



# INCENTIVIZING THE MISSING MIDDLE: THE ROLE OF ECONOMIC DEVELOPMENT POLICY

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# MIDDLE CLASS DECLINE AND INEQUALITY

- A wealth of research has documented the decline of the middle class and the increase in inequality in the United States (Pew Research Center 2015;2016; Chetty et al. 2014; and Piketty 2013; among others).
- While some inequality can help drive growth,
  - Recent research suggests that the current levels of inequality in the U.S. may be suppressing economic growth (e.g. Partridge and Weinstein 2013; Atems 2013).
- At the same time, inequality and poverty are more pronounced in some areas than others
  - This may be due to the industrial composition (Florida, 2017).
  - However, the mechanisms for increased inequality at the local level are not well understood.

# ECONOMIC DEVELOPMENT INCENTIVES

- Economic development incentives are the primary policy tool for promoting local economic and employment growth.
- Previous research suggests that incentives have varied effects.
  - Harger et al. (2019) find that targeted incentives may help some industries, while hurting others.
  - Patrick (2016) demonstrates that capital subsidies result in changes in firm behaviors and local industry composition that limit job creation.

# RESEARCH QUESTION

- Are economic development incentives contributing to the decline of the middle class and increasing inequality?
- We consider the impact of economic development incentives on employment changes in “middle class” industries.
- We **define industries in two ways**:
  1. Based on the average **wages** in that industry
    - Middle wage is “middle class”
  2. Based on the **occupations** in that industry
    - Working class is “middle class”



# DATA – CLASSIFYING INDUSTRIES BASED ON WAGES

- Classifying middle class industries is based on the average wage income in that industry using data from EMSI, Inc.
- Following guidance by the Pew Research Center (2015;2016)
  - We adjust American Community Survey (ACS) data based on average household sizes and number of earners.
  - Middle class industries include those with incomes between two-thirds to double the median income or within a **middle class wage range from \$20,485 to \$61,455** (in 2016 dollars).

# DATA – CLASSIFYING INDUSTRIES BASED ON OCCUPATIONS

- Using data from the Martin Prosperity Institute (MPI)
  - Industries' occupations are classified into four major categories:
    - Creative Class
    - Working Class
    - Service Class
    - Agriculture (not included in our analysis)
- We classify industries as in a category if the highest percentage of jobs is in that category.

