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Regional Inequality and 'The New Geography of Jobs'

Jonathan Rothwell Tuesday, August 7, 2012

What explains the wide range of economic growth and prosperity across U.S. regions, and why is it so hard for struggling metro areas to reverse multi-decade trends? These are the questions that urban economist Enrico Moretti addresses in *The New Geography of Jobs*. In his vision, innovative workers and companies create prosperity that flows broadly, but these gains are mostly metropolitan in scale, meaning that geography substantially determines economic vitality.

To start, the book offers a hopeful interpretation of technological change and globalization. Moretti argues that moving low-skilled jobs out of the United States has allowed tech companies to increase productivity and expand employment at home for high-skilled workers, while lowering prices for American consumers. Unless they lose their job as a result, low-income consumers benefit disproportionately because they spend a higher share of their incomes on cheap imported goods.

He acknowledges that there are costs to these changes, but the balance for any individual depends on where they live in. Those living in high-tech and highly educated metropolitan areas—like San Jose, Boston, and Austin—have seen enormous gains in wages in recent decades and have relatively low unemployment. Meanwhile, those living in metros like Detroit, Greenville, and Bakersfield have not. The same long-term changes have caused both success and failure.

Crucial to Moretti's optimism is his argument that the innovation-sector drives economic prosperity for workers living in their metro area. He has calculated that for every new job created in a metropolitan area's innovative exporting industries, five new jobs are created in that metro area, three of which are for workers who have not attended college. Why? High wage workers in the exporting industries earn their salary from outside the metro but spend a large part of it on local services—like movies, restaurants, fitness classes, and nannies. This is a powerful insight: Export-oriented companies drive opportunities for less-educated workers outside of their industry.

When successful, innovative companies like Microsoft in Seattle, also attract related businesses, such as suppliers and contractors. That, in turn, makes the metro area more attractive to other innovative companies, like Amazon (also in Seattle), which take advantage of the mature supply chain, specialized workforce, and local knowledge. Even charitable giving increases.

The downside is that clustering leaves many metro areas with little, causing inequality based on geography, but these trends are not irreversible. As urban economist Giles Duranton has argued, clusters become congested and over-priced, leading firms to move, which explains why many Silicon Valley companies have set up offices in places like Portland, Oregon.

Moretti is clearly worried about regional advantages being locked-in to the detriment of poor metros, and as a result, he overstates the extent to which America's problems could be solved if less educated workers moved to educated cities. Opportunities for many would, no doubt, be better, and yet there is still massive inequality in highly educated metros like Boston, Bridgeport, and Washington D.C. Within metro segregation is arguably still far more important than inter-metropolitan segregation in shaping the lives of America's poor. Moretti is right to point to zoning policies that limit housing supply as one factor that drives up housing prices for the poor, but he should consider that these policies not only force poor people to leave revitalizing cities—they also prevent poor people from living near good schools, as my research has shown. Sharing a metro area is not the same thing as sharing a neighborhood.

The book is also not as crisp in discussing what less educated non-tech metros can do to become innovative hubs. Attributing much of a region's success to random luck, he is skeptical of solutions, including incentives to lure companies or amenities to lure workers, though he grants that both sometimes work. He warns that having a great university does not guarantee success, but also acknowledges that they are necessary for it and help immensely.

Moretti more confidently recommends public support for R&D, based on strong evidence that firms capture only a small fraction of the social gains from their inventions. Yet, he criticizes subsidies for "production," like Department of Energy's lending program (which supported Solyndra). While the program certainly had flaws—such as guaranteeing loans from the government instead of the private sector—it and programs like it, such as those at the Small Business Administration and Export-Import Bank, typically deliver large gains to the economy at little or no cost to taxpayers, because they solve market failures in financing.

Despite these complaints, Moretti has written a clear and insightful account of the economic forces that are shaping America and its regions, and he rightly celebrates human capital and innovation as the fundamental sources of economic development. His discussion of policy leaves something to be desired but is thought provoking, nonetheless.