocations to other states was ameliorated by the birth of new firms in South Carolina, Wisconsin, and Milwaukee and by relocations from other states to these areas (see Table 3). However, the comparison of minority employment in these new firms with the EEOC-80 figures reveals that minorities are underrepresented in the new firms. For instance, in South Carolina racial minorities accounted for 25.7 percent of the workers in the new firms compared to an EEOC-80 average of 27.5 percent. For Wisconsin, comparable figures are 6.4 percent in new firms and 7.4 percent in all EEOC-80 companies, and in Milwaukee the new firms employed 12.4 percent minorities compared to an EEOC-80 city-wide average of 14.1 percent. Thus, while the trade-off between births and shutdowns resulted in a net increase of jobs in each study area, minority representation was below the average EEOC-80 minority representation in the same areas. Not surprisingly, in each area, minority female representation in the new businesses was also below EEOC-80 averages.

At the professional/technical/managerial level, the new firms employed minorities at, or slightly below EEOC-80 averages. However, in all cases, female professionals and

Table 3. Firms that Opened-Up or Moved from Another State Between 1975 and 1980.

	All Workers					Prof/Tech/Manage		
Place	Firms (N)	Employment (N)	Minority (%)	Female (%)	Female Minority (%)	Minority (%)	Female (%)	Female Minority (%)
South Carolina*	1049	124,990	25.7	44.5	12.5	8.2	23.0	2.7
Wisconsin (total)*	1311	172,553	6.4	40.5	2.7	3.2	24.1	.9
Milwaukee City*	277	39,801	12.4	38.4	5.6	5.2	20.5	1.6

*Less than one percent of the firms that opened-up between 1975 and 1980 were relocations from other states.

minority female professionals were substantially underrepresented. In South Carolina, women occupied 23 percent of the new professional/technical/managerial jobs compared to an EEOC-80 average for all South Carolina firms of 26.3 percent. In Wisconsin comparable figures are 24.1 percent in the new firms compared to an EEOC-80 figure of 31.7 percent. In the city of Milwaukee, women held 20.5 percent of the upper status jobs compared to a city-wide average of 32.2 percent.

As discussed in the previous chapter, states like South Carolina have become known for their "favorable" business climates and for their success in attracting northern based industries to either relocate to the state or to open up branch plants in the state. While the EEO-1 tapes did not reveal any cases where a firm closed shop in Wisconsin and moved to South Carolina in the 1975-1980 time period, seven Wisconsin based parent companies were identified that operated branch plants in South Carolina. Interestingly, though not surprisingly, not even one branch plant in Wisconsin was identified that had a South Carolina parent.

Among the South Carolina branches of Wisconsin based parents, Table 4 shows that the proportion of racial minorities and females in general, and minority and female professionals in particular, were considerably underrepresented compared to

Table 4. Branch Plants in South Carolina with Wisconsin Parent Companies.

	All Workers					Prof/Tech/Manage		
	Firms	Employment	Minority	Female	Female Minority	Minority	Female	Female Minority
	(N)	(N)	(%)	(%)	(%)	(%)	(%)	(%)
South Carolina Branches*	7	1792	22.1	23.6	9.0	6.6	10.3	3.7
Wisconsin Branches	.... None							

*Data were taken from both 1975 and 1980 EEO-1 reports since three firms reported in 1975 but not in 1980. The South Carolina Industrial Directory for 1981 indicates that these three branches are still operating.

the total South Carolina work force. The Wisconsin based branches employed minorities at a rate of 22.1 percent compared to an EEOC-80 average rate of 27.5 percent. Females held 23.6 percent of the jobs provided by Wisconsin headquartered firms compared to 43.5 percent of all EEOC-80 jobs, while minority females accounted for nine percent of the employment in Wisconsin branches, but 12.9 percent of the employment in all EEOC-80 firms.

In those business which began operations in both South Carolina and Wisconsin between 1975 and 1980 racial minorities were employed at a lower rate than among all private sector firms reporting to the EEOC in 1980. While women were employed in the new business at or above the statewide levels, minority women were underrepresented. Within the higher ranking occupational groupings, however, women generally were underrepresented. Underrepresentation of racial minorities and women was particularly acute in South Carolina branches of firms headquartered in Wisconsin.

Relocation Between Milwaukee and the Suburban Ring

Another type of economic dislocation occurs when a firm moves from one location to another within a particular labor market area. In general, this involves a move from a central city to a suburban location. Table 5 indicates that 20 EEO-1 firms left Milwaukee between 1975 and 1980 for the suburban ring while six firms moved into the city from the suburbs during that time period. The effects of these relocations on total employment was a net loss of about 1000 jobs.

The firms that left Milwaukee for the suburbs employed minorities below both EEOC-75 and BLS averages. Although the proportion of minorities increased slightly (from 7.9 percent to 8.8 percent) after they moved, the rate of this increase was not only below the rate of increase in minority employment for firms that remained in the city of Milwaukee (from 12.3 percent to 14.5 percent) (Table 5), but also below the rate of increase in minority employment in the suburbs generally (from 6.9 percent to 9.4 percent) (Table 1). Furthermore, among the 20 firms that moved to the suburbs, seven of them, with a combined work force of 825, employed two or fewer minorities, and 12 firms, with a combined work force of 667, employed a total of four minority women. Additionally, half of the firms employed no minority professionals and only six of the firms reported any black female professionals. Also, it should be noted that 11 of the relocators increased the size of their work force (an average of 28.5 percent) after they moved to the suburbs. However, minority employment in these firms grew by only 22.7 percent.

Table 5. Firms that Relocated from Milwaukee to Suburbs and from Suburbs to Milwaukee Compared to Firms that Remained in Milwaukee.