# DATA – COMPARING INDUSTRY CLASSIFICATIONS

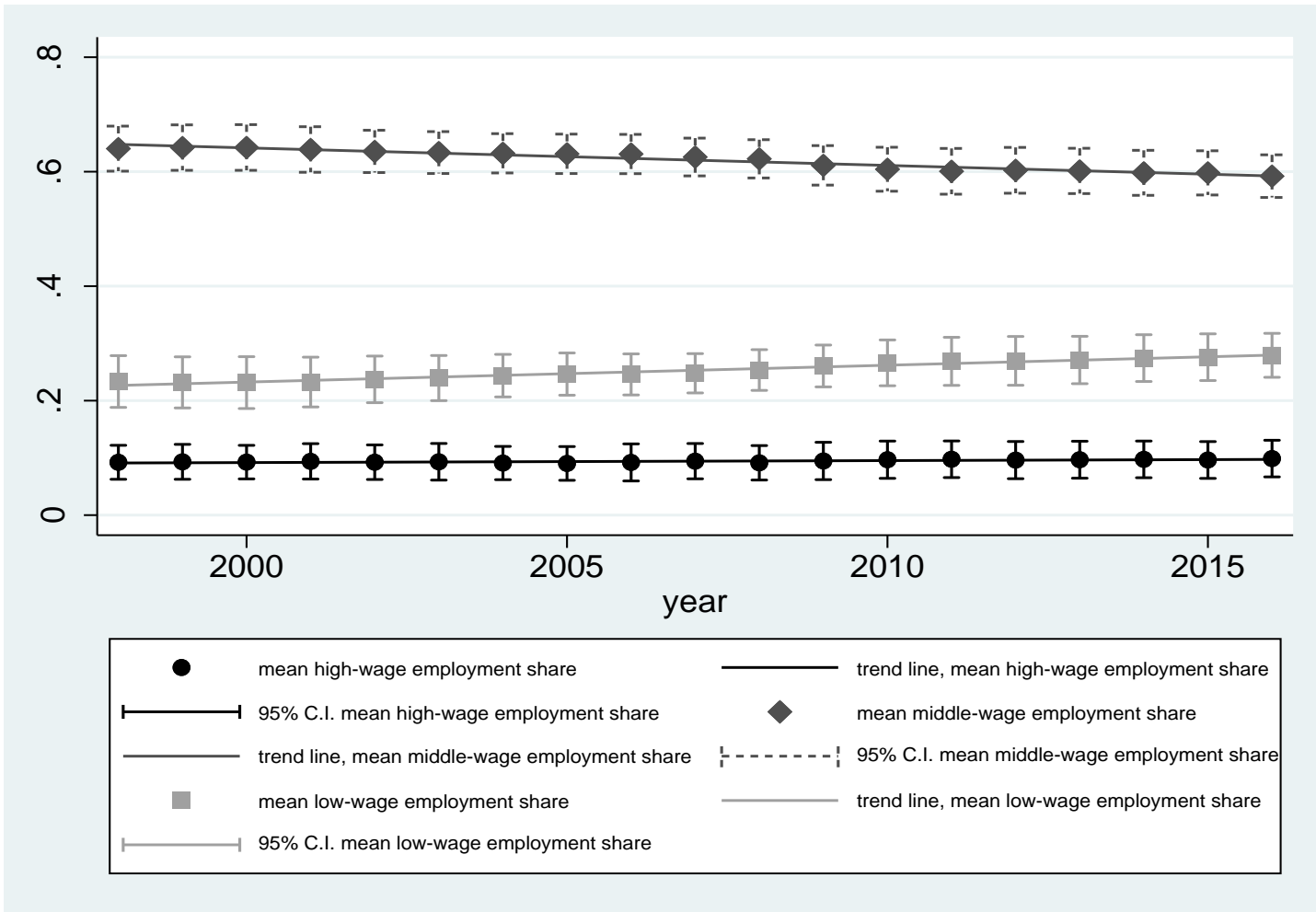
- Middle-wage and working-class industries are not the same.
  - Only about 37% of industries that are working class are also middle wage.
- Some differences include:
  - Administrative and support industries classified as middle wage and service class (e.g., skilled nursing facility industry)
  - Industries requiring specialized manual labor classified as working class but high wage (e.g., oil and natural gas pipeline industries)
  - High cognitive skill service industries classified as middle wage and creative class (e.g., architecture industry and performing arts)

## OTHER DATA

- Detailed employment data by Metropolitan Statistical Area (MSA)
- W.E. Upjohn Institute Panel Data on Incentives (PDIT)
  - 45 industries in 47 cities in 33 states (92% of 2013 private sector GDP)
  - Use annual 12% discounted net taxes by city and industry
  - We assume that city net taxes are representative of MSA net taxes
  - Does not include all industries

