

Book Review

The New Geography of Jobs

Enrico Moretti (2012), Boston/New York. Houghton Mifflin Harcourt.
pp. 294.

In this book, Enrico Moretti offers a powerful critique of the ‘world is flat argument’. Despite increasing mobility, despite falling transport costs, despite ever more powerful communication technologies, distance is not dead. The world is not a level playing field for commerce and business cannot locate wherever it chooses (or wherever it is offered the biggest tax breaks).

To put it another way, proximity matters. In fact, argues Moretti, as developed economies continue to shift from traditional manufacturing to high knowledge activities, proximity matters more than ever, because ‘[m]ore than traditional industries, the knowledge economy has an inherent tendency towards agglomeration’.

When it comes to innovation, a company’s success depends not just on the quality of its workers but ‘on the entire ecosystem that surrounds it’.

So while you could put a textile factory just about anywhere in the world with an adequate labour supply, ‘a biotech lab is harder to export’ because it will only succeed if it is clustered with other innovative companies and innovative workers.

Moretti is far from alone in putting this contemporary twist on the agglomeration economics of Alfred Marshall (1842-1924), who recognised more than a century ago that the co-location of firms enhances productivity, not least through the transfer of skills, knowledge and ideas:

The mysteries of the trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously. Good work is rightly appreciated, inventions and improvements in machinery, in processes and the general organization of the business have their merits promptly discussed: if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas.

(Principles of Economics, IV, X, 3, 1890)

What makes Moretti’s book so interesting is that he situates the effects of agglomeration in the knowledge economy in a broader social context. According to the flat earth theory of economics, good jobs in high-cost locations will quickly move to places where wages are lower. As a result, living standards and wages across the United States will gradually converge.

In fact, as Moretti demonstrates, the opposite is happening. He shows that the US has been experiencing ‘the Great Divergence’ – a growing divide between those cities that have been able to surf the knowledge wave and those stranded on the

sandbank of industrial history. Think Boston or San Jose on the one hand, Detroit or Flint, Michigan on the other. The first two are ‘brain hubs ... with a well-educated labour force and a strong innovation sector’ and are ‘growing, adding good jobs and attracting even more skilled workers’. The latter two cities were ‘once dominated by traditional manufacturing’ and are ‘declining rapidly, losing jobs and residents’.

While primarily driven by economic forces, the Great Divergence shapes society in profound and disturbing ways because ‘the sorting of highly educated Americans into some communities and less educated Americans into others tends to magnify all other socio-economic differences’. The divide is expressed not only in income, employment and education, but also in life expectancy, health, smoking, crime rates, divorce and a range of other social indicators.

As a non-economist, I found Moretti’s writing refreshingly clear and engaging. And while he is enthusiastic about globalisation, and believes that ‘manufacturing activists’ trying to save blue collar jobs are fighting a losing war against history, Moretti does not shy away from the contradictions and complexities of contemporary capitalism. He notes, for example, that in consumption terms, the poor have benefitted more than the rich from low cost imports (the advent of China and Walmart), but that, simultaneously, it has been ‘less skilled workers taking most of the job losses’ in the labour market.

Similarly, while productivity gains lower prices and raise wages, they ‘ultimately end up killing jobs’. General Motors needs ‘four times fewer workers’ for each car it produces today than it did in 1950 (Moretti’s emphasis). So while US manufacturing output has doubled since 1970, employment in the sector has collapsed. The results in a ‘hollowing out’ of the labour market: previously relatively stable and well-paid semi-skilled jobs in manufacturing have been replaced at the top end by ‘high-skill, high-wage jobs (professional, technical, and managerial occupations’ and at the bottom end by ‘low-skill, low-wage jobs (food services, personal care, and security service occupations)’.

Moretti believes these challenges are manageable, as long as companies keep moving up the technological food chain, partly because the multiplier effect of innovative industries is far greater than the multiplier effect of traditional manufacturing. He calculates for example, that the 12,000 Apple workers employed in Cupertino indirectly support another 60,000 jobs in the local metropolitan area but outside the high-tech sector. Of these jobs, 36,000 are unskilled (cleaners, waiters, security guards etc.) and 24,000 are skilled (lawyers, doctors, accountants and so on).

Moretti mounts a powerful case for the existence of the Great Divide and the social challenges arising from the spatial inequality that it generates. He argues, however, that the effects are manageable with the right policy prescriptions. As long as the United States – or Australia for that matter – pedals fast enough on the innovation treadmill then the economy will generate sufficient wealth and the jobs.

But his analysis of the problem is more convincing than his optimism about the future. For example, Moretti cites the animation company Pixar as a success story of American creativity and talent. Most of what Americans consume may be produced in Asia, he writes, but ‘the manufacturing of dreams still takes place in California’. It is hard to imagine Pixar company headquarters moving to Shenzhen, he concludes. But if the right ‘eco-system’ were put in place, and Shenzhen offered other benefits

(like lower rents and lower wages), then why wouldn't Pixar move? Ten years ago it was hard to imagine Australian law firms outsourcing billable work to India. Now it is increasingly common.

A less sanguine view of the future is one in which the process of technological change becomes ever more rapid and international competition ever more intense, so that we find ourselves in a constantly accelerating spin of economic restructuring. In this scenario we might find that the middle ground of the labour market continues to shrink and the concept of job security becomes a quaint relic of 20th Century history. The winners in such a world would be highly skilled and highly paid; the losers would polish their nails and trim their hedges.

Moretti's arguments about spatial inequality are not directly applicable to Australia, because of our very different demography. Australia's population is concentrated in five large state capitals rather than a spread across scores of big and medium size cities as in the United States. While Moretti's 'Great Divergence' may be evident if one compared the flows of skilled labour and capital in and out of Hobart and Brisbane, or Adelaide and Sydney, the most pronounced divide in Australia is *within* cities, rather than *between* them.

As documented in the recent Grattan Institute report *Productive Cities*, highly qualified workers and high-knowledge, high-wage jobs are increasingly concentrated close to the centres of Australia's major cities, while people with lower level qualifications and lower incomes are dispersed around the outer suburbs.

If you find this kind of spatial inequality troubling – as I do – then it suggests that we need to do some serious thinking about the interaction between the structure of our economy and the structure of our cities. Moderating the trend towards economic segregation will not be easy because it takes a lot of time and a lot of money to alter physical structures and change settlement patterns. The proposal for a Metro running under central Melbourne, for example, is designed to increase the connectivity of the metropolis and extend the benefits of proximity to the high-knowledge, high-wage core of the inner city to many more residents, particularly in the western and northern suburbs. But the metro would cost \$10 billion and even if the money could be found, it would take years to build. Other policy settings that shape the city – such as the tax treatment of housing – are difficult to change because they are deeply embedded in the social and cultural fabric.

There is one point on which it is easy to agree with Moretti and to translate his views on America into an Australian context – his argument that there is too little public and private investment in education and research. Like it or not, the knowledge economy is upon us, and in this era, human capital is the only engine that can sustain jobs.

Reviewed by *Peter Mares**

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