Minneapolis' Business Exodus May Have Just Begun

Since 1987, Kris Wyrobek has owned and operated 7-Sigma Inc., a manufacturing company on 26th Ave. in south Minneapolis that employs some 50 people.

Wyrobek says that after helplessly watching his plant burn during last month's riots, he has no plans of sticking around.

"The fire engine was just sitting there, but they wouldn't do anything," Wyrobek told *The Star Tribune* this week. "[The city doesn't] care about my business. They didn't protect our people. We were all on our own."

Minneapolis is still reeling from one of the worst U.S. riots in modern history. According to *The Star Tribune*, the city's first survey of damage shows that nearly 1,000 commercial properties in the city were damaged and 52 businesses were completely destroyed.

Minnesota Gov. Tim Walz called the city's response to the riots an "abject failure." Wyrobek no doubt agrees.

Aftermath of Riots: What Studies Say

Unfortunately, history suggests the economic damage will endure long after the wreckage in Minneapolis is cleared.

Economic research and basic economic theory indicate that local residents will suffer from myriad cascading consequences ranging from business flight, reduced capital investment, higher insurance costs, and lower property values. All of these effects will be especially hard on underprivileged communities.

There is not an abundance of data on the costs of riots, but the evidence that does exist points in one direction.

The best data we have regarding the impact riots have on property values comes from a 2004 National Bureau of Economic Research report written by economists William J. Collins and Robert A. Margo. That paper focused on the aftermath of the 1960s riots and examined census data from 1950 to 1980 to measure the effect riots had on property values.

"Using both city-level and household-level data, we find negative, persistent, and economically significant correlations between riot severity and black-owned property values," wrote Collins and Margo.

The authors found riots "significantly depressed" the value of black-owned property, noting that "there was little or no rebound during the 1970s."

Residential property is hardly the only casualty, however. A 2004 economic study on the LA riots of 1992 found that in addition to the $1 billion in property damage and some 50 people killed, the riots accounted for a loss of economic activity that cost the city $3.8 billion in taxable sales and more than $125 million in direct sales tax revenue.

One of the authors of that study, economist Victor Matheson, said it took more than a decade for economic activity to return to its previous level in the parts of LA that were impacted.

"Economic activity in the areas affected didn't return for at least 10 years," Matheson said.

Riots and History

The visual evidence is more compelling than numbers, however. As the economist Thomas Sowell has pointed out, many U.S. cities *still* have not recovered from riots of the 1960s. Take

Detroit.

On the morning of July 23, 1967, 43 people were killed (1,189 injured), more than 7,200 arrested, and more than 2,000 buildings were destroyed in "the bloodiest incident in the Long, hot summer of 1967."

Six decades of decline followed in the manufacturing city that was already beginning to struggle because of pressure on an automotive industry facing union difficulties, labor strikes, and, later, increased competition. In 2019, Detroit, which had a population of 1.6 million in the 1960s and was one of America's largest cities, had a population of 670,031, according to the U.S. Census. Following the devastating riots, people fled, businesses left, jobs disappeared, and the city's tax base shrunk. It's now typical to find Detroit at the top of Forbes's annual "most dangerous US cities" list.

Detroit's experience might be the most dramatic example, but it's important to remember the decline is not the exception but the rule. Sowell points to his hometown of Harlem, New York as another example of a neighborhood that has never recovered from riots.

> *Harlem was one of many ghettos across the country that have still not recovered from the riots of the 1960s. In later years, a niece of mine, who had grown up in the same Harlem tenement where I grew up years earlier, bitterly complained about how few stores and other businesses there were in the neighborhood.*
>
> *There were plenty of stores in that same neighborhood when I was growing up, as well as a dentist, a pharmacist, and an optician, all less than a block away. But that was before the neighborhood was swept by riots.*

The lesson is obvious. Investing capital in a business is an incredibly risky proposition. About 20 percent of new businesses fail in the first two years. Nearly half in the first five. Adding a risk variable that your property might be destroyed by mob violence is simply not one many business owners are willing to take.

In his work “What is Seen and What is Unseen, ” the great French economist Claude-Frédéric Bastiat states that every action has not one effect but a whole series of effects.

“In the department of economy, an act, a habit, an institution, a law, gives birth not only to an effect, but to a series of effects,” Bastiat wrote.

In the case of riots, we’d do well to remember their effects go well beyond the immediate property damage.

Kris Wyrobek’s flight from Minneapolis may turn out to be a singular act or the beginning of an exodus. But either way, it’s a tragic near-certainty that the destructive ramifications of the Minneapolis riots will be felt by members of the community long after the wreckage has been cleared.

—

This article was originally published on FEE.org. Read the original article.