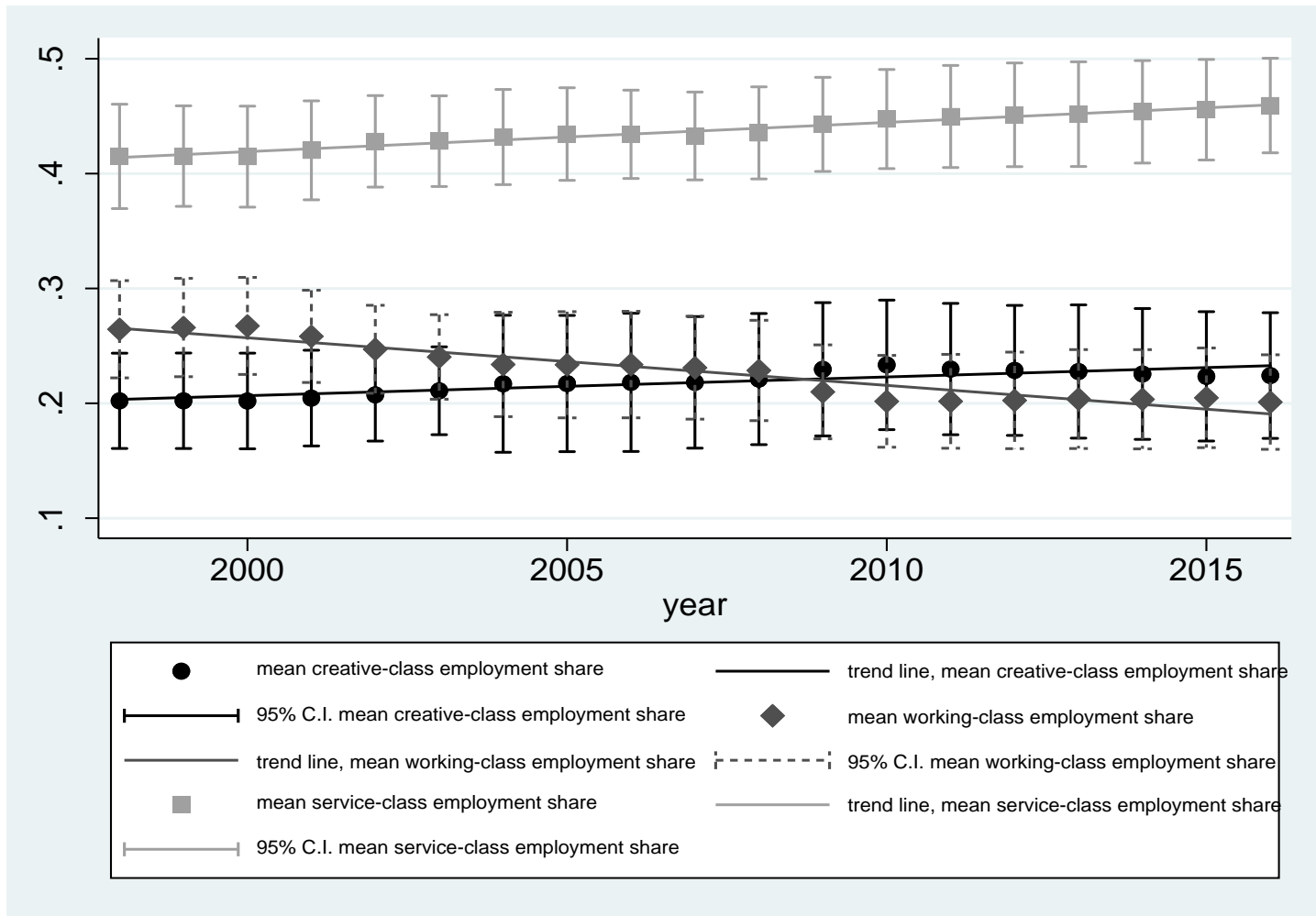


# TRENDS IN EMPLOYMENT BY WAGE CLASS



- The share of employment in middle-wage industries is declining.
- The share of jobs in low-wage industries is increasing.

