

# Skilled Scalable Services

The New Urban Bias in Recent Economic Growth

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“Any opinions and conclusions expressed herein are those of the author and do not necessarily represent the views of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information is disclosed.”

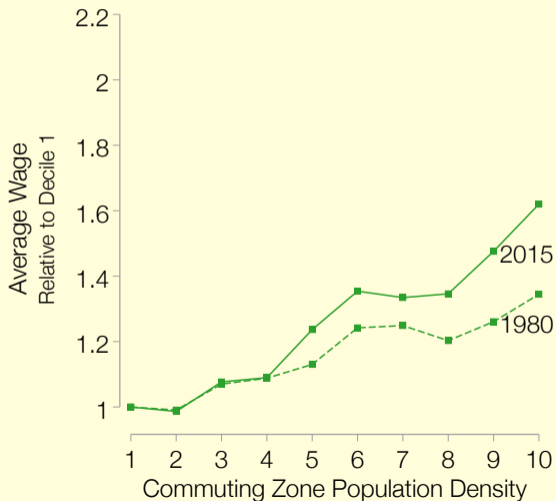
# Growth in the Service Economy

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- Wage gaps between rich+poor U.S. cities tended to close historically
- Recent research: this stopped around 1980
- **New Urban Bias** in recent economic growth:
  - ↳ The largest cities saw persistently faster wage growth
- **Today:**
  - I. *Skilled Scalable Services* mechanically account for New Urban Bias
  - II. *Tech price declines + scale advantages in cities* offer unified explanation

# The New Urban Bias in Recent Economic Growth

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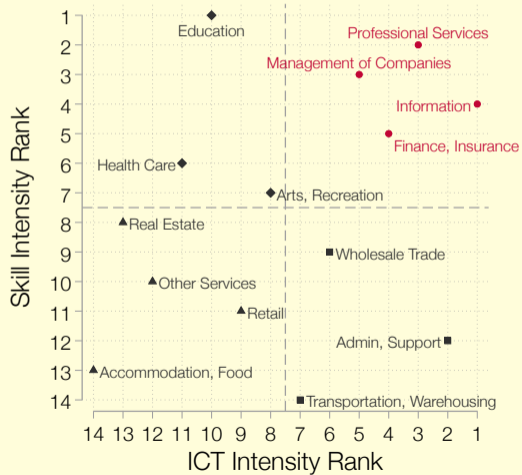


# What Are Skilled Scalable Services?

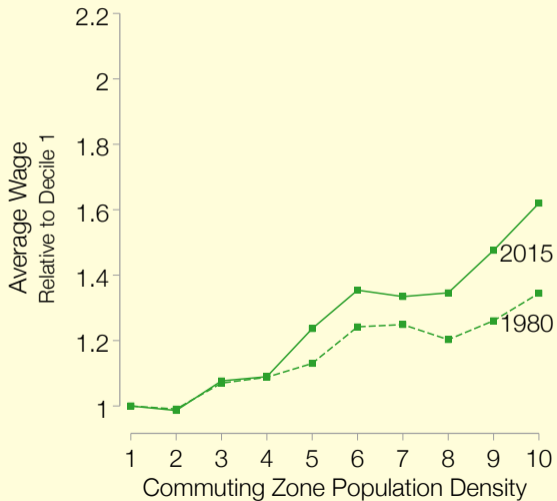
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- Skill-intensive industries that *create* and *communicate* information
  - ↳ ICT allows these industries to increase scale
- For each 2-Digit NAICS service industry compute:
  - ↳ **Skill Intensity**: Share of college workers in workforce
  - ↳ **ICT Intensity**: Share of software+hardware in total capital
- **Skilled Scalable Services**: highest ranking in both measures, today and back in 1980

