



HOW ECONOMIC DEVELOPMENT INCENTIVES AFFECT RACIAL AND GENDER SEGREGATION OF EMPLOYMENT AND WAGES

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Fed Communities' Uneven Labor Market
Outcomes Conference

February 8, 2024

ECONOMIC DEVELOPMENT INCENTIVES, INDUSTRY SEGREGATION, AND WAGE DISPARITIES

Economic development incentives (EDI) are the primary labor market policies used by state and local governments to promote job opportunities

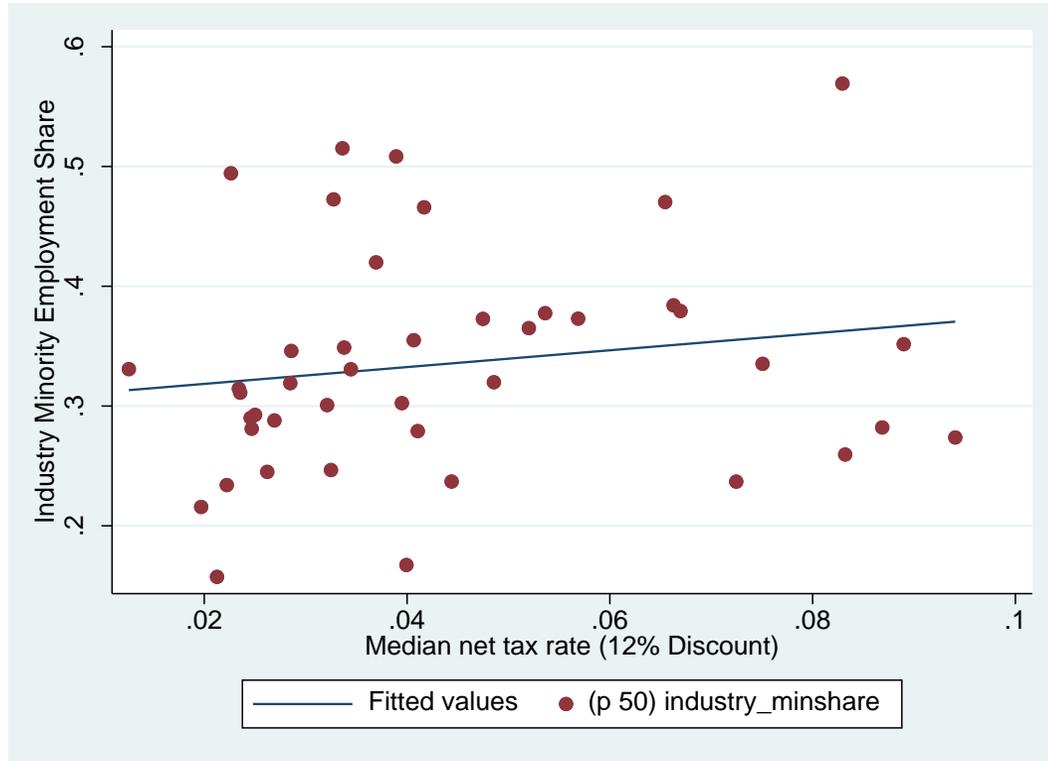
Industry and occupational segregation by race and sex are pervasive features of U.S. labor markets

However, little is known about the how EDI affect wages or racial and gender disparities