Location 1975 - Location 1980	Firms	Employment	All Workers: Minority	All Workers: Female	All Workers: Female Minority	Prof/Tech/Manage: Minority	Prof/Tech/Manage: Female	Prof/Tech/Manage: Female Minority
	(N)	(N)	(%)	(%)	(%)	(%)	(%)	(%)
Milwaukee - Milwaukee								
1975	534	163,864	12.3	37.3	4.7	4.2	27.4	1.7
1980		163,837	14.5	41.5	6.5	5.6	34.9	2.6
Milwaukee - Suburbs								
1975	20	2,916	7.9	34.2	2.8	2.0	13.8	.3
1980		2,887	8.8	36.5	3.5	4.1	20.8	.9
Suburbs - Milwaukee								
1975	6	2,007	4.6	57.0	3.0	2.7	17.0	.4
1980		1,990	11.2	44.1	5.9	6.8	16.8	1.3

Not surprisingly, firms that moved from the suburbs to the city of Milwaukee increased minority employment from 92 to 224 between 1975 and 1980 (4.6 percent to 11.2 percent). Female employment in these firms decreased, however, from 1144 to 877 (57.0 percent to 44.1 percent). Thus, while movement into the city increased minority employment, it decreased female employment. Furthermore, the rates at which the suburb-to-Milwaukee movers employed minorities (11.2 percent) was below the EEOC-80 average rate for minority employment (14.1 percent) in the city.

Minority employment increased slightly in firms that relocated from Milwaukee to a neighboring suburb between 1975 and 1980, but still remained lower in those firms than among all city or suburban firms reporting to the EEOC in 1980. Even in firms relocating from the suburban ring into the city racial minorities were underrepresented. Female employment increased in firms leaving the city but decreased in those moving into Milwaukee.

Wisconsin's Industrial Revenue Bond program

To determine the effect of a particular business incentive on minority and female employment rates, a set of 20 EEOC-80 firms in Milwaukee that had received industrial revenue bonds was identified. Together, these 20 firms obtained over

$50 million in IRB's. Table 6 compares these IRB recipients to all companies (N=184) in Milwaukee with the same two digit industry code.

Of the 7500 workers in the IRB companies, 15.3 percent are minorities. This is 7 percent below industry wide averages. Female employment is almost 25 percent lower in the IRB firms, while minority female employment is 44 percent below industry wide averages in IRB firms. Minorities hold only 3.7 percent of all professional/technical/managerial jobs in the IRB firms compared to an industry wide average of 5 percent. Women occupy 11.2 percent of these upper level positions in companies that received IRB's compared to 14.3 percent at the industry level. If firms receiving IRB's are compared with BLS estimates of minority and female representation, the underrepresentation is even more severe. As indicated in Tables 1 and 6 minorities account for 16.8 percent of all jobs compared to 15.3 percent among IRB recipients. Comparable figures for women are 45.0 percent in the Milwaukee labor market and 22.3 among IRB firms.

The EEO-1 tapes indicate that 16 of the 20 IRB firms employ minorities at rates below industry wide averages in Milwaukee. In five instances, the rate of minority employment is less than half of the industry-wide rate. For women, similar results obtain. For 14 of the 20 IRB recipients, female employment is

Table 6. Milwaukee Firms that Received Industrial Revenue Bonds Compared to all Milwaukee Firms in the Same Industries.

	All Workers					Prof/Tech/Manage		
Milwaukee	Firms (N)	Employment (N)	Minority (%)	Female (%)	Female Minority (%)	Minority (%)	Female (%)	Female Minority (%)
Received IRB	20	7,520	15.3	22.3	3.1	3.7	11.2	.5
All Firms	184	70,393	16.4	29.5	5.5	5.0	14.3	1.1

below industry averages and in 5 of these firms the rate of female employment is less than half of the industry-wide rates.

Perhaps the most important finding is the fact that 5 (25 percent) of these 20 firms were issued reasonable cause notices for race or sex discrimination between 1975 and 1980 by the EEOC.[8] This is particularly significant given the state prohibition against employment discrimination in the IRB program.

In Milwaukee racial minorities and women are underrepresented among firms receiving IRB financing and the discrepancy is greatest in the higher ranking occupations.

CONSLUSIONS

Overall, the results of the empirical analysis suggest that racial minorities and women do not receive an equitable share of jobs created by business incentives and that the concomitant economic dislocation adversely affects minority and female employment, although certain dimensions of dislocation and expansion had differing and sometimes contradictory effects. For example, firms that shut down between 1975 and 1980 in Milwaukee and South Carolina had employed a higher percentage of minorities though a lower percentage of females than EEOC-75 averages prior to going out of business. At the professional/technical/managerial level, minority representation was also higher in firms that shut down compared to all EEOC-75 firms. Although the number of jobs created by new operations and branch plant expansions generally offset the losses caused by shutdowns, minority employment in the new firms was below the average minority employment in all EEOC-80 firms. The expansion of Wisconsin headquartered branches into South Carolina was not matched by an expansion of South Carolina branches into Wisconsin. Furthermore, the Wisconsin branches in South Carolina employed minorities and women at rates far below average EEOC-80 rates for South Carolina in general.

Companies that moved from Milwaukee to the suburbs between 1975 and 1980 increased their minority employment, but at rates below the city or suburban average. Further, many of these firms employed few, if any, minorities to begin with, and others decreased minority employment in the process. Even among firms that experienced growth in the city to suburb move, the average rate of minority growth was below the average growth rate for the companies. Female employment in these firms also increased, but at rates below city averages and remained below suburban averages.

Finally, in Milwaukee, one business incentive program-industrial revenue bonds-benefited white males far more than any other group. Among Milwaukee firms receiving IRB financing, minorities and females are underrepresented and that underrepresentation is particularly acute at the higher levels of the occupational structure.

----

[1]These nine categories are: 1) officials and managers; 2) professionals; 3) technicians; 4) sales workers; 5) office and clerical; 6) craft workers (skilled); 7) operatives (semi-skilled); 8) laborers (unskilled); 9) service workers. Standard Form 100, Employer Information Report EEO-1 (Washington, D.C.: Equal Employment Opportunity Commission.

