

# Mind the Gap

Reducing Disparities to Improve Regional  
Competitiveness in the Twin Cities

BROOKINGS INSTITUTION METROPOLITAN POLICY PROGRAM



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# Executive Summary

Like in many regions around the country, leaders in Minneapolis-St. Paul strive constantly to innovate and adopt strategies to bolster the region's economic competitiveness.

Luckily, the Twin Cities region has many assets to build upon. It has a highly-educated workforce and strong job growth. The region is surrounded by an abundance of parks, recreational outlets, and other natural amenities. Additionally, the Twin Cities has a long history of regional thinking and an egalitarian spirit that many other metropolitan areas envy.



*“In short, the overall health of the region masks stark disparities. And such disparities matter to economic competitiveness.”*

Despite these strengths, however, the region does not work for everyone. In a region where household income is among the highest in the nation, black household income is among the lowest. In a region that has the highest share of adults with a high school diploma in the country, it only ranks 40th among the 100 largest metro areas for Latinos with a completed high school education.

In short, the overall health of the region masks stark disparities. And such disparities matter to economic competitiveness.

This report, *Mind the Gap: Reducing Disparities to Improve Regional Competitiveness in the Twin Cities*, tracks plainly the disparities that exist in the region. It also argues that not only is reducing such disparities the right thing to do, it is also the smart thing to do to protect the continued economic success of the region.

Specifically, the report finds that:

**THE TWIN CITIES REGION IS BLESSED WITH A NUMBER OF ASSETS THAT MAKE IT A STRONG, COMPETITIVE REGION.**


As mentioned above, the Minneapolis–St. Paul area approaches any competitive strategy from a position of strength. The region has one of the most highly educated populations in the country, both in terms of its share of high school and college graduates. Its median household income is the 14th highest among the 100 largest metropolitan areas, while its poverty rate is one of the lowest among the largest metros. And the region’s job growth and per capita income growth have outpaced the nation’s for the last decade.

**HOWEVER, UNDERNEATH THESE BROAD REGIONAL SUCCESSES ARE SOME DISTURBING SOCIAL AND ECONOMIC DISPARITIES, DEMONSTRATING THAT PROGRESS IS NOT WIDELY SHARED.**

There are three sets of “gaps” or disparities in the Twin Cities metro area—among racial and ethnic groups, among different income groups, and between the central







*Reducing disparities  
will build a more  
competitive work-  
force for the  
future.*

cities and the suburbs—that show that the region’s prosperity does not benefit all residents or communities. For instance:

## Race disparities

- The Twin Cities region has the 12th highest college attainment rate among the 100 largest metro areas—33 percent of its residents have a bachelors degree or higher. However, only 19 percent of African Americans, 11 percent of Mexicans, and 8 percent of Hmong do.
- The Twin Cities region has the 14th highest median household income among the largest metro areas. In 2000, whites had a median household income of \$56,642, while the typical household income for African Americans lagged at \$29,404 and \$38,909 for Mexicans.
- Again, the Twin Cities boasts one of the highest homeownership rates in the country—ranked seventh, in fact—a strong sign of wealth-building among families. While 76 percent of whites were homeowners in 2000, only 32 percent of blacks owned homes.
- Finally, while the region’s overall poverty ranks among the lowest in the country, poverty still disproportionately plagues some segments of the population. In 2000, only 4 percent of whites were poor, but one-third of all Hmong lived below the federal poverty line.

## Class disparities

- Low-income adults have low levels of educational attainment, and educational levels, in turn, affect incomes. In the Twin Cities region, of all adults who earn less than \$17,500, only 26 percent have a college degree or higher. Meanwhile, more than half—53 percent—of middle class adults earning between \$35,000 and \$79,999 are college educated.

- The gap between the wealthy and poor is growing across the Twin Cities. Between 1989 and 1999, the average household income of the wealthiest 20 percent of Twin Cities’ households rose 24 percent. Meanwhile, the average household income of the poorest 20 percent rose more slowly at just 16 percent.

## Place disparities

- While population growth has stabilized in the two central cities, it has boomed in the surrounding suburbs. The two central cities, home to 670,000 residents, have essentially retained population between 1980 and 2000. Meanwhile, the suburbs grew 53 percent, or 800,000 people, reaching 2.3 million residents. This uneven growth pattern has continued since the last full census count in 2000. Estimates for 2004 show that since then the cities lost some 20,000 people while the suburbs gained 200,000 residents.
- As with people, jobs in the region are dispersing. Almost 80 percent of the region’s jobs are located beyond five miles from the area’s two central business districts. But high-skilled jobs are staying in the core. The two central cities have a concentration of “knowledge economy” jobs. While the two cities have 30 percent of the region’s employment, they are home to 58 percent of legal occupations, 40 percent of healthcare jobs, and 35 percent of computer jobs.
- As jobs and people moved outward, the two central cities are now home to the bulk of the region’s poor and minority households. In 2000, the cities of Minneapolis and St. Paul had 23 percent of the region’s total population, but 54 percent of all poor residents and 54 percent of the region’s persons of color.



## **REDUCING THESE INEQUALITIES MATTERS TO THE ECONOMIC AND FISCAL FUTURE OF THE REGION.**

Reducing disparities is not just the right thing to do, it is the smart thing to do. “Minding the gap” is crucial to preserving the region’s strong economic position. Further, doing so can generate more revenues (and reduce costs) for the region.

■ **Reducing disparities now will build a more competitive workforce for the future.** In urgent and most prescient terms, the Twin Cities is heading straight for a workforce shortage. In six years (or by 2011), the oldest baby boomers in the region, aged 54 in 2000, will start to retire. By 2029, the youngest baby boomers reach retirement age. Forty-six percent of baby boom workers had at least a college degree in 2000. This means that in 15 years, the Twin Cities region will lose more than 350,000 highly-skilled workers to retirement.

It is essential to replace this skilled labor to keep the economy churning with high-quality growth. However, economic studies forecast a diminished supply of skilled workers nationwide, so regions cannot rely heavily on attracting workers from elsewhere. Instead, there will need to be an increased dependence on existing workers, and economists predict that this means more women and minorities in the workforce.

For the Twin Cities, while only 10 percent of baby boomers in the metro area are members of minority groups, minorities comprise one-quarter of the next generation of workers. And as evidence in this report shows, racial disparities, if left unchecked, will mean a future workforce that has little education and few skills, potentially undercutting the economic strides of the last few decades.

■ **Reducing disparities between race and income groups brings more money into the Twin Cities metro area.** Reducing disparities among race and income groups will increase local tax bases and decrease the fiscal costs associated with poverty. Having larger numbers of people earning at least a middle-class income fuels the local economy by creating a larger number of consumers with more purchasing power.

■ **Reducing disparities between places benefits the whole region, not just the communities left behind.** A growing body of economic research suggests that the fates of large cities and their metropolitan areas are intertwined—they grow together or they decline together. For instance, evidence shows that when central city incomes grow, then suburban incomes, home values, and populations also increase. Another study of 74 metro areas found that reductions in central city poverty rates helped fuel income growth in the whole region. Reducing spatial disparities also creates efficiencies that lower infrastructure costs.

## **THE TWIN CITIES REGION HAS AN OPPORTUNITY NOW TO ORGANIZE AND ADDRESS THESE DISPARITIES SO IT CAN REMAIN AN ECONOMICALLY COMPETITIVE, HIGH QUALITY REGION.**

The most successful regions are those that are nimble and able to respond to changing fortunes. The Twin Cities has an opportunity now to anticipate and prepare for a stronger future. The region has shown its responsiveness and leadership with the creation of the Metropolitan Council and, more recently, with innovative policies and attention to key factors like education and healthcare. But the Twin Cities continues to change rapidly and it will be necessary to revisit these investments and policies to make sure they continue to meet the needs of the region’s residents.

There are three basic elements of an agenda to reduce disparities in the region:

- **Update “the basics”** by making sure education, healthcare, and public safety meet the needs of the region’s 21st century population
- **Increase income and wealth** by helping minority groups close the gap on economic measures, and
- **Operationalize regionalism** by making sure that long-time efforts to build regional cohesion and improve growth and development patterns also extend to improving opportunities for low-income and minority residents

The Twin Cities has an opportunity to continue to be a forward-looking leader, as it has been on so many other occasions. With its high educational attainment rates, wage and job growth, and progressive policies, the Twin Cities is well-positioned to look honestly at its progress and directly address the challenges of its households and communities, in short “minding the gap,” to ensure a competitive future.



# Introduction

Garrison Keillor ends each of his famous Lake Wobegon radio monologues with the phrase, “...where all the women are strong, all the men are good looking, and all the children are above average.” Although tongue-in-cheek, this well-known phrase captures something of the way Minnesotans think of their state: as an egalitarian and meritocratic place where everyone can succeed.

A 2004 report by the Hubert H. Humphrey Institute at the University of Minnesota confirms the impression: “Equal opportunity—a cornerstone of the ‘Minnesota Way’—continues to drive residents of the state. They continue to be committed to making sure that everyone has the same chance at a high quality of life and that Minnesota ‘works for everyone.’”<sup>1</sup>

Unfortunately, Minnesota does *not* work for everyone. In a region where household income is among the highest in the nation, black household income is among the lowest. In a region that has the highest share of adults with a high school diploma in the country, it only ranks 40th among the 100 largest metropolitan areas for Latino high school educational attainment.

While much has been written on why reducing disparities is the *right* thing to do, less attention has been paid to how it’s the *smart* thing to do. Making sure that all boats rise with the tide is one important way of working toward continued future economic success. For example, increasing college attainment rates among under-represented groups is a strategy for building a quality future workforce—not just an effort to promote equity.

The Minneapolis-St. Paul metropolitan area is well equipped to meet this challenge. The region has a number of enviable assets. The Twin Cities has a highly skilled workforce—one-third of its adults have a bachelor’s degree or higher. Both jobs and average annual pay have increased at higher rates than they have nationally. Unemployment is low, as is poverty. In addition to these core economic assets, the region has a long history of civic engagement and cutting-edge policies, such as a tax base sharing program that has been in place for almost 35 years and a Metropolitan Council that is of the strongest regional governing bodies in the country.

These assets provide a good base for meeting the challenges of growing disparities that will eventually hinder the region’s future success. The strength of the region allows the Twin Cities to engage proactively, rather than reactively, as many other cities and regions are forced to do.

This report describes economic and social disparities found in the Twin Cities region. Specifically, it examines how levels of education, wealth, and economic opportunities differ between segments of the population and between cities and suburbs in the region. The report then explains how reducing these disparities can improve the region’s economic competitiveness. The report will conclude by describing the pathways to improvement—ways in which business and civic leaders can work toward the goal of a more competitive region.



## ABOUT THE ANALYSIS: DEFINITIONS

*Mind the Gap* analyzes differences among groups of people—income groups and racial groups—and among places.

**Race.** The report examines difference not only between large race categories (black, white, Asian, Latino) but also provides information about specific groups that have a significant presence in the region, including Hmong, Mexicans, and Sub-Saharan Africans. (The Census does not break out Somali or Oromo, two Sub-Saharan African immigrant groups in the Twin Cities. Instead, the report uses the larger category of Sub-Saharan African, which is available from the Census.)<sup>2</sup> The data for these specific race and ethnic groups comes from the Census Summary File 4, which allows users to view every tabulation the Census creates in Summary File 3 by race, ethnicity, and ancestry. Whenever data were available on these specific groups, we subtracted out the smaller group from the larger race/ethnic group. In these cases, we use labels such as “non-Hmong Asians” or “Asians other than Hmong.”