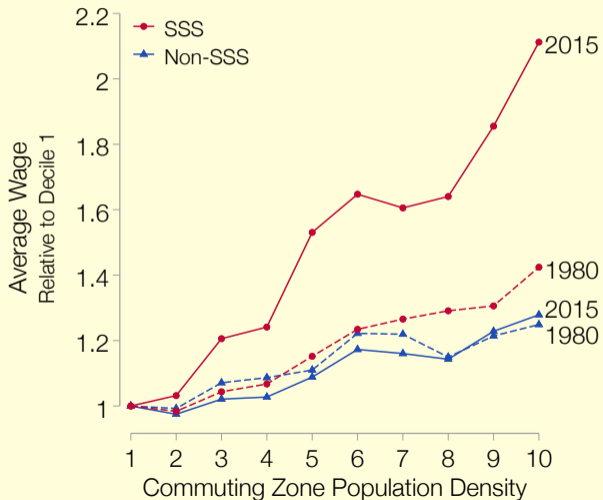
# Skilled Scalable Services $\mapsto$ SSS



# New Urban Bias

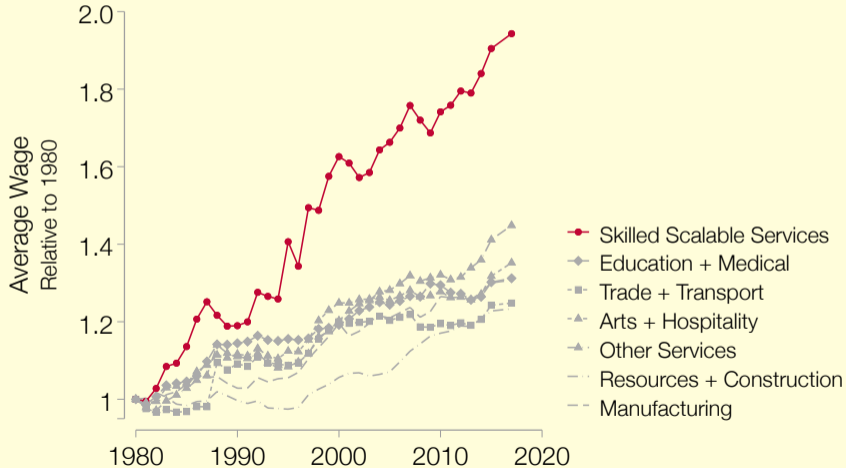


# Skilled Scalable Services and the New Urban Bias

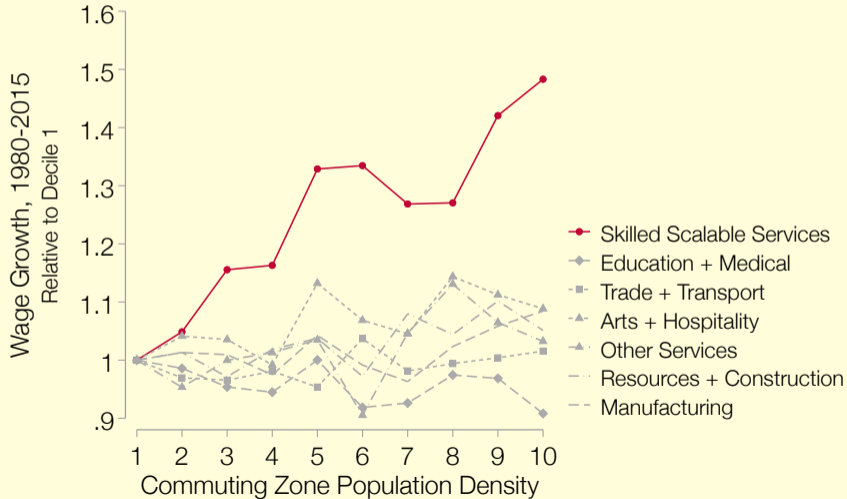




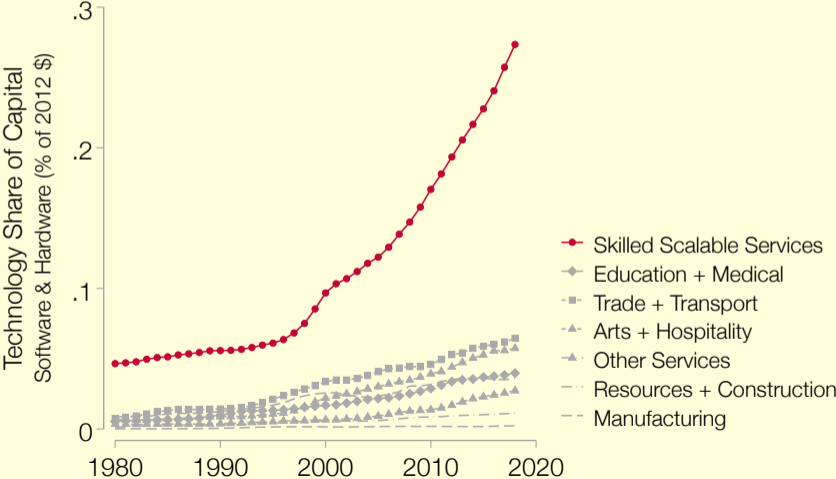
# Fact: Rapid Wage Growth in SSS



# Fact: Urban-Biased Wage Growth in SSS



# Fact: Rapid ICT Capital Adoption in SSS



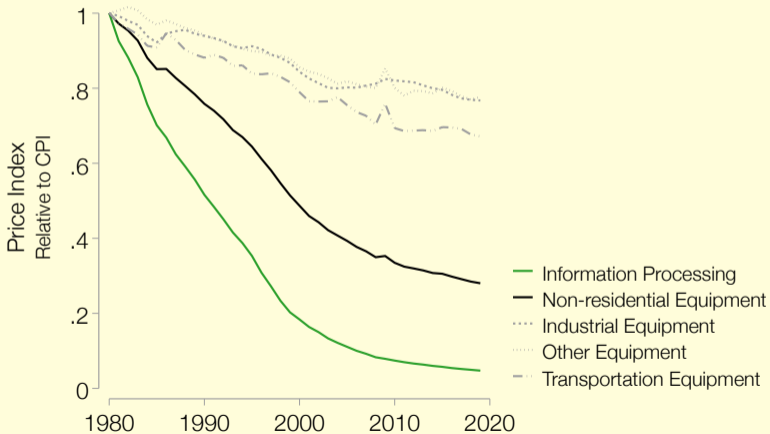
# Explaining the New Urban Bias

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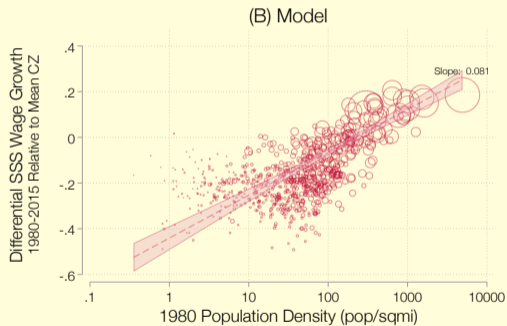
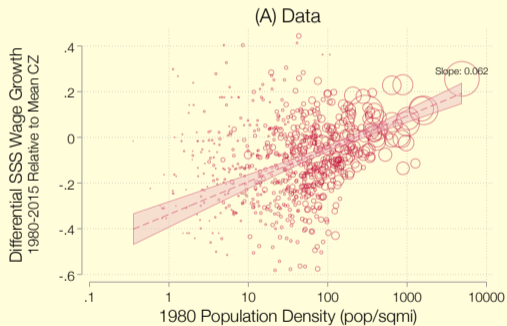
- Part I: Statistically, all of the urban bias is accounted for by SSS
- **Part II:** Structurally, what explains the urban bias of SSS growth?
- Starting Point: Successful literature on **skill bias** in recent growth
  - ↳ *Shock*: Falling non-residential equipment prices
  - ↳ *Mechanism* with two ingredients:
    - Skilled Labor/Capital complementarity
    - Skilled/Unskilled Labor substitutability

Can this Price Decline also Explain the New Urban Bias?

# Model Input: Information Processing Equipment Prices



# Result: SSS Wage Premium in Model and Data



## Conclusion: The End of Shared Prosperity?

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- The era of manufacturing was one of widely shared growth
  - ↳ Across different education groups and *regions*
- SSS-led economic growth appears fundamentally different
  - ↳ "Superstar" regions+workers see rapid wage growth
- **Flipside:** Smaller places+less skilled workers may not benefit