[2]All firms that file an EEO-1 report are assigned a unique identification number. Once assigned, this number does not change as long as the firm exists.

[3]Illinois Advisory Committee to the U.S. Commission on Civil Rights, Shutdown: Economic Dislocation and Equal Opportunity, 1981, p. 31.

[4]As indicated in Chapter I, Milwaukee's Department of City Development identified 1000 firms that relocated from the cities of Milwaukee, Racine, and Kenosha between 1967 and 1978. From the EEO-1 tapes, only 20 firms were identified that relocated from Milwaukee to its suburbs between 1975 and 1980.

[5]The Milwaukee Standard Metropolitan Statistical Area (SMSA) includes the following four countries: Milwaukee, Ozaukee, Washington, and Waukesha.

[6]BLS and EEO-1 data are not consistent on several dimensions and, therefore, must be interpreted with some precautions: 1) EEO-1 data cover all racial and ethnic groups in the minority total whereas BLS data cover racial minorities only, not Hispanics 2) EEO-1 data, unlike BLS data, are restrictd to larger firms, those with 100 or more employees or with 50 or more employees and Federal contracts worth $50,000 or more; 3) because EEO-1 data are for private sector firms while BLS data are for the entire work force, inclusion of government employees and non-college level teachers (especially elementary teachers) in the latter makes comparisons among professional/technical/managerial workers between these two data bases less pertinent than comparisons which rely on just one of the two; 4) BLS data are taken from the Current Population Survey and, at below the state level, are subject to statistical error.

[7]For most comparisons EEOC-75 and EEOC-80 will be used rather than BLS estimates because the EEOC population represents a known universe of firms. BLS estimates, on the other hand, include workers from employers not required to submit EEO-1 reports (i.e., firms with less than 100 workers, schools, government agencies, etc.). Since the primary purpose of this chapter is to examine the effects of business incentives and economic dislocation among EEOC reporting firms on minority and female employment, comparisons to BLS may be misleading.

[8]A list of firms against whom the EEOC issued reasonable cause findings of race and/or sex discrimination was

provided by the Office of Policy Implementation, U.S. Equal Employment Opportunity Commission, May 12, 1982.

Chapter IV

Alternative Scenarios

Economic growth in and of itself does not guarantee equal employment opportunity. Among businesses that initially began operations elsewhere and later moved into Wisconsin or South Carolina between 1975 and 1980, minorities and women were underutilized. At the same time they constituted a disproportionately high number of employees in firms that ceased operations in both states during these years. Minorities and women endured a greater share of the costs of economic dislocation while receiving fewer of the benefits. Ironically, underrepresentation of minorities and women was particularly acute among Milwaukee firms benefiting from industrial revenue bond (IRB) financing, a program that is justified in large part by the jobs it presumably will create particularly for economically depressed (i.e., inner-city, minority) communities.

Equally problematic is the entire question of whether or not business incentives as they have been structured and proposed even lead to economic growth and the generation of new jobs. Serious challenges have been leveled against the business incentives or supply-side policies and their philosophical underpinnings.

In response to the basic tenets of the business incentive school, critics contend that adequate savings already exist but are not utilized for productive, job-creating investment activity. Rather, available funds are channeled into speculative investments (particularly real estate), financial instruments that offer short-term high yield returns, and the financing of acquisitions and mergers. Another response to supply-side advocates is that adequate incentives already exist simply in the profits available through the marketplace and those business people who would benefit from existing incentives are already working as hard as they can to maximize their profits. More importantly, financial incentives introduced in recent years have generally gone to large corporations that have produced no net increase in jobs while small businesses, which produce the vast majority of new jobs, remain starved for credit.

Critics also note the profits many corporations have made as a direct result of government regulations while several small business owners have expressed fears that deregulation may lead to a deterioration in the business climate in their communities. Critics point to other nations where productivity is increasing faster than in the United States despite higher tax rates and more government regulation. As a strategy for revitalizing older urban communities many analysts contend that financial incentives offered by cities and states are too small to encourage the relocation of a business not otherwise planning to move. The end result of such recruitment programs turns out to be an unintended subsidy for the private sector contributing to the fiscal crisis and economic deterioration of older cities particularly in the industrialized northeastern and midwestern states.

Perhaps the most fundamental charge against the business incentive approach is that nothing trickles down to lower income groups. Minorities in particular do not share equally in the prosperity of the sunbelt and other growing communities and they suffer the most in those communities experiencing economic decline and deterioration.

Balancing Public Needs and Private Prerogatives

In its study of the racial implications of plant closings, corporate relocations, and capital mobility in general, the Illinois Advisory Committee to the U.S. Commission on Civil Rights found that minorities were adversely affected by these developments in that snowbelt state.[1] The Committee found, for example, that in Illinois firms that shut down, minorities accounted for 20 percent of the work force compared to just 14 percent statewide. In firms relocating from central cities to suburbs, total employment declined but black employment dropped by almost 25 percent compared to less than 10 percent for whites. And minority employment as a percentage of total employment declined in firms moving from Illinois to the South or from the South to Illinois.

Several factors were identified which accounted for this general pattern. In recent decades, the minority population has been increasing in those regions of the country and those neighborhoods within metropolitan areas that have experienced economic decline while it has been decreasing in those areas experiencing growth. Minorities are also concentrated in those industries and occupations (in part because of discriminatory employment practices) most adversely affected by economic dislocation. Underrepresented in the higher occupational classifications, minorities are less likely to be offered transfer rights and relocation assistance when their employers move or job hunting assistance if they cannot or choose not to relocate. Owning a disproportionately small share of equity in American business (in part because of discriminatory credit practices by lenders), minorities receive a relatively smaller share of profits resulting from capital mobility. Particularly in central city to suburban relocations minorities are adversely affected by discriminatory housing practices on the part of suburban realtors if they attempt to move or higher transportation expenses if they choose to commute. In some cases the Committee found that at least part of the incentive for relocating was to avoid minority communities and minority employment. And even where no such intent could be found, the Committee concluded that if a corporate relocation adversely affects minority employment and no affirmative action is taken to remedy that impact, Title VII of the Civil Rights Act of 1964,[2] Executive Order 11246,[3] and other Federal civil rights requirements may be violated.