**Class.** The income analysis divides the region’s households into five groups: low income, low-middle income, middle income, middle-high income, and high income. The groups are determined by assigning each household to a national income quintile. By first dividing the nation’s households into five equal parts, or quintiles, we can determine the income cutoffs for each quintile (for example, the wealthiest 20 percent of American households earned \$81,000 or above). After adjusting for regional cost of living differences, each Twin Cities household is assigned to one of these income groups.<sup>3</sup>



**Place.** Economies are metropolitan in nature, and the strong tie between cities and suburbs makes the metropolitan region the most appropriate level of geography to study trends that affect economic competitiveness. This report uses the Census definition of the metropolitan area: the 13 counties surrounding the two central cities of Minneapolis and St. Paul—11 in Minnesota and two in Wisconsin.<sup>4</sup>

When discussing the two central cities, the report presents combined data for Minneapolis and St. Paul. While Minneapolis and St. Paul have different histories and different governments, their geographic proximity lends itself to looking at the two cities together. Moreover, most trends—median household income,

percent nonwhite or Latino, poverty rate, etc.—are similar for both central cities.

Throughout the analysis, the report compares the cities and the metropolitan area to national averages as well as other cities and metropolitan areas to benchmark how the Twin Cities area performs compared to the rest of the nation.

It should be noted that there are several other kinds of disparities in the Twin Cities not discussed here, for example, those affecting disabled residents, due to data limitations. Census data from 1990 to 2000, updated to 2003 where possible, were used throughout this report. (See Appendix A for more detail.)





# The Twin Cities faces three different kinds of disparities

**D**isparities exist despite the successes of the 1990s, when the region experienced population growth, income growth, and job growth. In 2000, the Minneapolis-St. Paul region had the 13th largest population (nearly 3 million) and the 14th highest median household income in the country at \$54,304. The Twin Cities also has a very low poverty rate of 7 percent, the third lowest among the 100 largest metro areas in 2000. Poverty rates stayed about the same between 2000 and 2003, according to the Census Bureau's American Community Survey (ACS) estimates—the poverty rate for the four most populated counties (Anoka, Dakota, Hennepin, and Ramsey) was 8 percent in 2003.



# race, class, place

The Twin Cities is one of the most educated regions in the country. One-third of adults in the Twin Cities region have a bachelor's degree or higher, ranking twelfth in the country in 2000. Additionally, with a high school education attainment rate of 91 percent, the Twin Cities metro had the highest rate in the country. The ACS suggests that the region has maintained this high rate of high school-educated adults—93 percent of adults in had high school degrees or higher in 2003.

And the region's overall economy is strong. Between 1990 and 2003, per capita income in the Minneapolis-St. Paul metropolitan area grew by 21 percent, outpacing the nation's growth of 15 percent. In the same time period, employment grew 25 percent, versus the nation's employment growth of 20 percent.<sup>5</sup> The region's industry composition closely parallels the nation's, meaning that the economy is diverse, providing a measure of stability. The region's two industry sector specializations are finance and insurance and management of companies—both high-paying, growing sectors.<sup>6</sup>

*“The Twin Cities has a lot to be proud of. But it's the story that these large, aggregate numbers do not tell that is of concern.”*

The Twin Cities has a lot to be proud of. But these large, aggregate numbers miss another part of the story. By looking under the surface to see how different groups of people and places are faring, another picture of the Twin Cities emerges.

There are at least three kinds of “gaps” or disparities found in the Minneapolis-St. Paul metro (as well as most other urban areas). First, **race disparities**, or differences among race and ethnic groups occur on almost every socio-economic indicator. Second, significant **class disparities**, or differences among income groups such as the growing gap between what high-earners and low-earners make, divide the region. Third, **place disparities**, or differences between cities and suburbs (and among suburbs), result from uneven development that has led to concentrations of poverty in the regional core and concentrations of relative wealth in the outer suburbs.





# Race disparities

A growing number of different racial and ethnic groups calls the Twin Cities home. Besides Native Americans and African Americans, who have long histories in the region, new groups such as the Hmong from Southeast Asia, the Somali and Oromo from eastern Africa also reside in the region. Latinos, primarily Mexicans, have been in the Twin Cities since the mid 1800s, but are now moving to the area in much larger numbers. The experience of each individual group is different; the Somali experience is quite different from the native-born black experience, and the Hmong experience is quite different from the experience of other Asian Americans. One thing they do have in common, however, is that with few exceptions they are not reaping the full benefit of the region's success.

## THE CURRENT SITUATION:

There is a large gap between Twin Cities' minority residents and white residents

On any number of indicators, people of color in the Twin Cities do not do as well as white residents.

### **MINORITIES HAVE LOW LEVELS OF EDUCATIONAL ATTAINMENT**

In a changing economy where an education is the ticket to higher incomes and better jobs, Twin Cities' minority residents are at a disadvantage. At all levels of education, minority residents (with some exceptions) fall short of the region's impressive educational attainment rates.

The differences start early in life. According to the latest Wilder Research Center *Metro Trends Watch* report, although 89 percent of white eighth graders in the Twin Cities passed the state's Basic Skills Test in reading, only 60 percent of Asians, 57 percent of Latinos, and 48 percent of blacks did.<sup>7</sup> Dropout rates for minority students far exceed those for white students. In the 2002 school year, 2 percent of white students enrolled in grades 7 to 12 dropped out. But 7 percent of black students, 9 percent of Native American students, and 13 percent of Latino students dropped out.<sup>8</sup> Overall, only 41 percent of Native American students and 43 percent of black students graduate from high school within four years, a rate less than half of white students' 87 percent rate.





These differences, in turn, contribute to a smaller share of minority adults with a high school degree. More than 90 percent of the adults in the Twin Cities have a high school degree—the highest rate in the nation.<sup>9</sup> However, fewer than half of Hmong adults have a high school education, and only 57 percent of Mexican adults do. In fact, the Twin Cities ranks 40th among the nation’s largest metro areas in Latino high school educational attainment, a poor showing for a region that leads the nation overall.

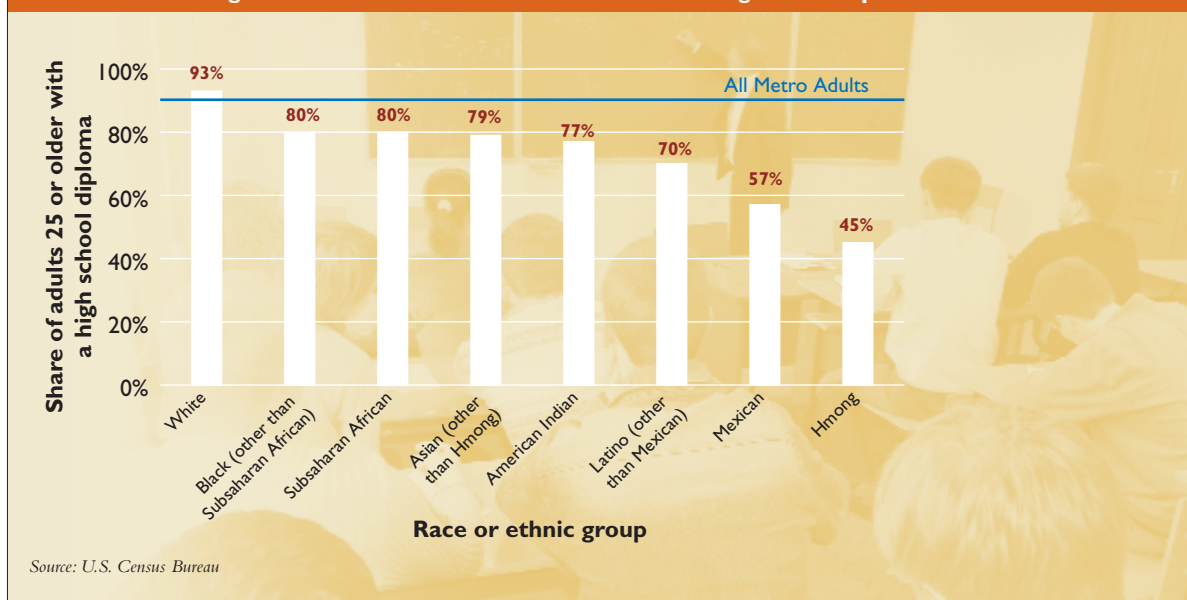
The pattern continues for higher education. Although the metropolitan area is a leader in B.A. attainment, many groups fall behind. One-third of the adults in the Twin Cities have at least a bachelor’s degree. Non-Hmong Asians and whites have an even higher share of adults with

bachelor’s degrees—44 percent and 35 percent respectively. On the opposite end of the spectrum are Hmong, with only 8 percent, and Mexicans and Native Americans, both with a rate of 11 percent.

There are some differences. There seems to be a “leak” in the education pipeline that affects some groups more than others. For example, even though black high school attainment rate is lower than the metro rate, it is still relatively high at 80 percent. However, the black college attainment rate languishes at 19 percent. Meanwhile, the non-Hmong Asian educational attainment is also 80 percent, but the non-Hmong Asian college attainment rate is very high—44 percent, creating starkly different educational trajectories for black residents versus Asian residents.

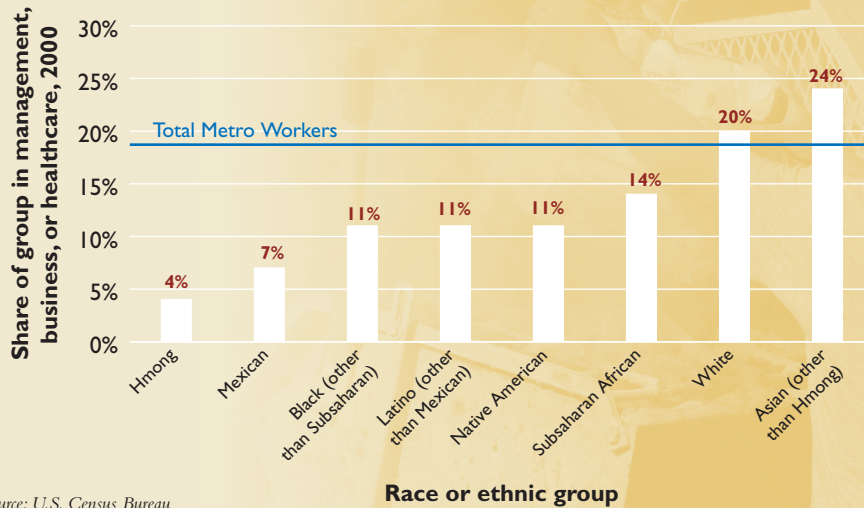
*In a changing economy where an education is the ticket to higher incomes and better jobs, Twin Cities minority residents are at a disadvantage.*

**Mexicans and Hmong have the lowest rate of adults with at least a high school diploma in the Twin Cities metro**

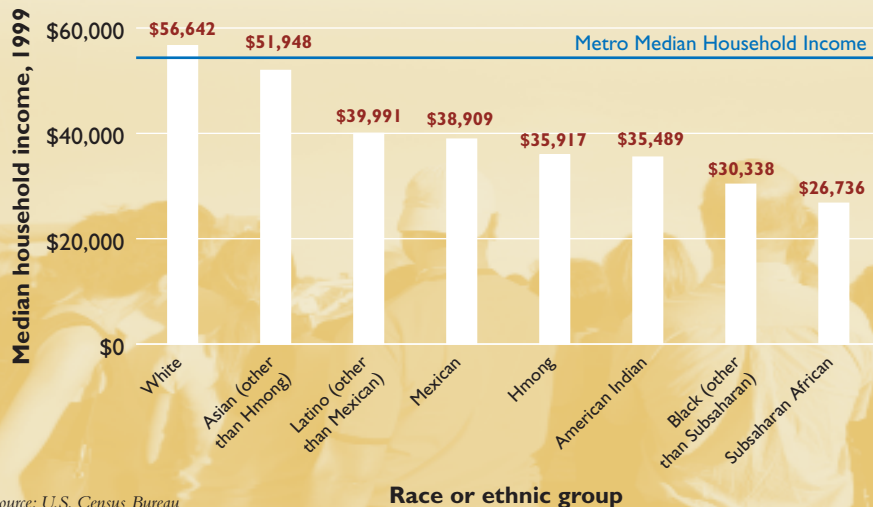




**In the Twin Cities metro a larger share of non-Hmong Asians and whites have jobs in high-paying occupations than other groups**



**Median household income in the Twin Cities region varies widely by race**



**MINORITIES TEND TO HOLD LOWER-SKILL, LOWER-WAGE JOBS**

According to a U.S. Census report, an individual with a high school degree will earn a projected \$1 million dollars less over a lifetime than an individual with a college degree. An associate's degree alone increases lifetime earnings by about \$400,000.<sup>10</sup> The reason: Those individuals with an education are able to obtain more highly-skilled jobs, which in turn pay more.

