

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

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The Divergence of Skill across Cities

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 - College grads clustering in cities with high wages and housing costs
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- 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

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 - Larger variety of and quality restaurants, shops, bars
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- Caveat—Desirable wages/amenities bid up housing prices

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- While the city may prosper, benefits disproportionately accrue to the high skill
 - The less skilled are relegated to more affordable, less prosperous cities
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- 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

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- 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