Despite the adverse impact on minorities and the possible violations of civil rights laws accompanying capital mobility,[4] the Illinois report found overt racial discrimination alone could not account for the discriminatory results. The many problems associated with capital mobility, particularly for those areas experiencing economic decline (e.g., fewer jobs, reduced tax revenues and municipal services, declining property values, increasing rates of suicide and other physical and mental health problems, exacerbation of racial inequalities, etc.) were found to be rooted in the process of uneven development in which the profit concerns of private interests dominate, to the detriment of broader social interests. The costs resulting from uneven development are ultimately paid for by the public sector. In his analysis of racial inequality in Milwaukee, Ronald S. Edari drew similar conclusions:

> At the center of this crisis...is the problem of uneven development, which is inherent in the capitalist accumulation process. Thus in the search for avenues of profitable investment, capital moves not only from one industry and sector to another, but also moves from one spatial configuration to another,

> within a nation and across nations. This leaves in its wake economically devastated regions, populations, and industries. Within this scenario: political territorial units struggle in vain to meet increasing demands on their budgets in the face of declining revenue bases; large segments of the population, particularly minorities, are condemned to a marginal existence, with income being derived from dead-end jobs in the so-called secondary labor markets, transfer payments and illegal activities; declining industries are forced to lower their wages in order to maintain their profit margins; commercial establishments specializing in trade in the low income areas move in with their sharp merchandising practices. Rather than being an anomaly, the above catalogue of the perversities of uneven development is a normal product of an accumulation process in which capital, regardless of human consequences, is allowed a wide latitude of mobility in search of profit -- a situation which is further compounded by shifting the social costs of accumulation to the state, thereby precipitating a fiscal crisis.[5]

The solution, according to the Illinois report, rests in policies that will provide greater sharing of investment decisionmaking authority with public officials and employees to assure a balance between private and public needs. Specifically, the report endorsed legislation introduced in several states and in Congress that would require companies to issue advance notification of any shutdown or relocation, job rights at the new location or severance pay to workers unable or unwilling to relocate, payments to community economic development funds, and private as well as public support for employee ownership wherever feasible as an alternative to a shutdown. Such proposals, which are standard practice in several Western European nations,[6] have been included in several bills introduced in Congress in recent years including: National Employment Priorities Act;[7] Employee Protection and Community Stabilization Act;[8] Voluntary Job Preservation and Community Stabilization Act;[9] and Employment Maintenance Act.[10]

Similar legislation was introduced in the Wisconsin legislature in 1981. Under the proposed Senate Bill 527, employers of 100 or more workers would have to notify the municipality 18 months prior to any cessation of business operations. Currently, the state requires such employers to notify the State Department of Labor, Industry, and Human Relations (DILHR) 60 days prior to any mergers, liquidations, dispositions, relocations, or closings.[11] A more comprehensive proposal, Senate Bill 717, was also introduced in the Wisconsin legislature in 1981. This bill would place the following obligations on employers of 100 or more workers who close, relocate, or reduce operations:

1. providing DILHR with a two-year pre-notification and an economic impact statement of the action;

2. offering employment at related company facilities;

3. establishing an escrow account to provide health benefits for employees for one year after employment is terminated or until new employment is found;

4. providing paid leave time to affected employees to attend job interviews;

5. paying each affected employee an amount equal to one week's wages for each year the individual has been employed by the company;

6. paying into a community assistance fund an amount equal to ten percent of the total annual wages at the establishment.

In addition, the bill would create a community services council funded by the state to implement programs that will aid affected workers and the municipality in general. These programs can include financial assistance including severance payments not made on time by employers, assistance to the employer that will provide for a reduction in operations rather than a closing, exploring the feasibility of employee-ownership, and many others.

The Illinois report also called for the Equal Employment Opportunity Commission and the Department of Labor to promulgate regulations under Title VII of the Civil Rights Act of 1964[12] and Executive Order 11246[13] requiring employers to implement affirmative remedies when a relocation would otherwise adversely affect minorities. These proposed regulations would require employers contemplating a shutdown, substantial reducation, relocation, merger or any other action related to the location where operations are to be carried out, to conduct an analysis of how that action will affect minority employment. Where that analysis reveals the likelihood that minority employment will be adversely affected, the regulations would require corrective actions including but not limited to: considering alternative sites or reconsidering the move altogether; housing or transportation services or allowances to help minorities overcome discriminatory housing practices and the additional financial burdens of commuting to suburban jobs; legal assistance and other pressure on officials to assure fair housing in new locations; affirmative recruitment; and compliance with affirmative action goals and timetables.