Given that fact, sharp differences mark the kinds of occupations that different races and ethnic groups hold. For example, 24 percent of non-Hmong Asians and 23 percent of whites in the Twin Cities are employed in the five highest occupational groups of management, legal, computer and math, architecture, and healthcare practitioner occupations. These occupations have average annual salaries ranging from \$60,000 to \$97,000.<sup>11</sup> Meanwhile, only 13 percent of blacks and 8 percent of Mexicans hold positions in these fields.

On the other hand, the region's five lowest-paying occupational groups are healthcare support, farming, building cleaning and maintenance, personal care, and food preparation, which have an average annual salary ranging from \$18,000 to \$27,000. Only 10 percent of whites and 13 percent of non-Hmong Asians hold these jobs while 28 percent of Mexicans and 21 percent of blacks do.<sup>12</sup>



## WHITES HAVE HIGHER INCOMES THAN MINORITIES

With lower educational levels limiting access to well-paying jobs, minorities are more likely to earn lower incomes. The metropolitan area's median household income is \$54,304.<sup>13</sup> The median household income for white households is even higher at \$56,642. The white median household income is more than twice that of Sub-Saharan Africans, who have the lowest median household income in the metro (\$26,736). Hmong, Native Americans, and blacks all have median households that are at least \$20,000 less than white households.

The same pattern holds true, of course, for poverty rates. One-third of all Hmong are poor, while only 4 percent of whites are poor.<sup>14</sup> The next lowest poverty rate is the Asian (other than Hmong) poverty rate, which at 12 percent is three times the rate of whites. Even more dramatic is the difference in child poverty rates. Over one-third of all Hmong, Sub-Saharan African, and black children are poor, even though the overall child poverty rate for the region is 9 percent. Only 4 percent of white children are poor, while 15 percent of Latino children are poor.

## WHITE HOUSEHOLDS HAVE MORE WEALTH THAN MINORITY HOUSEHOLDS

So far, this report has examined differences in income among race and ethnic groups. But *income* only tells one part of the economic opportunity story—*wealth* tells us even more.

As Melvin Oliver and Thomas Shapiro explain in their 1997 book, *Black Wealth/White Wealth*, income is the flow of dollars, usually over the period of a year, from salaries, wages, and government transfers such as various tax credits. Wealth, on the other hand, encompasses a household's assets such as a house or stocks and bonds, as well as any savings put away for future use.<sup>15</sup> Wealth tells us more about economic opportunity than income alone does, as families who have the same income can have different levels of wealth. As Oliver

and Shapiro point out, "The reality for most families is that income supplies the necessities of life, while wealth represents a kind of 'surplus' resource available for improving life chances, providing further opportunities, securing prestige, passing on status to one's family, and influencing the political process."<sup>16</sup>

Nationally, according to the Pew Hispanic Center's report on wealth disparities among race and ethnic groups, African Americans had less than 7 cents for every dollar of wealth owned by whites.<sup>17</sup> In 2002, that meant that nationwide, whites had a median net worth of \$88,651, but black households' median net worth reached only \$5,988.





*As with home values, even interest earnings for households in the same income bracket vary by race.*

**Homeownership.** In the Twin Cities, homeownership—usually a family’s largest single investment—varies widely by race. With a homeownership rate of 72 percent, the metro has the seventh highest homeownership rate in the country.<sup>18</sup> Whites have a homeownership rate of 76 percent, but every other group is at least 20 percentage points below that. Only 21 percent of Sub-Saharan Africans are homeowners, while approximately 40 percent of Native Americans, Latinos, and blacks are homeowners. Hmong households are an exception to the general pattern—they have the second highest homeownership rate in the region.

But even when minority households do own a home, their asset is often not worth as much. The metro median home value is \$141,200, and the median value for white households is about the same. However, the median house value for the Hmong is only \$93,000, blacks’ median home value is \$107,500, and Latinos’ homes are worth \$111,200.

Moreover, median house value varies by race even for households in the same income bracket. The median house value for white households earning between \$30,000 and \$74,999 is \$129,200.<sup>19</sup> However, black homeowners in the same income group have a median house value of only \$71,600 and Latino homeowners’ median house value is \$92,100.

Part of this may be due to the fact that minority households, even middle and upper income minority households, tend

to be located in parts of metropolitan areas that have lower property values. Urban expert David Rusk describes this as a “segregation tax.” Home equity, as Rusk explains, is “the typical American family’s most important financial asset.”<sup>20</sup> Because minority home values, even when corrected for income, are so much lower than white home values, minority households do not have as strong a wealth-building tool.





**Interest income.** There are also differences among Twin Cities households in terms of the amount of interest income earned. Ninety percent of black households and 86 percent of Latino households do not have any income from interest on bonds and other investments, dividends from stock, or rent; while 57 percent of whites do not have interest income.<sup>21</sup> Fifteen percent of white households have interest income of at least \$3,000 a year, but only 5 percent of Latino households and 3 percent of black households do. As with home values, interest earnings for households in the same income bracket vary by race. Among middle income white households (those earning between \$35,000 and \$79,999) in the Twin Cities, 33 percent have interest income of at least \$100 a year, but only 13 percent of middle-income minority households have interest income.<sup>22</sup>

The consequences of having low or no wealth are formidable. As Samuel Myers, Jr. has shown, in the booming 1990s black households made moderate gains in income and saw reductions in poverty.<sup>23</sup> But compared to whites, they had very small gains in wealth: “Few were able to translate these incomes gains into permanent assets.”<sup>24</sup> This puts middle class blacks at risk—there is less of a safety net for recessions, illness, job loss, or other misfortune. And there is less opportunity to reap the benefits of investment, save for retirement, or pass on wealth to children. Moreover, with the start of the 2001 recession, blacks’ and Latinos’ net worth fell. Between 1999 and 2001, the nation’s blacks lost 32 percent of their net worth while whites gained 2 percent.<sup>25</sup>

## **THERE ARE HEALTH AND HEALTHCARE DISPARITIES AMONG RACE GROUPS.**

There are also differences among race and ethnic groups in health matters. In Minnesota, according to the state’s Center for Health Statistics, blacks and American Indians’ infant mortality rates, exceed those for whites and Asians. The same goes for mortality rates.<sup>26</sup> The infant mortality rate (per 100,000) for blacks and American Indians is 12.7 and 12.0 respectively, while it is 6.2 and 7.0 for whites and Asians.<sup>27</sup> The same patterns holds true for mortality rates—blacks and American Indians have higher mortality rates for all age brackets than other groups. For 25- to 44-year-olds the mortality rate for blacks is 190.7 and 352.8 for American Indians; but only 89.0 for Latinos and 98.1 for whites.<sup>28</sup>

A much larger share of whites are covered by some form of health insurance. While only 5 percent of whites are uninsured, 12 percent of blacks, 15 percent of American Indians, and 33 percent of Latinos lack health insurance.<sup>29</sup> Probably related to disparities in insurance coverage is the pattern of disparities in neo-natal care and early childhood immunizations. Almost 90 percent of white Minnesota mothers receive prenatal care in the first trimester, but neonatal care is received by only 63 percent of Latino mothers, 66 percent of black mothers, and 67 percent of Asian mothers.<sup>30</sup> By 24 months, 85 percent of white children are up to date on their immunizations, but only 65 percent of Latino children and 62 percent of black children are up to date.<sup>31</sup>

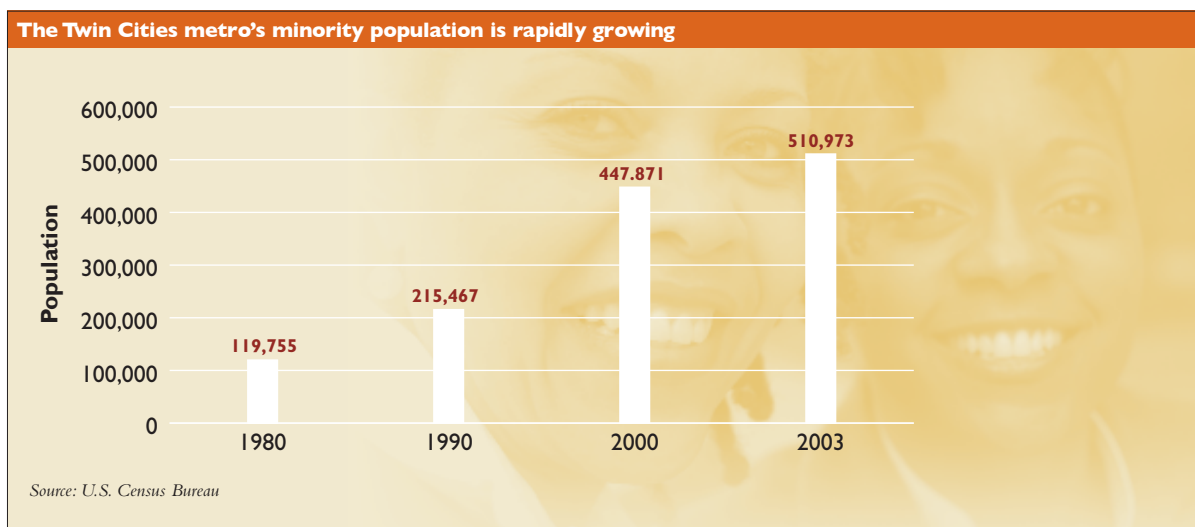




## THE CONSEQUENCE:

# As the minority population grows, disparities will have a larger impact

The Twin Cities metro is still overwhelmingly white, but rapid change is occurring. In 1990, minorities comprised 8 percent of the metro's population. By 2000, that nearly doubled to 15 percent.<sup>32</sup> Between 1990 and 2000, the metro added more than 200,000 minority residents—a 110 percent increase. These trends appear to have continued since 2000. According to Census population estimates for 2003, the minority population has increased 14 percent since 2000, adding 63,100 residents.<sup>33</sup>



Most demographers would agree that the Twin Cities metro will continue to become more diverse in the coming years and decades. For example, the Minnesota State Demographic Center predicts a much more diverse Minnesota in 2030, based on higher minority in-migration rates and birth rates, and a younger age composition of the minority population.<sup>34</sup>

The minority population is growing rapidly. If patterns hold, current trends will drag downward the region's performance on all relevant socio-economic indicators.



# Class disparities

**T**hough there is a great deal of overlap between racial disparities and income disparities because a disproportionately large share of poor households are minorities, it is worth examining income disparities independently. To do so sheds light on how poverty, regardless of race, presents certain challenges complicating the ascent up the income ladder. And because the gap between rich and poor is growing, these challenges may be more pronounced than ever.