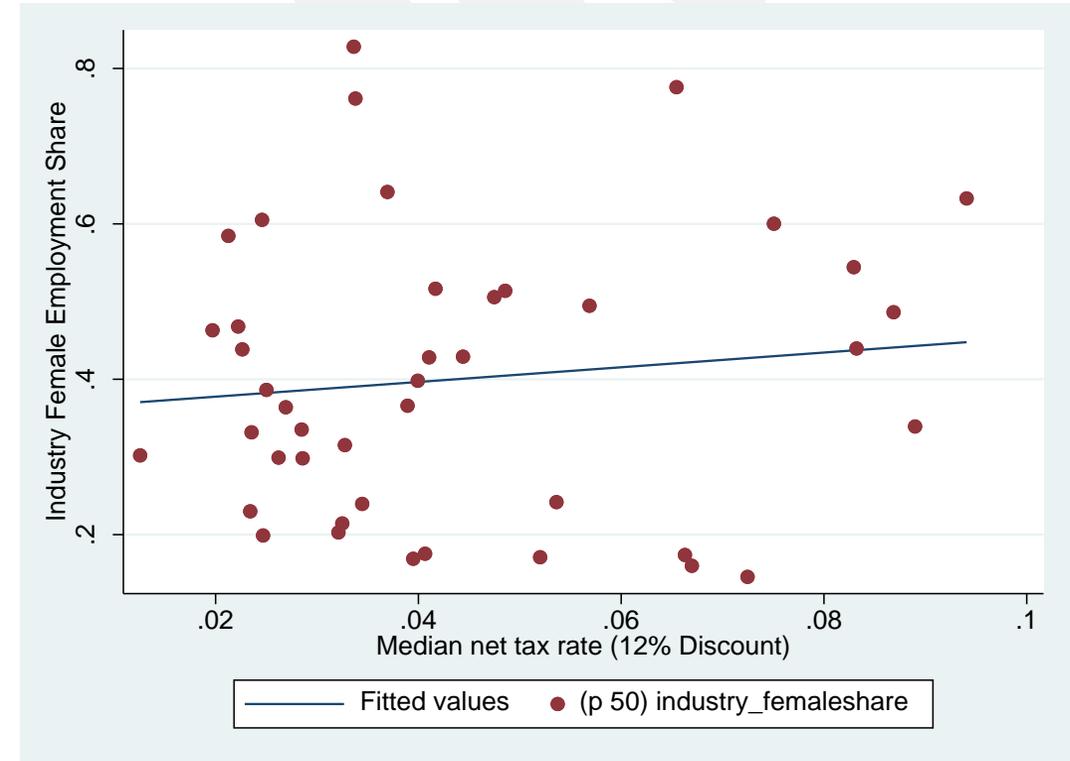
DATA AND METHODOLOGY

- EDI data from the W.E. Upjohn Institute Panel Data on Incentives
 - Covers 45 industries in 47 cities (CBSA) in 33 states (92% of 2013 private sector GDP)
 - Use the net taxes paid for each industry in a city (CBSA) to reflect incentives received
 - Higher net taxes = Less incentivized
- Examine the relationship between EDI and industry segregation and wages
- Use a statistical method called instrumental variables regression to isolate the impact of incentives on employment and wages in cities