# TRENDS IN EMPLOYMENT BY MPI CLASS

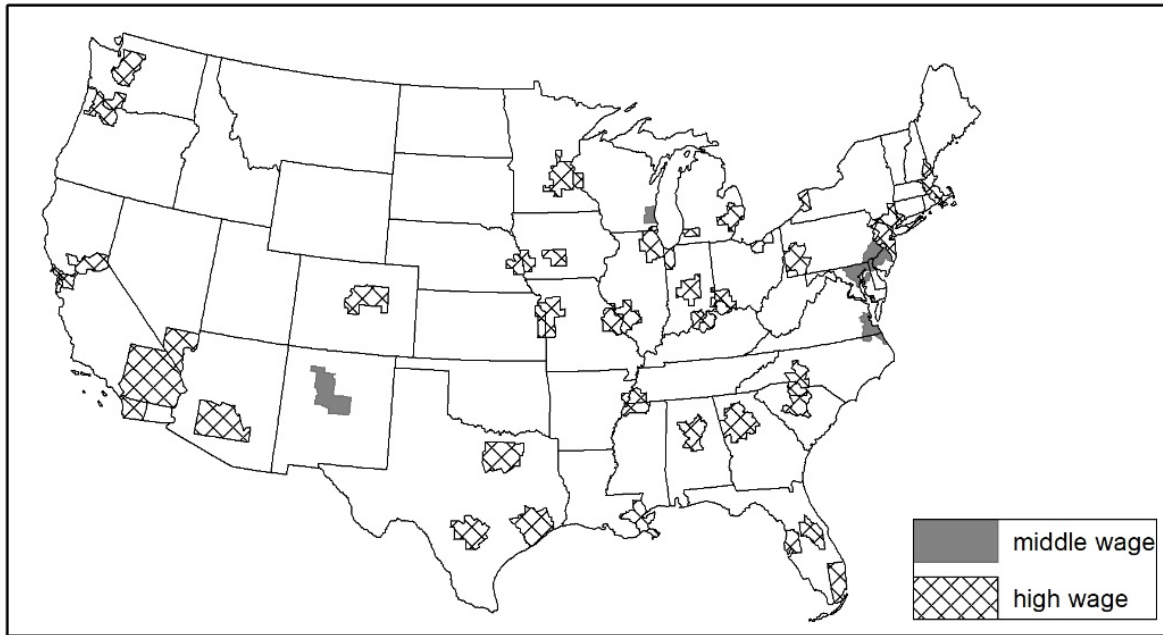


- The share of employment in working-class industries is declining.
- The share of jobs in service-class industries is increasing.
- Some evidence of increasing share of jobs in creative-class industries.