## THE CURRENT SITUATION:

### Sharp disparities among income groups exist

Low-income households face challenges that wealthier families do not. Primarily, low-income households have lower educational attainment rates, tend to hold “dead-end” jobs without built-in advancement, and face higher costs associated with being poor that inhibit the ability to save. These differences hamper income mobility and wealth building opportunities.

#### **LOW-INCOME ADULTS HAVE LOW LEVELS OF EDUCATIONAL ATTAINMENT**

Of all adults who earn less than \$17,500, only 26 percent have a college degree or higher, but 53 percent of adults earning between \$35,000 and \$79,999 are college educated. Likewise, 97 percent of Twin Cities adults earning between \$35,000 and \$79,999 have a high school degree, but only 81 percent of low-income adults do.

#### **LOW-INCOME, LOW-SKILL WORKERS TEND TO HOLD “DEAD-END” JOBS**

Some jobs are more likely than others to provide career advancement: Carpentry, construction, and manufacturing jobs sometimes have apprenticeship programs, where there is an institutionalized method of moving up the skills ladder. Other sorts of employment usually do not: food service workers, low-end retail clerks, or customer service call center workers. There are more than half a million workers in the

Twin Cities metro that hold jobs that require only short-term on-the-job training, representing 30 percent of the total workforce.<sup>35</sup> Eighty percent of workers holding these low-skill jobs earn on average less than \$25,000 a year.

On top of that, real earnings for low-skill workers have decreased since the 1970s, as have employment levels.<sup>36</sup> Harry Holzer and Sheldon Danziger have found that disadvantaged workers (e.g. high school dropouts, welfare recipients, and black workers), when they are able to find work, do so in jobs that pay poorly, have high turnover rates, and lack benefits.<sup>37</sup> Low-wage workers are often caught in a vicious cycle—they don’t have the necessary skills to secure a better-paying job, which relegates them to jobs that offer little in terms of pay, skills training, or advancement. And because they have limited means of increasing their skills on the job, they are stuck in low-wage work.



*As with home values, even interest earnings for households in the same income bracket vary by race.*

## **POOR FAMILIES OFTEN PAY HIGH PRICES FOR BASIC GOODS AND SERVICES**

Poor families are faced with two problems. Not only do they have low incomes, but often poor households actually have to pay a higher price for goods and services. These higher prices eat into poor families' incomes, making it very difficult to build wealth and acquire assets.

Although imperfect, national data suggests that about 30 percent of households earning less than \$25,000 a year lack a checking or savings account.<sup>38</sup> A rough estimate based on that assumption means that there are almost 63,000 unbanked households in the Minneapolis-St. Paul metro area.

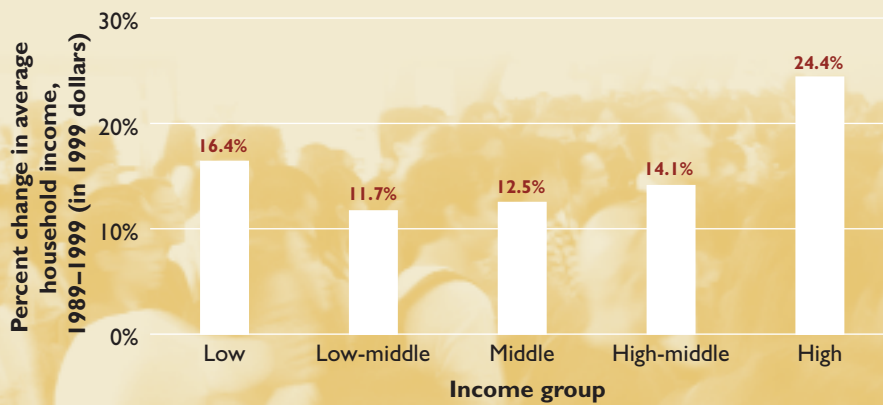
The unbanked are more likely to use alternative financial services, such as payday lenders and check cashing outlets. Using alternative financial services means that accessing something as basic as a paycheck becomes more expensive. A 2000 U.S. Treasury Department study shows that an unbanked worker earning \$12,000 spends \$250 just cashing paychecks (this does not include any other transaction fee).<sup>39</sup>

The presence of predatory lenders, meanwhile, creates an "income-stripping" industry that takes millions of dollars away from low-income households' budgets. Nationwide, payday lenders' two-week loans to poor borrowers have interest rates and fees that add up to annual percentage rates of around 500 percent. Payday lending has become big business in Minnesota. In 1997, payday lenders in the state together made less than \$200,000 total from high-interest loans. By 2003, payday lenders made over \$32 million in loans.<sup>40</sup>





#### High-income households experienced the largest gain in income in the 1990s in the Twin Cities



Source: Brookings calculation of PUMS data, U.S. Census Bureau

#### THE CONSEQUENCE:

## There is a widening gap between rich and poor, highly educated and less educated

Low-income households' weaker educational backgrounds frequently preclude their access to the opportunities high-skills jobs offer. In today's economy, education is the key to a good job. Industries are becoming ever more dependent on skilled, creative, and highly-educated employees using and developing cutting edge technologies. "Skilled" does not always mean highly educated, but in this country's (and the region's) current information-based economy, the terms are becoming increasingly synonymous.

Not surprisingly then, the difference between what high-income households earn and what low-income households earn is growing. Between 1989 and 1999, the average household income of the wealthiest 20 percent of Twin Cities households rose 24 percent. Meanwhile,

the average household income of the poorest 20 percent rose just 16 percent. In 1989, the wealthiest households earned 9.8 times as much as the poorest households. By 1999, the wealthiest households were earning 10.4 times as much.



# Place disparities

When racial and income groups are distributed unevenly across the metropolitan area, it creates disparities among places. This causes different challenges in different areas: Exurban areas may be challenged by rapid growth that outpaces physical infrastructure, while central cities struggle with disproportionately large poor populations. And the distribution of jobs in the region shapes the kind of opportunities found in different communities for households of various races, ethnicities, and income levels.

The intricate pattern of where people live and work is further complicated by the fact that it is always changing and shifting. But one thing is clear: All places within a metropolitan area remain elements of the same system so what happens in one part of the metro affects the entire region.

## THE CURRENT SITUATION:

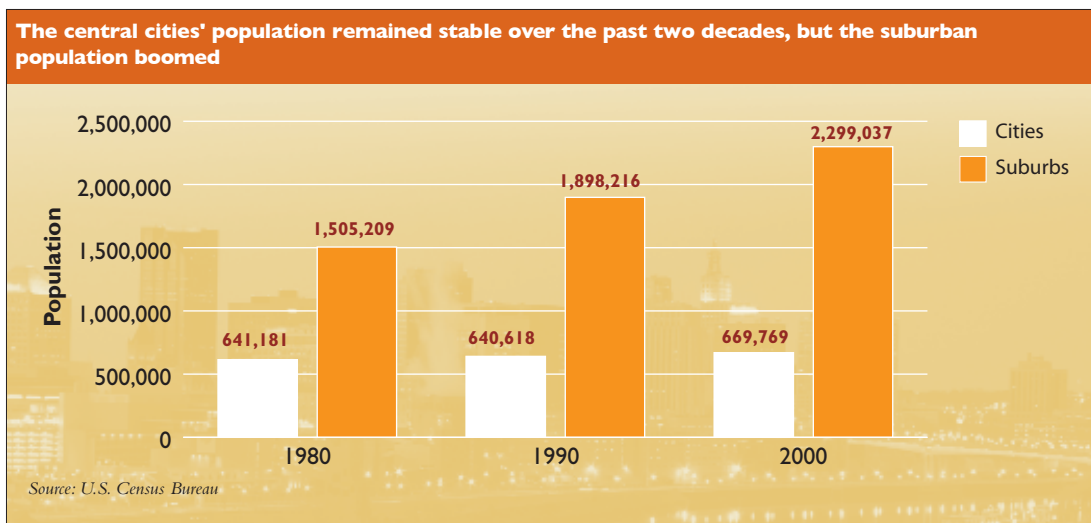
### People and jobs are unevenly distributed

The two central cities have markedly different demographic patterns than the rest of the metropolitan area. While some older, inner ring suburbs are beginning to resemble the central cities in some respects, the region still displays a fairly traditional pattern of poorer, more diverse central cities surrounded by wealthier, whiter suburbs. As with residential patterns, job growth patterns in the Twin Cities region are uneven. Some places are getting the lion's share of employment growth, and others seem to specialize in particular industries or occupations.

#### **MINNEAPOLIS AND ST. PAUL REPRESENT A DECLINING SHARE OF THE METRO'S POPULATION**

Combined, the two central cities have had a relatively stable population size since 1980. While population dipped slightly in 1990, it rebounded to reach 670,000 people by 2000. Simultaneously, however, the suburbs boomed. In 1980, the suburban

population of the Twin Cities metro was 1.5 million. By 2000, that number had grown by 53 percent to reach 2.3 million people. This trend appears to have continued. The 2004 Census Bureau population estimates show that the central cities' population has dropped slightly to 650,000 while the suburban population grew to 2.5 million.



Of course, not all suburbs experienced the same rate of growth. Exurban areas saw growth rates of up to 131 percent (in Woodbury), while older suburbs such as Richfield and New Hope actually lost population. On balance, suburbs on the edge of the metropolitan area were big population winners during the 1980s and 1990s, while the central cities and central suburbs lost ground relative to the exurban boom.



**The Twin Cities has one of the highest disparities between central city and suburban poverty in the country**

Metro Area	City/Suburb Poverty Ratio	Rank
Milwaukee	5.9	1
<b>Minneapolis-St. Paul</b>	<b>4.5</b>	<b>2</b>
Baltimore	4.3	3
Newark	4.1	4
Detroit	4.0	5
Cleveland	4.0	6
Philadelphia	3.7	7
Chicago	3.5	8
Washington	3.5	9
Cincinnati	3.3	10

Source: "Income Inequality in the District of Columbia is larger than in any major U.S. city," D.C. Fiscal Policy Institute, 2004

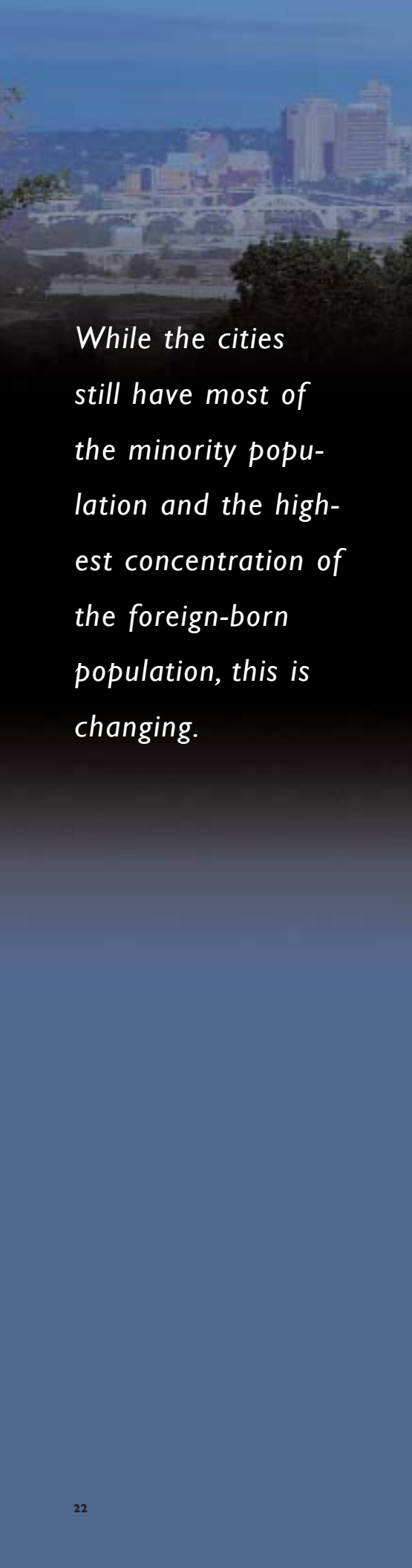
**THE CENTRAL CITIES HAVE A DISPROPORTIONATE SHARE OF THE REGION'S POOR**

While just over one-fifth of the region's population lives within the two central cities, the majority of the region's poor live there. And the cities' share of the metro's poverty population only dropped a half of a percentage point, from 54.5 percent in 1990 to 54 percent in 2000.