In its 1981 report the Illinois committee also recommended that decisions to close, relocate, or open a facility be incorporated into union contracts so that labor and management collectively determine whether such steps will be taken, and if so how they will be carried out. It has also been proposed that union contracts include the right to negotiate ways of keeping a plant open that management intends to close or if closing is necessary the right to negotiate the manner in which it will be carried out, two years advance notification of any shutdown, relocation assistance and transfer rights for workers, and continuation of health benefits for up to two years after layoff.[14]

Even in the absence of specific clauses in collective bargaining agreements, plant closings and relocations may violate provisions of the National Labor Relations Act (NLRA) which prohibit anti-union discrimination and the refusal to bargain collectively in good faith over matters like wages, hours, and other terms and conditions of employment. For example, an employer who moved from Wisconsin to South Carolina, or between any two locations, expressly for the purpose of replacing union with non-union workers would be in violation of the non-discrimination provision of the NLRA.[15] And failure to bargain over the effects of a closing violates the obligation to bargain in good faith the terms and conditions of employment. An employer is not obligated, however, to bargain over the decision to shut down all or part of its operation or to relocate although such decisions are permissible subjects of collective bargaining.[16]

In one case workers filed suit in an effort to block the closing of a steel plant in Youngstown, Ohio claiming their jobs constituted a property right that should be balanced against the property rights of corporations. The decision affirmed the company's right to unilaterally make its own investment decisions (or to shut down the plant) but in doing so, implied that such rights should be scrutinized more carefully in the future:

> This Court has spent many hours searching for a way to cut to the heart of the economic reality--that obsolescence and market forces demand the close of the Mahoning Valley plants, and yet the lives of 3500 workers and their families and the supporting Youngstown community cannot be dismissed as inconsequential. United States Steel should not be permitted to leave the Youngstown area devastated after drawing from the lifeblood of the community for so many years.
>
> Unfortunately, the mechanism to reach this ideal settlement, to recognize this new property right, is not now in existence in the code of laws of our nation. At this moment, proposals for legislative redress of economic relocation like the situation before us are pending on Capital Hill. Perhaps labor unions, now more aware of the importance of this problem, will begin to bargain for relocation adjustment funds and mechanisms and will make such measures part of the written labor contract. However, this Court is not a legislative body and cannot make laws where none exist--only those remedies prescribed in the statutes or by virtue of precedent of prior case law can be given cognizance. In these terms this Court can determine no legal basis for the finding of a property right.[17]

Recognizing the central role of investment capital in redevelopment and the capability of private corporations to shift production from one community and one continent to another, some economists advocate greater public control over what is currently private investment decisionmaking. For example, investment banker Felix Rohatyn has called for the creation of a national Reconstruction Finance Corporation as an "investor of last resort" to assist declining industries and communities deemed important for the overall health, economic and otherwise, of the nation.[18] Given the concessions unions would have to make in return for the financial assistance and job protection provided under Rohatyn's plan, some critics question whether it would provide for redistribution or consolidation of power and whether the victims of prevailing economic woes would in fact be aided.[19] Martin Carnoy and Derek Shearer recommend nationalization of selected firms in key industries, greater worker and consumer input into the operation of individual firms, and public control of investment generally.[20] Similarly, Robert Lekachman calls for democratic planning with investment decisions based more on political (e.g., human needs) criteria and less on the dictates of the market, with full employment as a central objective.[21] Following the example of Japan and some European nations, Lester Thurow calls for investment planning that would direct the flow of capital into growth industries to stimulate greater productivity for the economy as a whole. At the same time, Thurow recommends generous compensation for people who inevitably are injured by shifts in investment and specific policies to reduce gaps between rich and poor as well as those separating minorities from the mainstream.[22] While those advocating some form of public control over investment may have differing objectives, all contend that important public policy concerns are not being met by prevailing market forces, and are not likely to be met without at least some minimal form of planning.

A local initiative for urban revitalization that focuses on the generation or surplus revenues for the primary purpose of meeting public needs has been developed by two Michigan economists. Focusing on the city of Detroit, Dan Luria and Jack Russell call for the creation of joint private/public enterprises that will accomplish a number of objectives: (1) produce products for which there is a demonstrated social need and economic demand; (2) provide employment in jobs at skill and pay levels at which the current labor force is accustomed; (3) utilize existing industrial equipment, human resources, and other assets available in the community; and (4) generally provide several public benefits beyond the generation of surplus revenues (e.g., employment retention, crime control, health and other human services). Conversion of idle or underutilized facilities for such productive uses would involve employee stock ownership plans; employee and community representation in the planning and creation of enterprises; and coordination by city officials of industrial revenue bonds, Urban Development Action Grants, enterprise zone benefits, pension funds, and powers of eminent domain. Luria and Russell reject the notions that only the private sector can produce goods and services and that the focus of public officials in the area of economic development should be on the creation of a "good business climate" featuring incentives to lure private capital. Instead they argue that the public sector, along with employees and other segments of the community, must be actively involved in determining what goods and services are to be produced, how they are to be produced, how surplus revenues are to be invested, and who is to benefit.[23]

A related approach which has had some success, particularly in regard to minority economic development, is the community development corporation (CDC). CDC's are organized efforts on the part of local citizens to develop community-wide responses to community problems. By formulating a collective response to the social and economic forces which impinge on communities, CDC's seek to increase the economic stability of entire communities rather than selected individuals within those communities. Education, job training, and business development are among the kinds of activities conducted by CDC's, but rather than seeking to train individual entrepreneurs the objective is development of entire communities. Attracting sufficient operating funds is a problem for many CDC's. Deciding how to allocate resources often creates problems particularly when choices must be made between activities that may be more profitable and those which may not be as lucrative but provide a necessary community service. Related to these twin problems is the difficulty in maintaining active community participation. Many CDC's have been able to overcome these obstacles, however, for the benefit primarily of minority and low income neighborhoods. For example, the Harlem Commonwealth Council in New York has launched several business ventures in manufacturing, land development and tourism for that primarily black community. In the state of Washington the Lumni Indian Tribal Enterprise, Inc. has developed an aquaculture business which within ten years increased the median annual family income of CDC members from $2,000 to almost $10,000. Since 1969, the Roxbury Action Program has built more than 100 low or moderate income housing units and provided counseling services, education programs, and crime prevention projects for a black community in Boston.[24]

The common thread underlying these apparently disparate approaches to economic development and equal employment opportunity is that, unlike the supply-side approach, they do not depend solely on the attraction of private capital through the provision of financial incentives. They strive to balance public and private needs; minimize the severe public costs associated with capital mobility and disinvestment; and equalize the costs and benefits of economic development among communities, employers and employees, and among people of all races and both sexes. By democratizing economic decision-making the nation's historically disadvantaged minority groups would be better protected from the many public costs that are often incorrectly viewed as inevitable by-products of a free society.