MORE INCENTIVIZED INDUSTRIES HAVE LOWER SHARES OF MINORITY AND FEMALE WORKERS



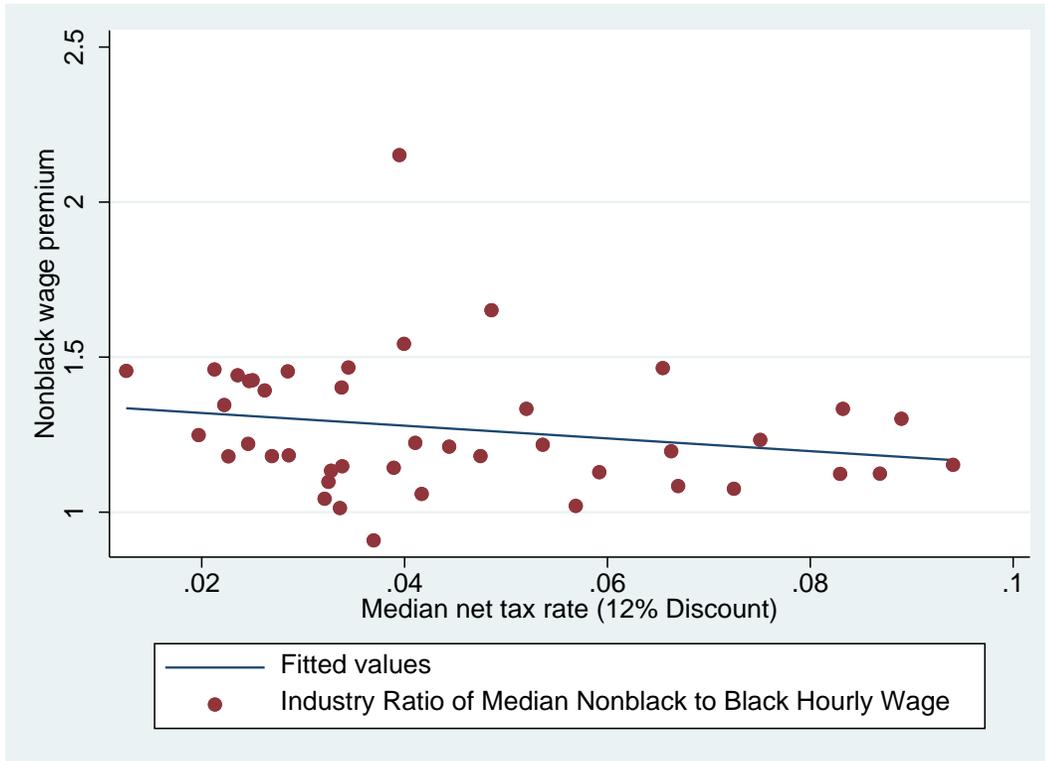
Minority Employment Shares



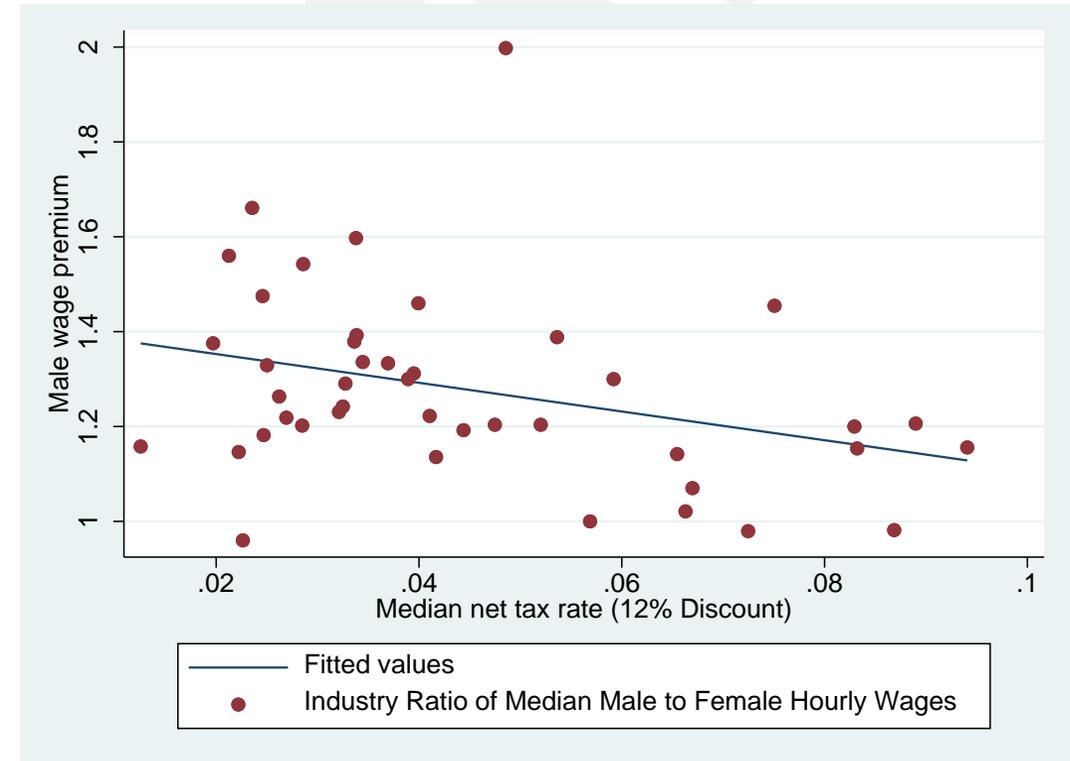
Female Employment Shares



INDUSTRIES WITH GREATER PARITY IN WAGES ACROSS RACES AND SEXES ARE LESS INCENTIVIZED



Non-Black Wage Premium



Male Wage Premium



INCENTIVES INCREASE WAGES . . .