Concentrated poverty—neighborhoods where the poverty rates are 40 percent or higher—is solely found in Minneapolis and St. Paul. In other words, there are no extremely poor suburban neighborhoods, only extremely poor central city neighborhoods. According to a study done by the DC Fiscal Policy Institute, the Twin Cities has the second starkest differential between city poverty rates and suburban poverty rates in the country. The central cities' poverty rate is 4.5 times higher than the suburban poverty rate, which is a higher ratio than the Baltimore, Detroit, Cleveland, and Philadelphia metro areas.

*In other words, there are no extremely poor suburban neighborhoods, only extremely poor central city neighborhoods.*





*While the cities still have most of the minority population and the highest concentration of the foreign-born population, this is changing.*

**MINNEAPOLIS AND ST. PAUL ARE MORE DIVERSE THAN THE REST OF THE METRO.**

As with poverty, demographic patterns show the cities contain the bulk of the region's minorities and foreign-born residents. In 2000, the central cities were home to 87 percent of the metropolitan area's Hmong population, as well as 66 percent of the black population, 55 percent of the Mexican population, and 50 percent of the Native American population. In contrast, only 17 percent of the metro's white population lived in either Minneapolis or St. Paul. Although the central cities have only 23 percent of the metro's total population, they have 54 percent of the metro's minority population.

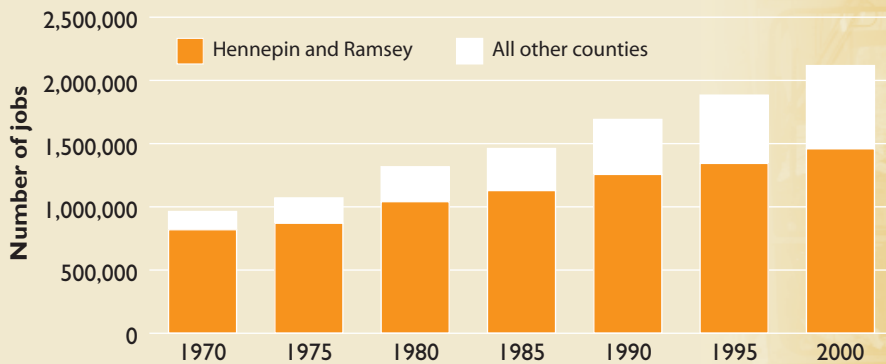
The cities also have 46 percent of the region's foreign-born population, and an even higher share for some groups. The cities have 87 percent of the foreign-born Hmong population, and 66 percent of the foreign-born Mexican population. Fourteen percent of the cities' population is foreign born, but only 7 percent of the suburban population is foreign born.

While the cities still have most of the minority population and the highest concentration of the foreign-born population, this is changing. The suburban foreign-born population has grown much faster than the central city foreign-born population. The central cities had a 127 percent increase, bringing the total to 96,613 foreign-born residents. The suburbs, on the other hand, had a 150 percent increase bringing the total suburban foreign-born population to 113,731.





The two central counties have a smaller share of the metro's employment than they did in 1970



Source: Bureau of Economic Statistics

## **MINNEAPOLIS AND ST. PAUL ARE HOME TO A SMALLER SHARE OF THE REGION'S JOBS, BUT HAVE A DISPROPORTIONATELY LARGE SHARE OF HIGH-SKILL JOBS**

Employment, like population, is dispersing outward at a fairly rapid rate. According to one study measuring “job sprawl,” Minneapolis-St. Paul ranks twentieth out of the 64 largest metro areas.<sup>43</sup> Almost 80 percent of the region’s jobs are located outside a five-mile radius of the area’s central business district. Since 1970, the share of the region’s jobs located in the two central counties has declined from 85 percent to 69 percent.

Also, certain jobs are decentralizing more rapidly than others. The two central cities have a concentration of “knowledge economy” jobs, occupations such as education, life sciences, healthcare, and architecture.<sup>44</sup> While Minneapolis and St. Paul have 30 percent of the region’s employment, they have 58 percent of legal occupations, 40 percent of healthcare jobs, and 35 percent of computer jobs. Meanwhile, the suburbs lack that kind of specialization. The suburbs have 70 percent of the region’s total employment, but 78 percent of its sales jobs and manufacturing jobs, 77 percent of its personal care jobs, and 76 percent of its maintenance jobs. The suburbs contain the bulk of the region’s employment, but tend to have more than their share of lower-skill, lower-wage occupations.



## THE CONSEQUENCES:

# Uneven distribution of jobs and people challenges both cities and suburbs

Residential and job disparities among places create a set of challenges for the region. On one hand the central cities face the stress of meeting the needs of high concentrations of poor, foreign born, and minority populations in the central cities, while the suburbs face the challenge of a booming population over a large, low-density area with inadequate infrastructure.

### **THE CONCENTRATION OF POVERTY IN MINNEAPOLIS AND ST. PAUL BRINGS AN ACCOMPANIMENT OF OTHER CHALLENGES**

Minneapolis and St. Paul have higher concentrations of unemployment, homelessness, and crime—challenges associated with having a larger poor population. In May 2005, the unemployment rate for the Twin Cities suburbs is a very low 3.5 percent, but it is 4.3 percent in Minneapolis and St. Paul.<sup>45</sup> Likewise, estimates show that the two central counties (Hennepin and Ramsey) have more than half of the region's homeless population even though they only have 21 percent of the region's total population.<sup>46</sup> Crime rates are much higher in the two cities. Combined, the violent crime rate is 1,006.9 incidents per

100,000 residents in the two central cities, but only 140.2 in the suburbs. There is also a disparity in property crime rates—5,105.4 in the cities, and 2,997.4 per 100,000 residents in the suburbs.<sup>47</sup>

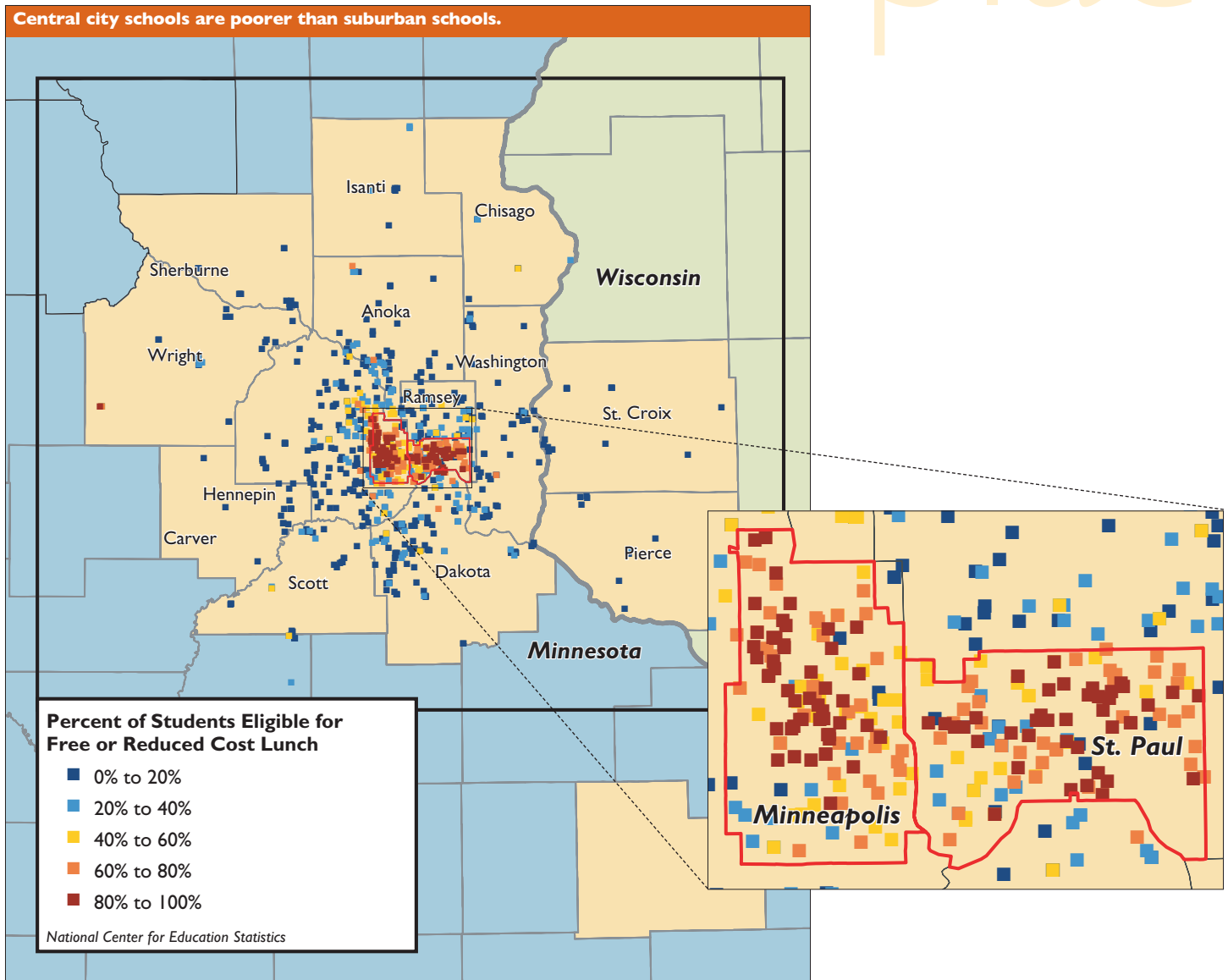
### **UNEVEN RESIDENTIAL PATTERNS AFFECT SCHOOLS**

The uneven residential patterns in the Twin Cities have ramifications for the public school system. Because poorer residents are clustered together in the central cities, as are foreign-born residents, the central city school districts face a number of challenges. First, every single public school where 80 to 100 percent of the students are eligible for free or reduced school lunch (a proxy for family poverty) is located in either Minneapolis or St. Paul. In fact, 66 percent of all public school students in Minneapolis and St. Paul are eligible for free or reduced school lunch.

Additionally, the Minneapolis and St. Paul school districts have the added responsibility of providing instruction to those students struggling to learn English. The bulk of foreign-born residents in the central cities are new arrivals—62 percent of the foreign-born residents in Minneapolis and St. Paul arrived after 1990. Only 50 percent of those in the suburbs arrived in that time frame (and 25 percent of suburban foreign-born entered the U.S. before 1980).