Equal Opportunity and Economic Growth

American history clearly indicates that progress towards equal opportunity demands a strong Federal presence.[25] This is amply demonstrated from the establishment of the Freedman's Bureau after the civil war to the executive orders issued by President Roosevelt prohibiting discrimination in defense contracts during World War II and through the Civil Rights Act of 1964. During the "separate but equal" era that followed Reconstruction, the Federal government assumed a passive posture and racial minorities suffered at the hands of state and local authorities in many communities.

In light of proposed changes in Federal spending and civil rights enforcement, the U.S. Commission on Civil Rights has openly warned Congress about the possibility of 1980's becoming the second post-Reconstruction era.[26] To avoid that possibility, the President's Commission for a National Agenda for the Eighties, in a report that generally endorsed the business incentive approach, explicitly called for strong Federal action in the area of civil rights:

> In none of the human service areas does the federal government have a clearer and more compelling responsibility than in civil rights.
>
> During this decade the nation must reaffirm its commitment to eliminate the past effects of discrimination. The task will be more difficult than in previous decades because of the state of the economy and the persistence of racism among segments of the population. These difficulties only underscore the need for strong national

> leadership that is capable of creating a national climate in which civil rights issues are addressed with seriousness and intensity. Only when the victims of racial, ethnic, and sexual discrimination are made whole can this country realize its egalitarian ideal.
>
> In this decade, the major civil rights laws of the Sixties and Seventies must be vigorously enforced; efforts to repeal or dilute such legislation or to frustrate compliance must be repelled.[27]

Protection of civil rights does not inherently conflict with economic growth or public sector efforts to spur growth. In fact, such initiatives offer the opportunity for creative contract compliance. When a state or municipality issues a tax abatement, industrial revenue bond, or financial incentive of any kind, that incentive could be treated as a government contract with the contractor required to meet specific equal opportunity requirements. The city of Boston, for example, has implemented a program in which locally assisted contractors must employ a specific number of city residents, minorities, and women.[28]

Equal employment opportunity and civil rights generally represent a fundamental national interest that should not be treated as an afterthought to a long list of other domestic issues. Civil rights considerations should not be subordinated to reindustrialization nor assumed to be adequately protected by economic growth.[29] As the U.S. Commission on Civil Rights asserted:

> Civil rights are not simply "special interests" competing for budgetary attention. They are nationally endowed rights that the Civil War amendments obligate the national government to implement.[30]

At a time when racial minorities and women are rapidly falling farther behind white men economically, the administration offers a program that exacerbates those differences and reduces law enforcement capabilities to combat discrimination. These historic victims of discrimination, deserve more equitable treatment by their government.

----

[1]Illinois Advisory Committee to the U.S. Commission on Civil Rights, Shutdown: Economic Dislocation and Equal Opportunity, 1981.

[2]42 U.S.C. Secs. 2000e (1976 and Supp. IV 1980).

[3]30 Fed. Reg. 12319 (Sept. 24, 1965) as amended; 42 U.S.C. Secs. 2000e (1976 and Supp. IV 1980).

[4]Business practices neutral on their face that impact disproportionately on racial minorities and women and that are not justifiable on the basis of business necesity violate Title VII. See e.g. Connecticut v. Leal, _____ U.S. _____, 50 U.S.L.W. 4716, 4718 (June 22, 1982).

[5]Ronald S. Edari, "The Structure of Racial Inequality in the Milwaukee Area," in John P. Blair (ed.) Milwaukee's Economy (Federal Reserve Bank of Chicago, 1978), p. 109.

[6]"Plant Closing Legislation and Regulation in the United States and Western Europe: A Survey," report prepared by C&R Associates for the Federal Trade Commission, 1979.

[7]H.R. 3187 96th Cong. 1st Sess. (1979).

[8]S. 1609 96th Cong. 1st Sess. (1979).

[9]H.R. 2203 95th Cong. 2d Sess. (1979).

[10]S. 2400 96th Cong. 2d Sess. (1980).

[11]For a summary of this law and similar legislation and proposals in other states see Runaway Plant Acts (Washington, D.C.: Conference on Alternative State and Local Policies, 1979).

[12]42 U.S.C. Secs. 2000e (1976 and Supp. IV 1980).

[13]30 Fed. Reg. 12319 (Sept. 24, 1965) as amended; 42 U.S.C. Secs. 2000e (1976 and Supp. IV 1980).

[14]Labor Committee of the Milwaukee Chapter of the National Lawyers' Guild, "Plant Closings and Runaway Industry: Strategies for Labor," 1981. (Hereafter cited as "Strategies for Labor"), pp. 22-25.

[15]29 U.S.C. Secs. 141-187 (1976 and Supp. IV 1980).

[16]"Strategies for Labor," pp. 1-13. First National Maintenance Corporation v. NLRB, _____ U.S. _____ S. Ct. 2573, 2584 (1981). Stone has argued that simply expanding those issues that would be declared mandatory subjects of collective bargaining would be of limited value because of deficiencies in the process of collective bargaining itself. In reviewing the historical development of labor law Stone asserts that, contrary to popular assumptions that collective bargaining is carried out by two equally powerful interests for the purposes of developing mini-democracies within work organizations for their mutual benefit, the process actually builds upon and reinforces a highly unequal relationship benefiting management at the expense of labor. She advocates submitting labor issues to the

broader political process because in the arena of national politics labor has far greater strength than it does within the confines of collective bargaining. Katherine Van Wezel Stone, "The Post-War Paradigm in American Labor Law," The Yale Law Journal, June 1981.

[17]Steelworkers, Local 1130 v. U.S. Steel Corp., 103 LRRM 2925, 2931 (E.D. Ohio 1980). (Cited in "Strategies for Labor," p. 2).

