U.S Workers’ Diverging Locations: Causes and Inequality Consequences

Rebecca Diamond
Assistant Professor of Economics

Stanford Graduate School of Business

May 14, 2014
The Divergence of Skill across Cities

- Distribution of educated workers diverging for past 30 years
  - College grads clustering in cities with high wages and housing costs
  - Less educated clustering in more affordable lower wage cities
The Divergence of Skill across Cities

- Distribution of educated workers diverging for past 30 years
  - College grads clustering in cities with high wages and housing costs
  - Less educated clustering in more affordable lower wage cities

- Fundamentally driven by differences in local industry’s hiring needs
  - Cities with historical clusters of increasingly high skill industries experienced largest increases in local share of college graduates

- Ensuing changes in cities’ shares of college graduates created large local spillovers further impacting local labor markets and amenities
Cities that increase share of college grads reap many rewards

- Increased hiring of college graduates–
  - Innovation and idea spillovers
  - Increased technology adoption which complements high skill labor
- Increased demand for local goods & services
- Increased provision of local amenities–
  - Lower crime rates
  - Improved air quality
  - Larger variety of and quality restaurants, shops, bars
  - More vibrant cultural scene (museums, art galleries)
- Caveat– Desirable wages/amenities bid up housing prices
Cities that increase share of college grads reap many rewards

- Increased hiring of college graduates—
  - Innovation and idea spillovers
  - Increased technology adoption which complements high skill labor
- Increased hiring of non-college workers—
  - Increased demand for local goods & services
- Increased provision of local amenities—
Cities that increase share of college grads reap many rewards

- Increased hiring of college graduates—
  - Innovation and idea spillovers
  - Increased technology adoption which complements high skill labor
- Increased hiring of non-college workers—
  - Increased demand for local goods & services
- Increased provision of local amenities—
  - Lower crime rates
  - Improved air quality
  - Larger variety of and quality restaurants, shops, bars
  - More vibrant cultural scene (museums, art galleries)
Cities that increase share of college grads reap many rewards

- Increased hiring of college graduates—
  - Innovation and idea spillovers
  - Increased technology adoption which complements high skill labor
- Increased hiring of non-college workers—
  - Increased demand for local goods & services
- Increased provision of local amenities—
  - Lower crime rates
  - Improved air quality
  - Larger variety of and quality restaurants, shops, bars
  - More vibrant cultural scene (museums, art galleries)
- Caveat—Desirable wages/amenities bid up housing prices
A high skill city benefits inhabitants both by raising wages and amenities.
Who benefits from a high skill city?

- A high skill city benefits inhabitants both by raising wages and amenities
- Demand for wages and amenities bids up housing prices
  - Can make access to these cities unaffordable for lower income/skilled populations
- While the city may prosper, benefits disproportionately accrue to the high skill
  - The less skilled are relegated to more affordable, less prosperous cities
- Out-migration of the low skill raises local share of college graduates & surpresses share of college graduates in less prosperous cities
  - Creates re-enforcing feedback loops
Who benefits from a high skill city?

- A high skill city benefits inhabitants both by raising wages and amenities
- Demand for wages and amenities bids up housing prices
  - Can make access to these cities unaffordable for lower income/skilled populations
- While the city may prosper, benefits disproportionately accrue to the high skill
  - The less skilled are relegated to more affordable, less prosperous cities
- Out-migration of the low skill raises local share of college graduates & surpresses share of college graduates in less prosperous cities
  - Creates re-enforcing feedback loops
- Policies targeted at attracting high skill labor to a city could actually harm the less skilled, leading to increased inequality
- Indeed, divergence of cities’s share of college grads over past 30 years has led to increased economic well-being inequality
  - College workers’ increased access to better amenities
Many types of policies can target high skill labor and create local spillovers:
- Labor demand side: tax incentives, specialty services for new/relocating firms
- Labor supply side (amenity provision): lowering crime, improving school quality
Many types of policies can target high skill labor and create local spillovers:

- Labor demand side: tax incentives, specialty services for new/relocating firms
- Labor supply side (amenity provision): lowering crime, improving school quality

Who benefits from these policies depends on their displacement effects

- Restrictions on increased housing supply cause large housing price increases -> larger out-migration of less skilled
- Inelastic housing supply can make the college share even higher, at the expense of the less skilled getting less benefit

Promoting inclusive growth:

- Increasing flexibility of housing construction dampens increase in housing prices
- Allows the less-skilled to benefit more from in-migration of college grads