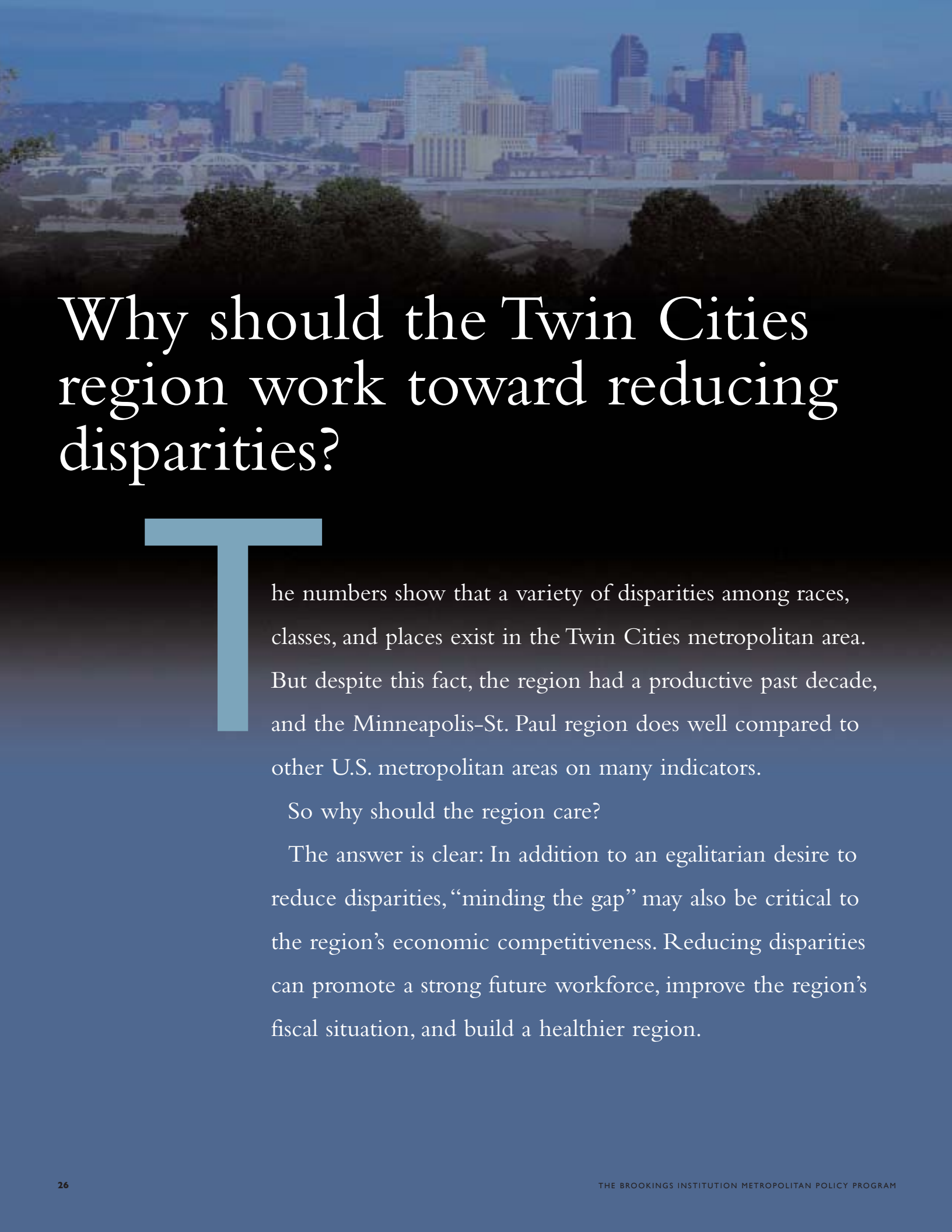
Additionally, this group of students is far from homogenous, which makes this responsibility even more challenging. English language learners in the St. Paul school district speak 57 languages (72 including different dialects) and 80 languages are spoken in the Minneapolis school district.<sup>48</sup> While one-quarter of Minneapolis students and one-third of St. Paul students do not speak English proficiently, only 4 percent of suburban students do not have English proficiency.

The struggles the two school districts face in serving their students also contributes to poorer performance. Minneapolis and St. Paul students do not perform as well as suburban students. In the 2002–2003 school year, only 56 percent of St. Paul and 55 percent of Minneapolis eight graders passed basic reading, even though 86 percent of their suburban counterparts passed.<sup>49</sup>

## **THE LOCATION OF EMPLOYMENT CREATES A “SKILLS MISMATCH”**

Thirty-four percent of the region’s knowledge economy jobs are located within either Minneapolis or St. Paul, yet only 22 percent of the knowledge economy workers live in the two cities. This means that many of the quality jobs located in the city are out of reach for the low-skill, low-income workers who cluster in the two cities.





# Why should the Twin Cities region work toward reducing disparities?

**T**he numbers show that a variety of disparities among races, classes, and places exist in the Twin Cities metropolitan area. But despite this fact, the region had a productive past decade, and the Minneapolis-St. Paul region does well compared to other U.S. metropolitan areas on many indicators.

So why should the region care?

The answer is clear: In addition to an egalitarian desire to reduce disparities, “minding the gap” may also be critical to the region’s economic competitiveness. Reducing disparities can promote a strong future workforce, improve the region’s fiscal situation, and build a healthier region.





## Reducing racial and economic disparities builds a more competitive workforce

A highly-skilled workforce is a region's most important asset. Economists have long considered "human capital"—talented people generating ideas and innovations—a crucial factor of production and a primary driver of regional economic growth.<sup>50</sup> This is particularly true in the growing knowledge economy, as industries depend more and more on skilled, creative, and highly-educated employees using and developing cutting-edge technologies. As summarized by the Progressive Policy Institute, "When the most valuable input for many firms is the skills and talent of their workforce, a pool of skilled workers is the most important locational factor."<sup>51</sup>

In no small part because of its highly-educated workforce, the Twin Cities metro is currently an economic success story—both for individual households and for the region as a whole. Having a large pool of college-educated workers helps boost the region's median household income, and lowers the poverty rate and high home-ownership rate.

The region's high educational attainment rates not only mean higher incomes for its residents, but also a thriving, diverse economy and excellent business environment. The region's job growth speaks to that. Minnesota (where the Twin Cities makes up about two-thirds of the state's employment) is one of only seven states making the "honor roll" on CFED's 2004 Development Report Card for the States.<sup>52</sup> Minnesota earned "A's" in economic performance and development capacity and a "B" in business vitality.<sup>53</sup>

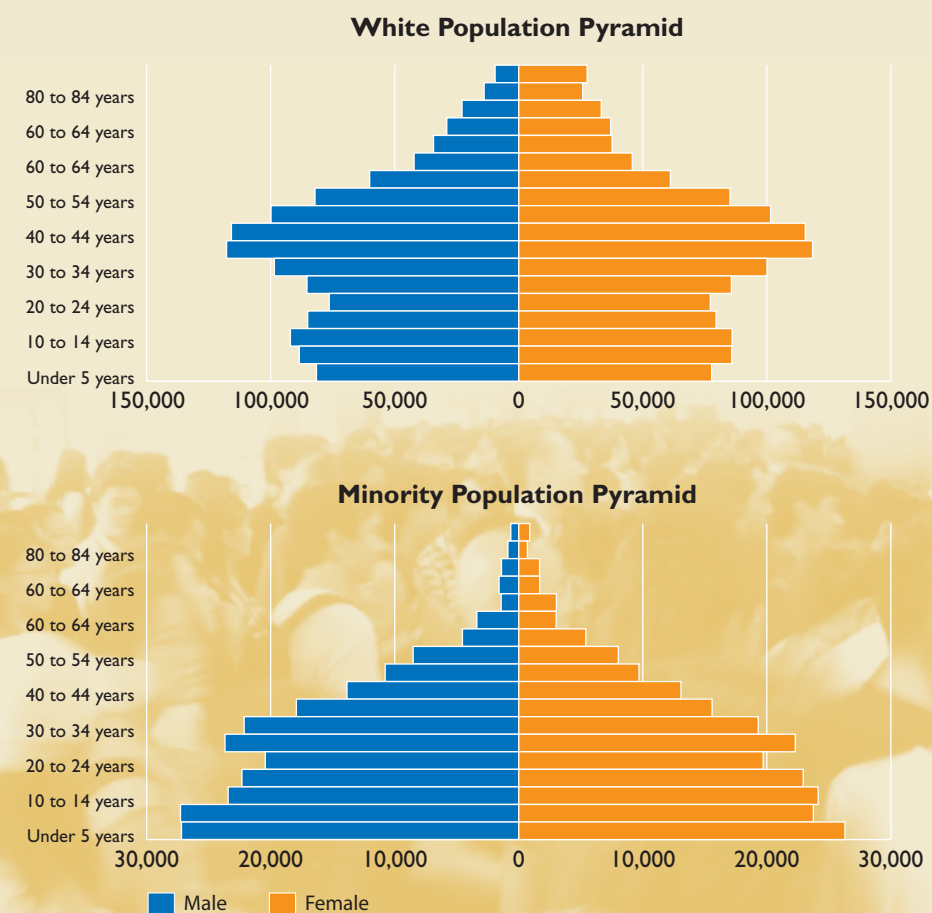
But what will the business environment look like 10, 20, or 30 years down the road? According to a report by the Aspen

Institute, the nation's past two decades of economic growth have relied on the growth of native-born workers, who were more educated than the workers they replaced. But not only will the growth in native-born workers age 25 to 54 slow down to almost nothing, educational attainment growth rates are also slowing.<sup>54</sup> If, as economist Ed Glaeser says, a region's skill base is among the strongest predictors of its growth rate, how will the Twin Cities fare in the future?<sup>55</sup>

In the coming decades, the economic impact of having low educational attainment rates among minorities will increase—the minority population is growing at the same time as the baby boomers are getting ready to retire. If a large educational attainment gap between whites and minorities still exists in 20 years, a much larger share of the region's workforce will be unskilled. And a decline in workforce quality translates into a decline in overall economic health.



**The minority population is much younger than the white population in the Twin Cities**



Source: U.S. Census Bureau

**THE TWIN CITIES WILL NEED TO REPLACE RETIRED BABY BOOMERS**

The baby boomers are nearing retirement, and when they do the Twin Cities metro will need as many skilled workers as possible to replace them. As the Aspen Institute study points out, businesses can no longer depend on the high growth rates of native-born workers to supply jobs.<sup>56</sup> By 2008, the Bureau of Labor Statistics predicts that there will be a shortage of 6 million workers nationwide.<sup>57</sup> This gap will continue to grow as more baby boomers retire.

In 2011, the oldest baby boomers, aged 54 in 2000, will start to retire. By 2029, the youngest baby boomers (who were 36 years old in 2000) reach retirement age. In 2000, the baby boom generation represented 44 percent of the region's total labor force (age 16 and older), which means that by 2029 the region will have to replace 776,000 workers.<sup>58</sup>

Additionally, the baby boom generation is a highly-educated group, particularly in the Twin Cities. Forty-six percent of baby boom workers had at least a college degree in 2000.<sup>59</sup> This means that by 2029, the Twin Cities region will lose more than 350,000 highly-skilled, baby boom workers to retirement. In order for the region to maintain its economic competitiveness, it will not only have to replace these workers, but increase the number of skilled workers to account for population and job growth (as well as the fact that in order to remain competitive, educational attainment rates will most likely have to be even higher than they are now).

Who will replace the baby boom workers? As the entire nation will be competing for a diminished supply of skilled workers, the region cannot rely as heavily on attracting workers from elsewhere. There will most likely be a heavier dependence on existing residents, and economists predict that this means more women and minorities will be in the workforce.<sup>60</sup>

Specifically, the Twin Cities future labor pool—children under 18—is far more diverse than the current working generation. Only 10 percent of baby boomers in the metro are from a minority group, but minorities comprise one-quarter of the next generation of workers.



## **TRANSGENERATIONAL POVERTY THREATENS THE REGION'S FUTURE WORKFORCE**

A much larger share of the Twin Cities' replacement generation is currently living in poverty compared to the area's overall poverty rate. Nine percent of children 14 and under are living in poverty (the poverty rate among adults between the ages of 40 and 54 is half that at 4 percent, and the total metro area's poverty rate is 7 percent). Child poverty bodes ill for the quality of the future workforce for two reasons: Poor children are more likely to have lower educational attainment rates, and poor children are more likely to grow up to be poor adults.