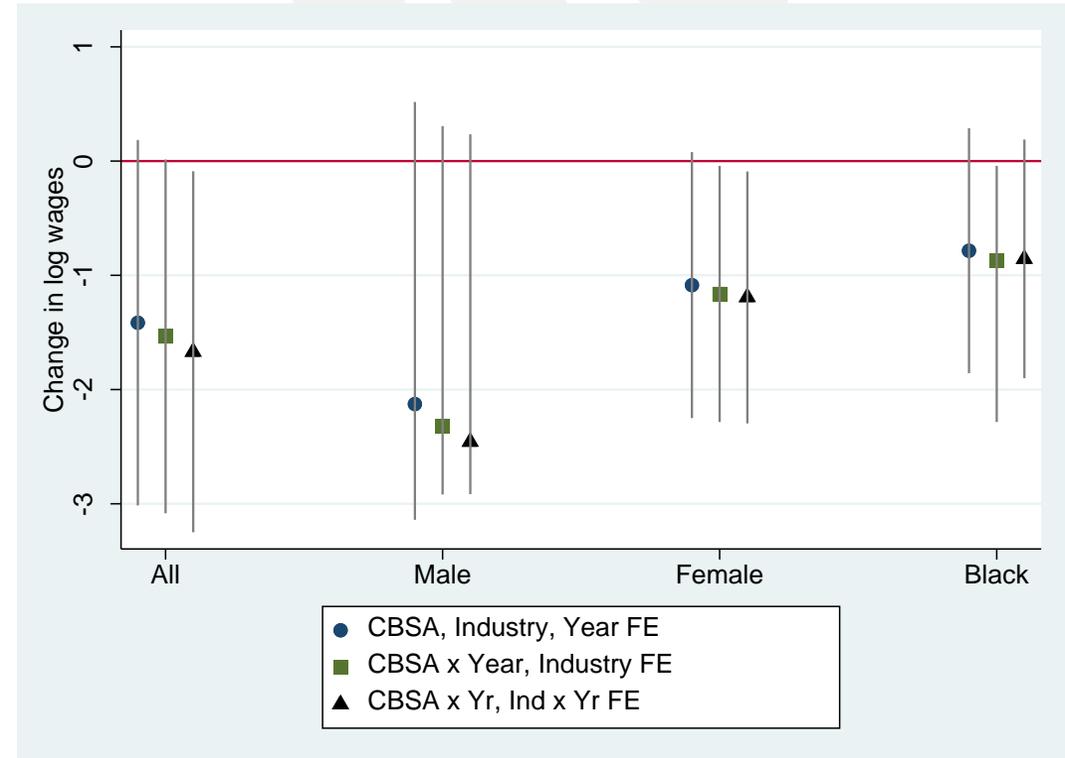
. . . But less so for female and black workers

For a one standard deviation increase in Incentives (decrease in net taxes)

→ Males: 5-6% ↑ hourly wage

→ Females: 3-3.5% ↑ hourly wage

→ Blacks: 2-2.5% ↑ hourly wage



Notes:

IV estimates with 95% CI shown

Sample limited to full-time working age adults, 2005-2025



INCENTIVES INCREASE WAGES . . .