# "TARGET" WAGE CLASS BY CBSA

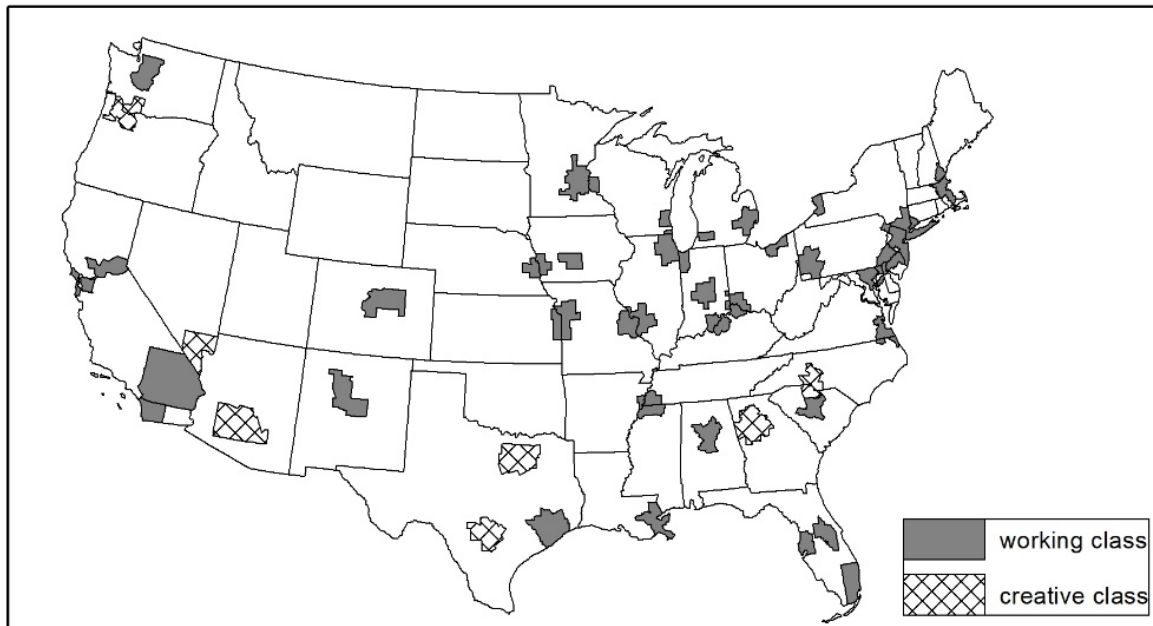
2000

2015

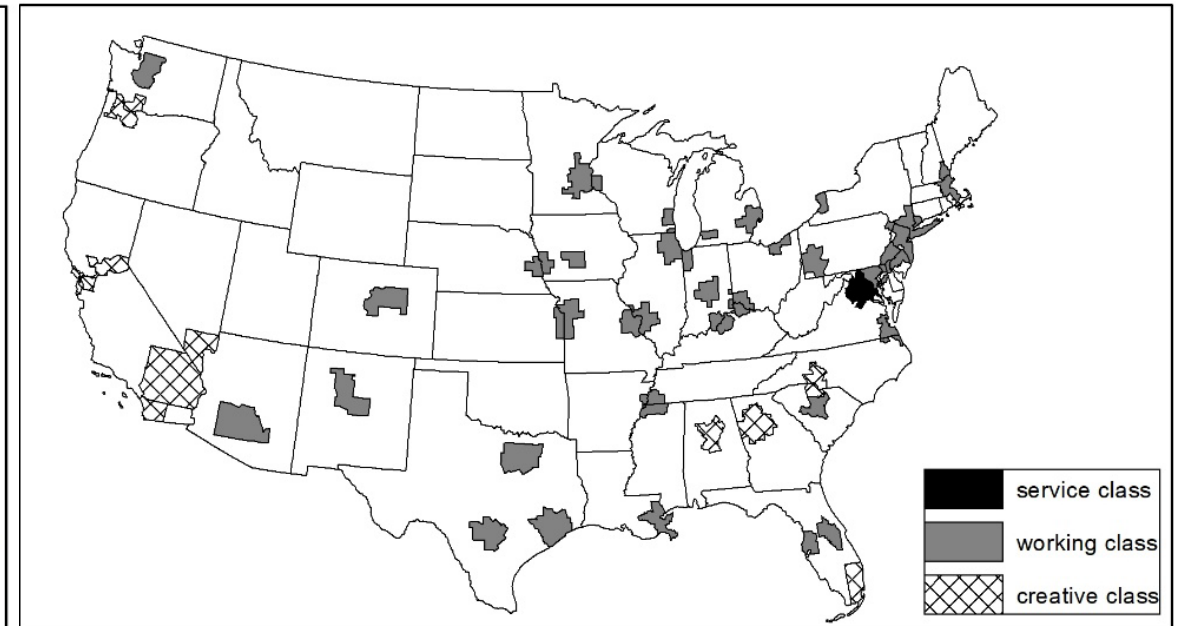


# "TARGET" MPI CLASS BY CBSA

2000



2015



## CHALLENGE WITH OUR RESEARCH

- Are we actually able to get at whether incentives are causing changes in employment or is something else going on?
  - We use special statistical techniques to control for this this.

## OUR FINDINGS

- Our analysis suggests that economic development incentives **are** having an effect on the distribution of employment across wage and industry classes.
- **Incentivizing working-class and middle-wage industries has positive employment effects for those industries.**
  - For working-class industries, these incentives also increase employment in other industries.
- There is no evidence that reducing incentives (or raising taxes) on creative-class and high-wage industries has negative employment effects for any industry type.
  - It may even increase employment in working-class and middle-wage industries.

# POLICY IMPLICATIONS AND NEXT STEPS

- The most incentivized classes of industries tend to be those classified as “high-wage” or “creative-class”
  - However, we find evidence that these incentives are NOT increasing employment in these industries and are contributing to the hollowing out of the middle class.
- Economic development professionals and other policymakers may want to consider this when making future decisions about incentives.
- In our future research, we will further explore the impact of these incentives on the relative wages and employment in targeted industries
  - Compared to non-targeted industries in that location.
  - Compared to those industries in other locations.



# THANK YOU!

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