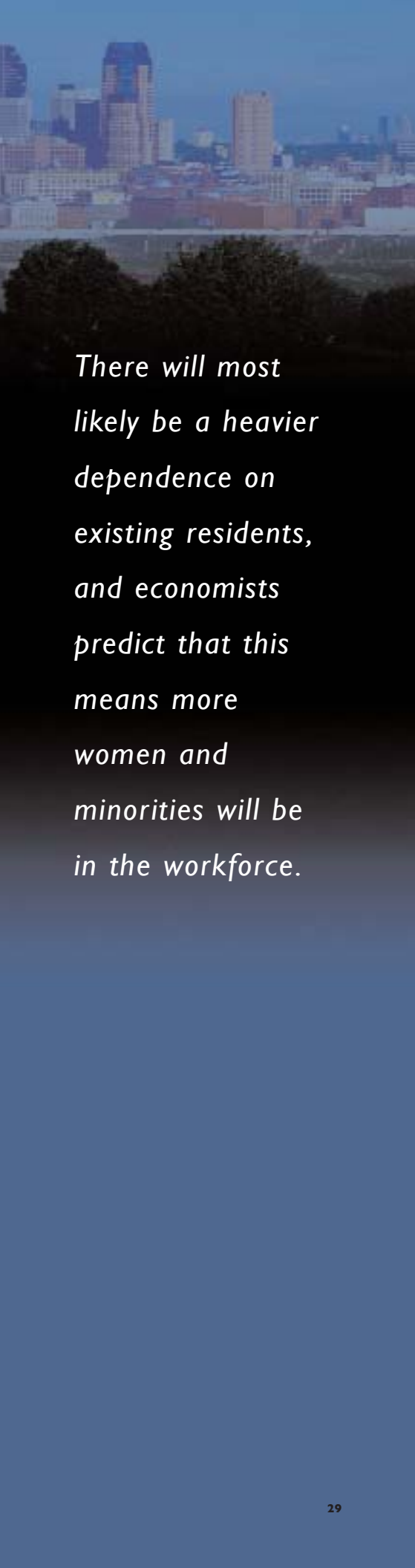
Experts agree that childhood poverty affects educational achievement.<sup>61</sup> In the words of sociologist M. Corcoran, "Low parental income is associated with fewer years of schooling, lower chances of graduating from high school, and lower college attendance, even in studies that control for family structure, parents' schooling, parents' work hours, parental welfare use, and neighborhood characteristics." Nor do the educational achievement rates of poor children vary by race.<sup>62</sup>

Low educational attainment rates are not the only problem. Many of the characteristics of poverty seem to be transgenerational. The Corcoran study shows that a black child growing up in poverty is 2.5 times as likely to be a poor adult as a black child growing up in a non-poor household. A white child is 8.5 times more likely to be a poor adult if he or she experienced childhood poverty.<sup>63</sup> As sociologist Daniel Lichter concludes, "A disproportionate share of today's poor children will become tomorrow's poor adults."<sup>64</sup>

The transgenerational nature of poverty presents a challenge to the region. As the baby boomers retire, the region will need as many skilled workers as possible to replace them. However, poor children tend to grow up to be poor adults. And poor adults tend not to have high levels of education. The combination leads to lower productivity in the workforce, as measured by wages and hours worked.<sup>65</sup>

The region has a lot of work to do in order to make sure low-income, minority children will be able to meet the growing need for skilled workers. Without serious attention to the next generation of workers, who are more likely to be minority, and more likely to be poor, the Twin Cities workforce will be smaller and less skilled than currently, presenting the real possibility of a less competitive future.

Reducing disparities among race and income groups is not just about helping individuals have a better quality of life. Doing so can help ensure that the region's economy remains strong over time, as baby boomers age and the larger economy evolves.



*There will most likely be a heavier dependence on existing residents, and economists predict that this means more women and minorities will be in the workforce.*





# Reducing disparities among racial and income groups brings more money into the Twin Cities metro

Reducing disparities among race and income groups will increase local tax bases and decrease the fiscal costs associated with poverty. Having larger numbers of people earning at least a middle-class income fuels the local economy by creating a larger number of consumers with more purchasing power. And finally, reducing disparities among places creates efficiencies that lower infrastructure costs.

## **REDUCING DISPARITIES WILL ENLARGE THE TAX BASE AND REDUCE POVERTY EXPENDITURES**

Building a bigger middle class through disparity reduction increases the size of the tax base and thus alleviates the strain of having too many expenditures and too few resources. If low-income, minority households earn more, the resulting improved tax base will mean more money for public schools and infrastructure improvement.

On the flipside, large poor populations are associated with higher costs to cities.<sup>66</sup> Direct costs of poverty, including welfare and healthcare costs, are primarily paid for by the federal and state governments. However, the share of federal and state

payment for these services is diminishing, meaning that cities are footing more of the bill.<sup>67</sup> An even larger burden to cities is the indirect costs of poverty—court costs, police, fire, and general administration—that are not in themselves anti-poverty programs.<sup>68</sup> So not only will reducing disparities increase the tax bases of each municipality, it will also decrease expenditures on both indirect and direct poverty costs.

As described above, most of the poverty population lives in the two central cities. But unlike most metropolitan areas, the region's tax base sharing system alleviates some of the burden from Minneapolis and St. Paul. Because the two cities are part of a system of sharing, any reduction of cost to them translates into more available funds for every local government in the seven-county tax-base sharing program. Unlike most regions, investments in poverty reduction and middle class growth will have an immediate regional impact.

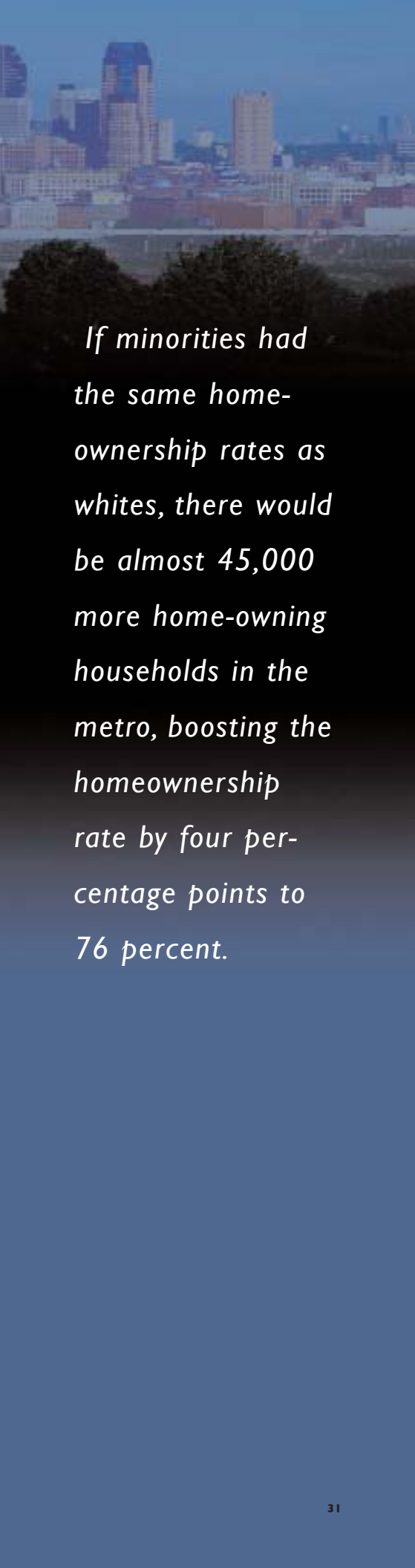


### **REDUCING DISPARITIES WILL PUT MORE MONEY IN THE LOCAL ECONOMY**

With fewer disparities between race and income groups, more households would be earning a higher income. This is good for the region's economy, as larger incomes translate into more money being circulated through the local economy. For example, if minority household income distribution mirrored white household income distribution, there would be more than 33,000 more households who were middle income or above. That means many more households able to purchase and spend more in the city. If minorities had the same homeownership rates as whites, there would be almost 45,000 more home-owning households in the metro and would boost the homeownership rate for the metro four percentage points to 76 percent.


As the minority population grows, minority purchasing power will also grow. According to estimates by the Selig Center at the University of Georgia, Minnesota had the largest increase in the country of black purchasing power between 1990 and 2004—it tripled in size.<sup>69</sup> Minnesota also had the third highest increase in Asian buying power (it quadrupled in size) and the sixth highest increase in Latino buying power (it is more than five times larger). The Selig Center expects these large gains in Minnesota to continue. Between 2004 and 2009, white buying power will increase 30 percent, but black buying power will increase 60 percent, Asian buying power will increase 63 percent, and Latino buying power will increase 73 percent.

While these gains are quite significant, they could be even larger if income inequality among race groups is reduced. The Selig estimates are based on current consumer patterns, demographics, and personal income. Therefore, it is based on the current scenario of wide income disparities among race and ethnic groups. In a study by the Minority Business Development Agency at the U.S. Department of Commerce, researchers show that a reduction in income disparity results in large gains in minority purchasing power. The report develops two projections that track minority purchasing power through the year 2045—one with current income disparity levels and one with no income disparities. Under the disparities scenario, minority share of the country's total purchasing power is 25.8 percent, but with no disparities it would be 30.4 percent. By 2045, there is a 13 percentage point difference in minority share of purchasing power between the two scenarios.<sup>70</sup> In a state like Minnesota, where growth in minority purchasing power is outpacing the nation, reducing disparities will make a very large difference. By reducing race disparities, the Twin Cities can increase the size of its fastest growing market segment.



*If minorities had the same homeownership rates as whites, there would be almost 45,000 more home-owning households in the metro, boosting the homeownership rate by four percentage points to 76 percent.*





*More compact growth should entail smaller outlays to extend roadways, sewers, water lines, and other infrastructure to reach each new consumer.*

**REDUCING DISPARITIES WILL  
DECREASE THE PUBLIC COSTS OF  
PROVIDING NEW INFRASTRUCTURE**

Smart Growth America ranks the Twin Cities region 38th most sprawling out of 83 metropolitan areas studied.<sup>71</sup> The metro's fast-paced suburban and exurban growth creates a demand for more roads, housing, offices, and schools.

More compact growth should entail smaller outlays to extend roadways, sewers, water lines, and other infrastructure to reach each new consumer.

Similarly, by pursuing more compact development patterns, the region could reduce its per capita outlays on service delivery, such as maintaining roads and providing water, solid waste, transit, and school bus services. Again, the argument is geographical and geometric. Fire departments may be able to respond to more emergencies or get to major accidents faster with fewer personnel if development is more compact. Better bus service can

be provided to more commuters with shorter routes and fewer vehicles in a more densely populated, more compact service area.

Between 2001 and 2002, the state and localities in Minnesota spent nearly \$3.5 billion on capital outlays for such infrastructure (shaped by uneven development patterns) as elementary and secondary schools, highways, sewer lines, solid waste management and utility systems (e.g. water, electric, and gas supply). More than \$4.6 billion was spent on recurring expenditures to provide services such as highway maintenance, police and fire protection, trash collection, and utility service.

Considering that these outlays represent 17 percent of what state and local governments spent during 2001–2002, realizing even modest percentage savings could free up significant funds. And such savings grow only more attractive in light of weakening federal support to states and cities.