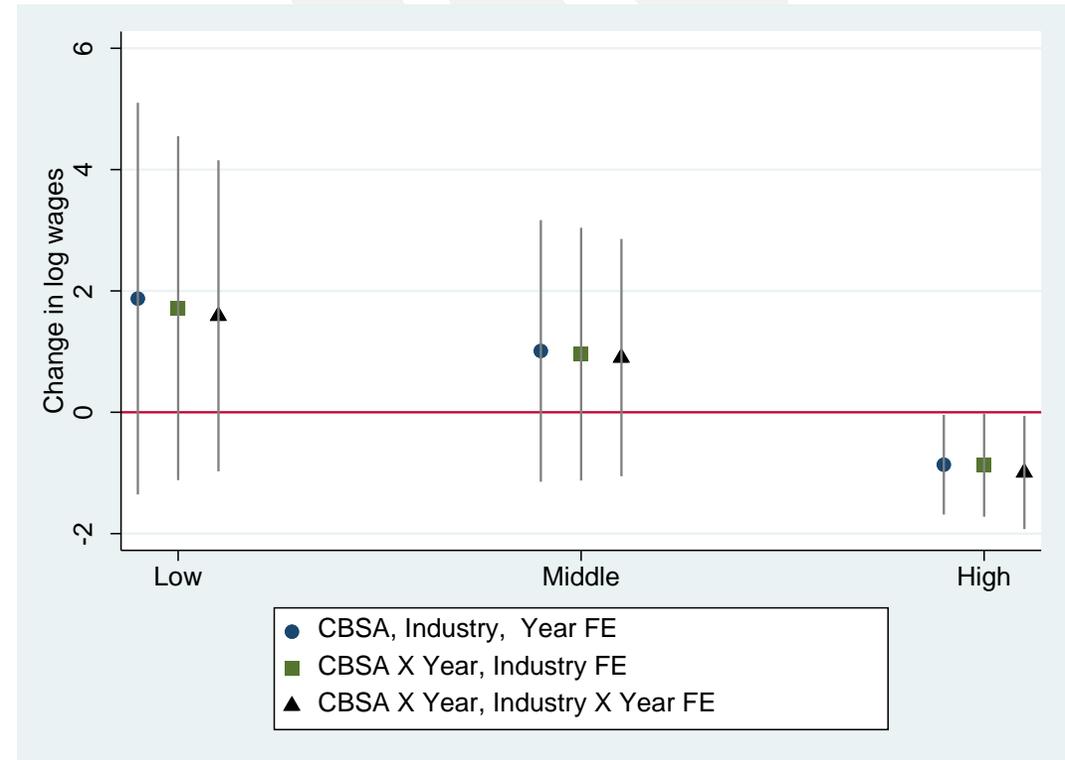
. . . But, only for high wage workers

For a one standard deviation increase in Incentives (decrease in net taxes)