[18]Rohatyn wrote a series of articles for The New York Review of Books on this subject: "The Coming Emergency & What Can Be Done About It," Dec. 4, 1980; "The Older America: Can It Survive?" Jan. 22, 1981; "Reconstructing America," Feb. 5, 1981; "A Matter of Psychology," April 16, 1981; "A Raw Deal," April 29, 1982.

[19]Alfred J. Watkins, "Felix Rohatyn's Biggest Deal," Working Papers, Sept./Oct. 1981.

[20]Martin Carnoy and Derek Shearer, Economic Democracy: The Challenge of the 1980s (White Plains, N.Y.: M.E. Sharpe, Inc., 1980).

[21]Robert Lekachman, Greed is Not Enough: Reaganomics (New York: Pantheon Books, 1982).

[22]Lester C. Thurow, The Zero-Sum Society: Distribution and the Possibilities for Economic Change (New York: Basic Books, 1980). "Reindustrialization and Jobs," Working Papers, Nov./Dec. 1980.

[23]Dan Luria and Jack Russell, Rational Reindustrialization: An Economic Development Agenda for Detroit (Detroit: Widgetripper Press, 1981).

[24]Community Development Corporations (Cambridge: Center for Community Economic Development, 1975). Stewart E. Perry, Building a Model Black Community: The Roxbury Action Program (Cambridge: Center for Community Economic Development, 1978).

[25]U.S. Commission on Civil Rights, Civil Rights: A National, Not a Special Interest, 1981 (hereafter cited as National Interest).

[26]National Interest. Testimony of Arthur Flemming, Chairman, U.S. Commission on Civil Rights, before the House Subcommittee on Civil and Constitutional Rights, June 25, 1981 (hereafter cited as Flemming statement).

[27]A National Agenda for the Eighties, Report of the President's Commission for a National Agenda for the Eighties, Washington, D.C., 1980, pp. 59, 60.

[28]Kirk Scharfenberg, "City Jobs for City Dwellers," Working Papers, Jan./Feb. 1981.

[29]For further evidene that affirmative action remains a social and moral imperative, and a legal necessity see: U.S. Commission on Civil Rights, Affirmative Action in the 1980's: Dismantling the Process of Discrimination Nov. 1981. Promises and Perceptions: Federal Efforts to Eliminate Employment Discrimination Through Affirmative Action, a report of 13

Advisory Committees to the U.S. Commission on Civil Rights, Oct. 1981.
[30]Flemming statement, p. 2.

Chapter V

Findings and Recommendations

Minorities and women have not received their fair share of jobs in businesses receiving financial incentives geared to stimulating economic growth. The dislocation (e.g., relocation, shutdown, uneven expansion) that frequently accompanies efforts of the private sector to minimize costs also adversely affects minorities and women; they are disproportionately represented in firms that shut down and they are underutilized in new facilities.

South Carolina's boosters claim "we know that healthy business is the goose that lays the golden egg. So we've developed special tax incentives to keep the goose alive," and they boast about the state's productive, trainable, and unorganized work force, one that still has the old fashioned work ethic. Racial minorities and women, however, have not enjoyed an equitable share of that gold. In its industrial revenue bond (IRB) program, Wisconsin is following a similar path to economic development, with similar adverse effects for minorities and women. State requirements prohibit employment discrimination in IRB projects. Nonetheless in a sample of Milwaukee businesses receiving IRB financing minorities and women were underutilized in approximately 75 percent of the firms, both groups were employed at less than one-half the respective industry wide rates in over 25 percent of the firms and the EEOC had issued reasonable cause findings of discrimination against 25 percent of the firms.

Equal employment opportunity does not automatically occur with economic growth. Policies that rely on financial incentives to attract private capital are not adequate to assure economic growth or job creation. Several alternative approaches have been developed that, if implemented, may prove more effective in generating new jobs, minimizing economic dislocation, and assuring a more equal sharing (between minorities and non-minorities, labor and management, and among communities and regions of the nation) of the burdens resulting from that dislocation which proves necessary or inevitable.

Findings

1. While the economic status of minorities and women has deteriorated in recent years, the Federal government has proposed (and in some cases has implemented) cutbacks in civil rights enforcement and several social service and benefits programs. The key to increased job opportunities

for minorities and women is viewed as economic growth. To stimulate that growth, the President's program for economic recovery and that of many state and local governments provide financial incentives (principally tax reductions and regulatory relief) for the private sector to encourage job generating investment activity, particularly in economically depressed (i.e., minority) communities.

2. Wisconsin has experienced economic decline similar to that of other older, industrialized states in the northeastern and midwestern regions of the nation. The net increase in the number of jobs statewide masks the economic deterioration that has struck particularly hard at the industrial corridor from Kenosha to Sheboygan.

3. Minorities and women have endured a disproportionate share of that deterioration. Statewide, and particularly in Milwaukee, minorities and women were employed at a higher rate among firms that shut down than among private sector firms generally. Minorities are also underutilized in firms that moved into or opened up in Milwaukee. In firms relocating from Milwaukee to a suburb within the metropolitan area, minority employment increased slightly but at a slower rate than among firms remaining in the city or those in the suburban ring. In addition, minority

employment in relocating firms (8.8 percent) was far below minority representation among private sector firms in the city (14.1 percent) or those in the suburbs (9.4 percent) in 1980.

4. For many years South Carolina, like many of its neighboring southern states and more recently several northern states including Wisconsin, have offered a variety of financial incentives to private industry in efforts to attract business. Yet such incentives provide no guarantee that new jobs will be created or that jobs will be available on an equal opportunity basis. While South Carolina has experienced a net increase in jobs in recent years, minorities are underutilized in those firms that moved into or were born in South Carolina, including branches of firms headquartered in Wisconsin. As in Wisconsin, minorities were employed at a higher rate among South Carolina firms that shut down than among private sector firms statewide.