## Reducing disparities among places will make the region stronger and more competitive

Metropolitan dynamics have changed since the early post-war period. In the 1950s and 1960s, suburban growth was not negatively affected by central city decline.<sup>73</sup> Today, however, trends point to a new reality. A growing body of research suggests that the fates of large cities and their metropolitan areas are intertwined—they grow together or they decline together.<sup>74</sup>

Neal Peirce has argued that all parts of a region are “in it together” when regions compete as “citistates” in the global economy to train and mobilize the workforce, lure business relocations, and assemble amenities.<sup>75</sup> Henry Cisneros has emphasized the need for suburban interests to recognize that “political borders do not seal off the problem of concentrated poverty.”<sup>76</sup> And Myron Orfield has shown that problems once confined to central cities, such as crime, unemployment, and tax-base erosion, tend eventually to undercut the stability of the suburbs.<sup>77</sup>

Just as reducing poverty in central cities benefits the entire region, increasing the incomes of central city residents has the effect of increasing incomes in the suburbs as well. Economist Richard Voith has shown that income gains in central cities also benefit the entire regional economy. His modeling considered patterns of growth in income, house prices, and population in cities and suburbs between 1970 and 1990 for virtually all U.S. metropolitan areas, finding that city income growth positively affected suburban growth in all three indices—at least in larger cities.<sup>78</sup> Similarly, Manuel Pastor and his colleagues examined 74 major metropolitan areas and found that reductions in central city poverty rates led to metropolitan income growth. To paraphrase Pastor, targeted efforts to alleviate central city poverty eventually seem to “trickle up” to improve incomes across the whole region.<sup>79</sup>

This seems particularly relevant to the Twin Cities metro, which has such a high city-suburb poverty disparity. Different patterns of residential and employment growth create a drag on regional competitiveness. On one hand, concentrations of poverty in the central cities (as discussed in the preceding section) limit the competitiveness of older places in the metropolitan area. On the other hand, infrastructure costs associated with fast-paced exurban growth increases costs by creating a need for new infrastructure. Reducing disparities among places lessens these types of burdens, and in so doing improves regional competitiveness.

And perhaps even more important to the region’s future economic competitiveness is that cities and suburbs are interdependent—chances of future success will depend on how cohesive metropolitan regions can be.





# A policy framework for reducing disparities

**T**hrough innovative policies and attention to key factors like education and healthcare, the Twin Cities has become a highly successful and competitive region. The region's long history of progressive policies leaves it well prepared to tackle the issues surrounding disparities.

The time to act is now. Most urgently, the first of the region's skilled baby boomers will begin to retire in six years. Meanwhile, the next generation of workers is changing rapidly. It will be necessary to revisit these early investments and policies to make sure they continue to meet the needs of a more diverse population. By acting proactively instead of reactively, the region will be able to continue to prosper as it has in the past.



Much of the work that needs to be done is neither glamorous nor new. For example, just as the state's investment in education in the past decades contributed to the metro's success in the 1990s, a continued and strengthened investment in education will be key to its future success. What is new are the region's demographic and economic trends—an aging white population and a growing minority population, as well as growing disparities between rich and poor. Likewise, the region's rapidly sprawling development and uneven patterns of poverty, immigration, and employment means that the Twin Cities needs to broaden its regional programs, governance, and policies. In order to ensure continued economic competitiveness in the face of changing demographics, a concerted effort to close the income and race gap will be necessary.

This section provides a framework for the kind of work that will need to be done in the region. It means to highlight key elements of an agenda to reduce disparities among race, class, and place and to spark debate on the best way to address each component.

There are three basic elements to reducing disparities:

- Update “the basics” by making sure education, healthcare, and public safety meet the needs of the region's 21st century population
- Increase income and wealth by helping minority groups close the gap on economic measures, and
- Operationalize regionalism by making sure that any of the programs implemented are done so on a regional scale.

## Update the basics

The Twin Cities has long been a region where basic public services such as schools, healthcare, and city services are in good order. But without attention, what has worked in the past may not continue to be the basis for a competitive region. Because of the Twin Cities' changing demographics and development patterns, the “basics”—especially education—are going to have to be revamped so that the policies that have made the region so successful will continue to work for the next generation.

A recent study by the Western Interstate Commission for Higher Education (WICHE) projects that by 2014, blacks and Asians will each make up 8 percent of the state's graduating high school class (up from 4 and 4.5 percent respectively), 6 percent will be Latino (up from about 2 percent), and 1 percent will be Native American.<sup>80</sup>

Will Twin Cities schools be able to meet the needs of an increasingly diverse student body? To do so will require tailoring policies to the specific needs of different groups. This goes well beyond accommodating the multitude of languages spoken in the region's public schools and

includes sensitivity to economic, cultural, and family structure differences.

For example, Latino students face circumstances that other groups do not, according to Richard Fry, a researcher with the Pew Hispanic Trust. Hispanics are less likely to attend college full-time and more likely to have a job while in school in order to support family members.<sup>81</sup> Similarly, as this report has shown, the African American community seems to follow a different trajectory than other groups. While blacks have a relatively high share of adults that have a high school education, the African American community has a low share of adults with college degrees. It will be necessary to understand all of the reasons African American high school graduates are not moving on to college (or are not completing college) before developing policies and programs to boost African American college attainment rates.

Focusing on basics may also help slow sprawl and reduce inequality among places. A real or perceived difference in schools, crime, and city services like trash pick up, safe public parks, and good roads are often reasons families opt to move away from older, central places. Improving these basics will help mitigate middle class flight to the suburbs and exurbs.

## Increase income and wealth

As the long list of socio-economic indicators show, there are many disparities in the Twin Cities region that are related to differences in income. Therefore, one very direct way to try to reduce disparities in the region is to find ways to increase the incomes of low-income and minority households. There is a range of potential and existing state and federal policies that



help to do this, from increasing the minimum wage to providing income subsidies such as food stamps, welfare, and the Earned Income Tax Credit (EITC), a tax credit for working families who earn less than 200 percent of the federal poverty standard.

One very immediate program the region can undertake is to make sure existing income support benefits are being used to their fullest advantage. The U.S. General Accounting Office estimates that only 86 percent of working families with children who were eligible for the EITC filed for the tax credit and only 45 percent of workers without children who were eligible filed for the tax credit.<sup>82</sup> Similarly, only 60 percent of eligible working families in the Twin Cities metro participate in the food stamp program.<sup>83</sup> There are a number of cities and states around the country that have embarked on public education campaigns to increase enrollment in these critical programs.<sup>84</sup>

Increasing income can obviously encompass a much wider array of policies and programs than income subsidies. Creating more jobs or more programs that provide career ladders is another way of increasing income for low-income workers. Many businesses find that providing on-the-job training and helping their existing employees advance into more skilled, better-paying positions is often less expensive than high turnover in entry-level positions.

Another avenue that can help raise incomes in minority communities is to invest in and support minority entrepreneurs. Minority business owners tend to hire minority workers at a higher rate. By increasing the number, size, and health of minority small businesses, more minorities will be connected to the labor force, which can help raise household income.

Just as critical are policies that address

wealth. A two dollar an hour raise, for example, might be enough for a family to break the poverty barrier or even move into the middle income category.

However, if the family is not equipped to build wealth with the increased income, the family's future economic outlook has not really changed.

Reducing the high prices low-income households face for basic goods and services can help families reduce expenditures, thus providing an important opportunity to build wealth. Policies and programs that help do this can work to limit predatory practices, but also to improve the flow of market information. Sometimes providing goods and services to low-income families costs more for providers because there is a higher real or perceived risk—from higher rates of default on loans, to higher risk of shoplifting for stores in low-income neighborhoods. Better information can help reduce prices by helping businesses more accurately ascertain risk.

Financial literacy is a fundamental part of any policy agenda to build wealth among low income and minority households. More than ever, families need to be savvy consumers of financial products in order to be able to build wealth. Children who grow up in households with low levels of financial proficiency have nowhere to learn how to balance a checkbook, understand compound interest, or know what an individual retirement account is. Financial literacy programs run by non-profits and other groups may help those that enroll, but to truly help reduce wealth disparities, financial literacy needs to be part of the elementary and secondary public school curriculum.



## Regionalize action

The way people live and work is regional—less than one-quarter of the workers in the Twin Cities metro work in the town or city that they live in.

Moreover, 40 percent of workers in the region work in a different county than their county of residence. More than any other region in the country, the Minneapolis-St. Paul metro has made steps to address this by implementing a form of regional governance and a tax base sharing program. Even with these important measures, however, spatial mismatches abound. Poverty is concentrated in the cities, the majority of lower-skill service sector jobs are in the suburbs, the central cities have the highest concentrations of foreign-born residents, the cities have higher concentrations of knowledge economy jobs, etc. These very complicated residential and employment patterns mean that a program or policy that only addresses issues within the context of an individual city, town, or county won't ever be fully effective.

Housing policy needs to be regional, both to address jobs-housing imbalances and to reduce concentrations of poverty in the central cities. Workforce development needs to be regional in order to best match workers who might be living in one location with jobs in another. Education policy needs to be regional, in order help ease both the burden of meeting the needs of new immigrants and poor children in the core as well as to mitigate the pressures of rapid growth on suburban school districts.

The state can build off of existing programs working to regionalize public education, such as the "Choice is Yours" effort, which gives low-income students access to quality schools in the suburbs.





# Conclusion

**A**s it has been in the past on so many other issues, the Twin Cities has an opportunity to be a leader. With its high educational attainment rates, wage and job growth, and progressive policies, the Twin Cities is in an enviable position. However, the demographic changes in store for the region demand attention. If ignored, growing race, class, and place disparities will hamper the region's future workforce and overall economic health.

Now is the time to “mind the gap.” The region has an opportunity to proactively address disparities before the problem gets worse. In so doing, the region can continue to thrive and enable all residents to benefit from and participate in the region's prosperity.



# Appendix A: About the Data

The information presented in *Mind the Gap* derives in large part from the U.S. decennial censuses conducted in April 1990 and April 2000. This comprehensive data source remains unparalleled in its ability to report detailed characteristics of population, housing, and employment at very small levels of geography. Such data come as close to comprehensiveness as any that exist.

A lot has changed in the Twin Cities and the rest of the nation since 2000. Although none match the decennial census for comprehensiveness, we rely on other data sources, such as data from the Bureau of Labor Statistics, Census population estimates, and the 2003 American Community Survey (ACS) to track changes in the Twin Cities metropolitan area in the post-2000 years.

The ACS, a new survey tool from the Census Bureau, that when fully operational, will provide yearly updates on the detailed information the census provides. However, currently the ACS is still ramping up, so the 2003 numbers used here are the result of a much smaller sample size than what it will be at full capacity (80,000 households nationwide as opposed to 300,000 households). Because of the level of detail *Mind the Gap* reports on, the small sample size is probably not robust enough to rely on the 2003 ACS alone. (Additionally, there is a 250,000 population threshold for a county to be included, which means that 9 of the 13 counties in the Twin Cities metro are not included in the 2003 ACS, which makes direct comparisons difficult).

Even though the census is very comprehensive, it is not without problems.

Evidence indicates that the 1990 decennial census probably “undercounted” population, particularly the minority population.<sup>85</sup> The U.S. Census Bureau estimates that the 2000 Census has smaller undercounts of total and minority population than the 1990 Census, but analyses showing growth over time may underestimate actual changes.<sup>86</sup> Recognizing that the census may be imperfect, it is still the most exhaustive and detailed source of information available to analyze race, ethnic, and ancestry groups.

Finally, numerous other data sources beyond the Census were consulted, including the federal Bureau of Labor Statistics and Bureau of Economic Analysis, various state agencies, and other data sources. By utilizing all of these we believe we have assembled a useful portrait of the Minneapolis-St. Paul metropolitan area and its challenges.



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