→ Low wage workers: 0 change (possibly ↓) hourly wage

→ Middle wage workers : 0 (possibly ↓) hourly wage

→ High wage workers: 2.4-2.8 % ↑ hourly wage

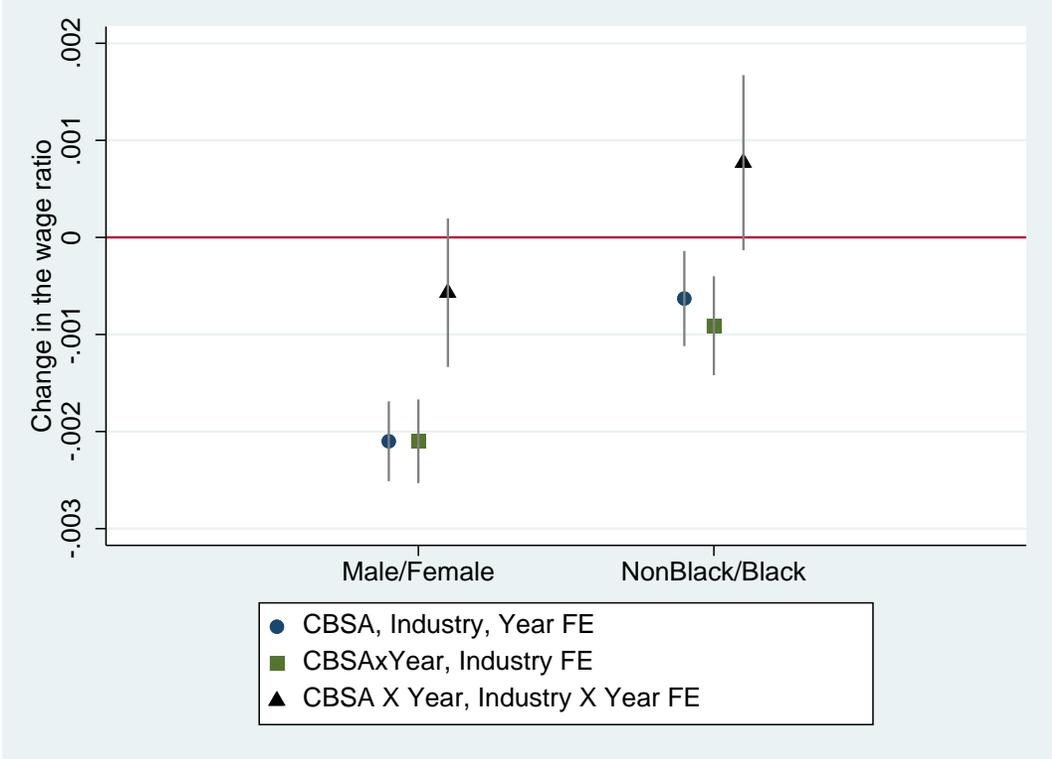


Notes:

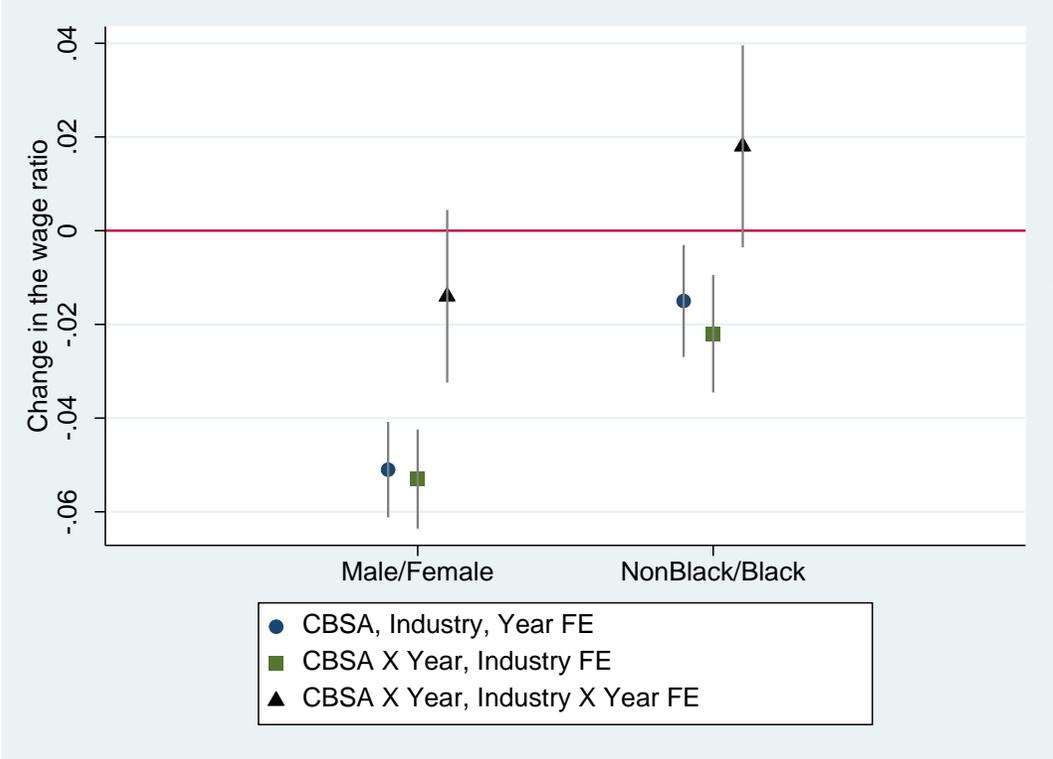
IV Coefficient Estimates with 95% CI shown
Sample limited to full-time working age adults, 2005-2025



SPECIALIZATION AND TARGETING AN INDUSTRY APPEAR TO INCREASE WITHIN CITY-INDUSTRY WAGE DISPARITIES



Specialization Index
 (industry is more incentivized in that city compared to other cities)



Targeting Index
 (industry is more incentivized compared to other industries in a city)



POLICY IMPLICATIONS

- As the primary policy tool used to promote economic development, EDI have been shown to have some beneficial effects in creating jobs
- However, our analysis suggests that not everyone may benefit equally
- This suggests an ongoing need to assess the impact of economic development policies beyond the aggregate results of more employment



THANK YOU!

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