

*ECONOMIC DEVELOPMENT*  
*AND BLACK ECONOMIC SUCCESS*

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The statements, findings, conclusions, and recommendations in this report are those of the author and do not necessarily reflect the views of the Economic Development Administration.

## EXECUTIVE SUMMARY

This report examines how the real earnings and poverty rate of blacks are affected by their metropolitan area's employment growth and mix of industries. This report's findings are relevant to two policy debates. First, the report provides evidence from metropolitan labor markets on whether black poverty can be reduced by stronger labor demand. Some poverty researchers have claimed that poverty in modern U.S. society is determined by cultural and psychological forces, and is little affected by demand conditions. Second, the report provides evidence on whether state and local economic development policies that increase local job growth can help minorities and the poor. Some critics of state and local economic development policies have claimed that the attraction of new jobs is more likely to help in-migrants, local landowners, and highly skilled and educated local residents than the poor and unemployed.

### Previous Research

Sixteen previous studies have examined how local labor market conditions in the U.S. affect the economic fortunes of blacks. Fourteen studies find that stronger local labor markets help blacks. Of the nine studies that compare effects on blacks to effects on whites, six find that local labor market conditions have stronger effects on blacks.

Only eight studies have examined the effects of the mix of industries in a local economy on blacks. Six of these studies find some effect of local industrial mix. But three of these six studies have problems with their definition of industrial mix, defining industrial mix so that it must change if the local economy grows. There is certainly room for additional research that will define "industrial mix" so that a local economy's industrial mix and employment can change independently.

### Methodology and Data of This Study

This study uses as dependent variables the year-to-year percentage change in a metropolitan statistical area (MSA) in average economic outcomes for different subgroups of blacks and whites. The independent variables include year-to-year percentage changes in various measures of the MSA's "economic development." The model is estimating pooling data from up to 200 MSAs on percentage changes from 1973-74 to 1988-89. The empirical model controls

national time trends from the national average effect differences from the national average in the economic fortunes of various groups.

The most important dependent variables in this study are the year-to-year percentage change in the MSA's average real personal earnings for various groups, and the year-to-year change in the MSA average poverty rate for various groups. The most important independent variables in this study are the year-to-year percentage changes in the MSA's total employment, and the year to year change in the MSA's average "industry wage premium." An industry's wage premium is the percentage by which wages paid in the industry exceed what one would expect based on the education, age, and other credentials of the industry's workers. For example, many manufacturing industries, and few service industries such as the communications and utilities, pay well even though their workers have relatively modest educations. The MSA's average industry premium is the average wage one would expect to be paid in the MSA, if all industries followed national wage patterns. The year-to-year change in the MSA's average industry wage premium reflects how shifts in the MSA's industrial mix are affecting whether the MSA offers "good jobs."

### Results of the Empirical Analysis

I find that metropolitan employment growth has statistically significant and large positive effects on the economic well-being of blacks. An increase of 10% in a metropolitan area's total employment will increase blacks' average per capita real earnings by over 8%. This increase of 8% in real earnings is mostly due to growth increasing the percentage of weeks during the year that the average black is employed. The black poverty rate will decline by about 4 points (e.g., from 20% poverty rate to 26%). These effects are larger than the effects of MSA growth on whites. A 10% increase in MSA employment will increase white per capita real earnings by about 5%, and will reduce the white poverty rate by less than one point. The difference in growth effects on black and white earnings is marginally statistically significant.

The effects of metropolitan employment growth on blacks are large enough that the regional pattern of growth can have significant effects on national trends in black and white earnings. Blacks tend to live in slow-growth MSA compared to whites. Suppose we consider a hypothetical world in which blacks during the 1973-89 period had lived in MSAs whose average growth was the same as what prevailed for whites. This hypothetical world could have been

achieved either by increasing growth in MSAs with large black populations, or helping blacks move to faster growing MSAs. In this hypothetical world, black real earnings in 1989 would be expected to be 5% greater than they were in the real world.

I also find that increases in an MSA's average industrial wage premium has statistically significant and large effects on average per capita black real earnings. A 1 percent increase in an MSA's average industry wage premium increases average black real earnings by over 6 percent. This 1 percent increase in the MSA wage premium would only increase white real earnings by around 2 percent. These greater effects on blacks appear to be mainly due to greater effects of higher wage premium industries on black wages. A 1 percent increase in the average MSA wage premium increases black weekly earnings by over 6%, whereas white weekly earnings increase by around 1%. A natural interpretation of these results is that "well-paying" industries tend to have narrower racial wage differentials.

### Policy Implications

The report's findings suggest general directions for public policy but do not prove the case for any specific policy program. Economic development policies that increase metropolitan growth and attract high wage premium industries can provide important labor market benefits for both white and black residents. But exactly which economic development policies (tax abatements, technology development programs, general tax cuts, improvements in local education, assistance to manufacturers for modernization and exporting, business incubators, entrepreneurial training programs) work best to accomplish these goals is unclear. National policies that seek to provide blacks with more high wage jobs can make a substantial difference in reducing black poverty and increasing economic success. But which such black labor demand policies (local economic development policies, helping blacks migrate to healthier metropolitan economies, enterprise zones, public service jobs, wage subsidies for private employment for disadvantaged workers) will be most effective in helping blacks per dollar spent is unclear. The general policy direction of trying to increase demand for black labor in local economies is sound. But much more policy experimentation and research needs to be done to determine how best to improve the local economic climate facing blacks.