5. Minorities and women are underutilized in Wisconsin firms receiving industrial revenue bond (IRB) financing. While state law prohibits employment discrimination in projects financed by IRB's, the law permits municipalities to waive

this provision if they give a reason for the waiver. There is virtually no monitoring by any public authority of the employment practices of these firms to assure they do not use IRB financing in a discriminatory manner.

6. Minorities are frequently underutilized in firms that relocate, particularly if that relocation is from a central city to its suburban ring. Such actions may violate Title VII of the Civil Rights Act of 1964, Executive Order 11246 (as amended by 11375) and other Federal civil rights requirements.

7. Several civil rights experts have advocated promulgation of regulations by the Equal Employment Opportunity Commission and the U.S. Department of Labor that would require employers contemplating a relocation to assess the potential impact on minority employment. If that assessment suggests minority employment would be adversely affected affirmative action would be required to mitigate that potential impact. Such actions could include but would not be limited to considering alternative sites or reconsidering the move altogether, providing housing or transportation allowances or services to minority employees, and affirmative recruitment of minority job applicants.

8. Site selection for relocation or new branches are frequently predicated on employer preferences for lower labor costs and for a non-union work force. In addition to violating various Federal equal opportunity requirements, such investment decisions may violate the National Labor Relations Act.

9. Unions can play a critical role in their efforts to assure equal employment opportunity by incorporating relocation and other investment decisions into the collective bargaining agreement.

10. A fundamental problem plaguing economically depressed areas, communities where minorities represent a disproportionately high share of the total population, is the absence of any public control over capital allocation. Investment decisions by individual private sector firms are made to maximize returns to stockholders. When those decisions involve a shutdown or relocation, many social costs are generated (e.g., increased unemployment; lower tax revenues and municipal services; greater incidence of mental and physical health problems and social problems like divorce, crime, and alcoholism; and exacerbation of racial tensions) that ultimately are paid for by the

public sector as well as lower income individuals, particularly minority residents.

11. Legislation has been introduced in Congress and in several states, including Senate Bill 717 in Wisconsin, in an effort to minimize and more equitably allocate the public costs of economic dislocation. These proposals call for advance notification of any plant closing or substantial reduction in production, job rights at other company locations for employees adversely affected or severance pay to those unable or unwilling to relocate, payments to an economic development fund to assist the community left behind, and support for employee or employee/community takeover of facilities that would otherwise close down.

Recommendations

1. Federal, state, and local governments provide financial assistance to private sector firms in the forms of contracts, tax credits, abatements, industrial revenue bonds, and others. In order to receive contracts, employers are often required to comply with specific equal opportunity and affirmative action regulations. Similar requirements should apply when an employer receives any other form of financial assistance from the public sector.

* The state of Wisconsin and municipalities within the state should develop equal opportunity requirements, modeled along the lines of Executive Order 11246, pertaining to Federal contractors, that would apply to firms benefiting from an industrial revenue bond, tax abatement, or other forms of financial assistance.

* Congress should enact legislation establishing similar requirements for firms receiving such financial assistance from the Federal government. This would apply to all firms in the nation benefiting from IRB's since, due to the Federal income tax exemption on the bonds' earnings, the holders of the bonds and the firms receiving the subsequent loans at below market rates are federally subsidized.

* Affirmative action (including numerical goals and timetables if necessary), not simply pledges of non-discrimination, should be required. These requirements should apply to an employer's entire work force, not just to those who may be hired under a particular incentive program.

2. The Equal Employment Opportunity Commission (EEOC) and the U.S. Department of Labor (DOL) should jointly promulgate regulations under Title VII of the Civil Rights Act of 1964 and Executive Order 11246 to assure that any plant closing, relocation, merger, or any other change resulting in a substantial reduction in employment at a facility does not adversely impact on minority or female employees. These regulations should require an employer contemplating such an investment decision to assess the potential impact on minority and female employment. Where an adverse impact is indicated, the regulations should require implementation of affirmative action to mitigate the adverse impact. Such affirmative action could include but would not be limited to considering an alternative site for a relocation or reconsidering the decision altogether, housing or transportation allowances or services for minority or female employees, innovative affirmative recruitment of job applicants, and other efforts. The regulations should include penalties for violators comparable to those available to the EEOC and D.O.L. under Title VII of the Civil Rights Act of 1964 and Executive Order 11246.

3. Unions should incorporate plant closing, relocation, merger, and related investment decisions (as well as the

effects of the decisions) into the collective bargaining agreement. Such contract provisions should assure that minorities and women will not carry a disproportionate share of any costs associated with these decisions.

4. Congress should enact legislation embodying the key provisions of the National Employment Priorities Act, Employee Protection and Community Stabilization Act, Voluntary Job Preservation and Community Stabilization Act, and Employment Maintenance Act. Such legislation should provide for advance notification of any plant closing, relocation, merger, or other change resulting in a substantial reduction in employment at a facility; job offers at other company locations for employees affected by the reduction or severance pay to those who are unable or unwilling to relocate; financial assistance to the community affected by the reduction; and assistance to employee and employee/community groups seeking to purchase a facility otherwise scheduled for closing, where feasible. The legislation should include specific equal employment opportunity requirements with which the recipients of such aid must comply.

5. The state of Wisconsin should enact legislation embodying similar provisions as is provided in Senate Bill 717.

6. The U.S. Commission on Civil Rights should conduct a nationwide study of the impact of capital mobility and business incentives on job opportunities for minorities and women.

*U.S. GOVERNMENT PRINTING OFFICE : 1982 O-392-513/223

U. S. COMMISSION ON CIVIL RIGHTS

WASHINGTON, D. C. 20425

OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE, $300

FOURTH CLASS MAIL
POSTAGE AND FEES PAID
U.S. COMMISSION ON CIVIL RIGHTS
PERMIT NO. G73

U.S. MAIL