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The New Geography of Jobs

By Enrico Moretti

New York: Houghton Mifflin Harcourt, 2012

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The central problem of local economic development, namely, how to guide declining cities toward renewed prosperity, remains stubbornly resistant to resolution, both theoretically and in practice. Despite a long history of theory and empirical research going back to the economic base model of the 1950s, and an even longer history of practice, dating to the 19th century, cities and states in the U.S. are still chasing jobs, industrial plants, and football teams, offering huge subsidies. They are bemused by nostrums, such as the creative class, which promise success, but rarely deliver. On the academic side, much excellent research has been done, for example on industrial clusters, and many books have set out the principal tools for local economic development that planners have employed. Still, success eludes most of the places that really need it.

Addressing this dilemma, Enrico Moretti has written an important book that every student of local economic development should read. Moretti is a labor and urban economist, with both the strengths and weaknesses that often accompany economists' ventures into the urban world; but he goes beyond others, attempting no less than a coherent explanation of the current state of the economic welfare of cities in the U.S. His perspective is dynamic, placing the present situation in the context of the evolution of industrial production and labor markets over the past 50 years. The great change during that time has been the loss of industrial manufacturing production employment in the U.S., which was identified early on by planners facing the consequences of decline in cities such as Detroit and Cleveland, as globalizing foreign competition destroyed them. That is a familiar story, as is the rapid population growth of cities in the Sun Belt, together with the rise of electronics and information-based sectors in iconic places, such as Silicon Valley, and growing inequality nationally. However, Moretti argues that these shifts have brought about a second type of increasing inequality, namely that between places. Those cities that have the new innovative sectors have surged ahead, not only of the centers of industrial decline, but also of most other cities, and the gap is widening. The implications for local economic development are very serious.

Moretti sees two complementary sources of the divergence. The first is the growth of sectors that are profoundly linked to innovation; at times he almost seems to imply that there is an innovation sector in its own right, though mostly he identifies specific sectors, such as information technology or biotechnology, that are characterized by continuing high levels of innovation. These sectors are geographically concentrated in relatively few places, rather than being spread out as might be normal for emergent industries. Why this is so constitutes the second part of Moretti's argument; innovation requires very highly educated workers, such as engineers and software designers, who are in short supply. Places that can simultaneously attract both innovative sectors and an educated workforce move into a virtuous circle. Economies of scale and localization work to draw firms together, attracting workers to the jobs. This, in turn, attracts more firms that benefit from knowledge spillovers from other close by innovators as well as a labor pool that offers more likelihood of finding workers at a competitive wage. If the place itself is attractive to these workers, the effect is compounded. The competition for labor increases wages, stimulating the local economy and driving up prices in the local housing market. The result is the kind of vibrant urban place celebrated by planners and observers from San Francisco, to Seattle, to Austin. More importantly, a successful place continues to reinforce its relative position as long as it remains innovative.

This is a plausible story, but some issues remain. Moretti explains part of the relative success of innovation driven sectors by a much higher local multiplier—on the order of 5 for innovative sectors—than is the case for other traded sectors. He does so in a long-term multi-city analysis that takes into account the dynamic effect of innovative firms as they spin off other innovative firms (Moretti, 2010). The multiplier argument is not fully presented in the book, which is directed towards the general reader, so Moretti does not make it clear that the estimates of the higher sectoral multipliers are for the most part not statistically significant. Nonetheless, it seems clear that the impacts go beyond the service sectors initially affected. The main thrust of the argument remains powerful, whether one accepts his formulation or not.

Whether we can draw major lessons from Moretti's work is more problematic. In the final three chapters, he discusses a wide range of urban inequality and poverty issues. Most of what he has to say is sensible, but it gives only modest hope for local economic development. Unusually for an economist, Moretti starts from a place-based perspective. However, he finds little benefit from place-based policies, though surprisingly he does view the TVA and the Clinton era Enterprise Zone program positively. As a good labor economist, Moretti advocates education and improving the quality of the labor force, but he also points out the paradox of states such as Michigan that provide public support for higher education, only to see

the graduates move away. In sum, Moretti has no magic bullets, but he does show the critical significance of innovative sectors for cities in the U.S. at this time. Yet, we also know that innovative sectors come and go. One is left wondering whether what we are seeing now is sustainable over the long term. Technological optimists see the current era as one of unending and expanding scientific discovery and innovation. History suggests that even if that is so, the places that benefit will not remain the same. Moretti has given us a powerful insight into that process.