

### Moretti: The Great Divergence

- (1) Economic factors that shaped American & global cities from the 19<sup>th</sup> to 21<sup>st</sup> Century
- (2) Political economy: changing relationship between government & markets – huge national variations
- (3) Cities 1990-2008: Tom Friedman – globalism & free markets
- (4) Cities that succeed & cities that fail; concentrated poverty
- (5) Brexit; American revolt against globalism; from left & right
- (6) Next week: Implications/responses to inequality; Branko Milanovic

- 19<sup>th</sup> & early 20<sup>th</sup> century North American & European cities were manufacturing centers; centers of production; steel, oil refineries; locomotives, boats, cars, radios, military equipment, garment industry; food processing

Maker cities - exporting cities- through ports & rail lines

Office buildings in downtown, housed the management functions for the industrial city; corporate headquarters; office firms tied to place

Manufacturing was driving edge of innovation  
Selling manufactured goods regionally/nationally was source of wealth for cities and places

### 1948: Manhattan's downtown with a working port; Manufacturing = 33% of the city's jobs; today 4.5%

The image is a black and white aerial photograph of Manhattan, New York, in 1948. It shows a dense urban landscape with a large area of industrial buildings and docks along the waterfront, illustrating the city's manufacturing base at that time.

### Lower Manhattan today

The image is a color aerial photograph of modern Lower Manhattan, New York. It shows a dense cluster of skyscrapers and modern buildings, with the Hudson River and East River visible, representing the current state of the city's downtown.

### New York & Philadelphia garment industry

The image is a black and white photograph showing the interior of a garment factory. Several workers are seated at sewing machines, working on clothing. The scene depicts the busy manufacturing environment of the garment industry in the mid-20th century.

### Pittsburgh: steel industry



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### Detroit & Chicago



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### Downtown Detroit, 1920



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### Chicago's downtown, 1926



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**Legacy:**  
19<sup>th</sup> & 20<sup>th</sup> century industrial wealth = 21<sup>st</sup> foundations

- Rockefeller (oil)
- Carnegie (steel)
- Ford (cars)
- Knight (newspapers)
- Pew (Oil)
- William Penn Foundation (chemicals)

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### Legacy art: Delaware River Bridge

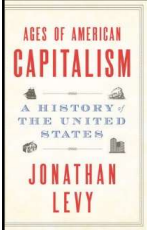


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### Political economy



Late 19<sup>th</sup> century, post civil war, the slave based southern agricultural economy was defeated & the U.S. was a developing nation competing against more developed economies: England, France, Germany, Holland

National government supported & facilitated commerce

- protective tariffs to shelter emerging American industry
- government support for transportation; roads, canals & railroads – land grants

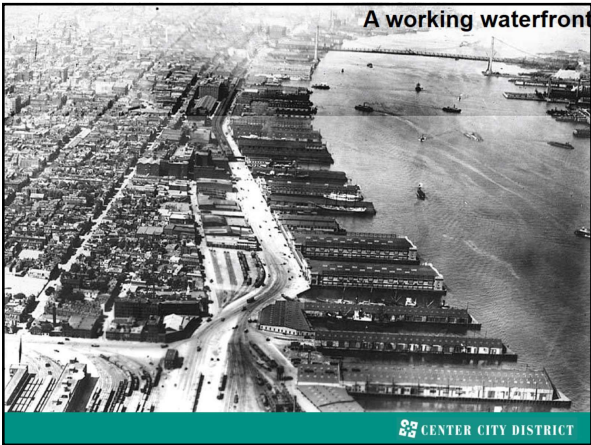
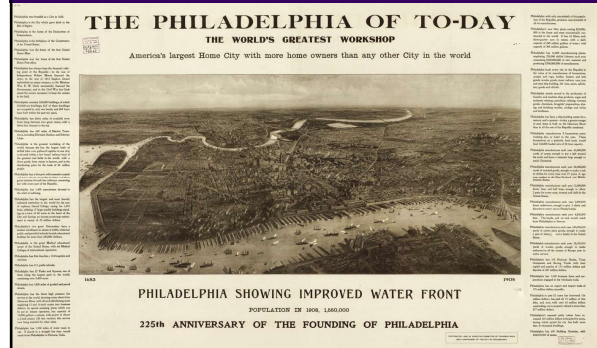
Emergence of major regional & national corporations  
Railroads, oil, steel, food processing

- Period of rapid industrialization; immigration (1865-1929)

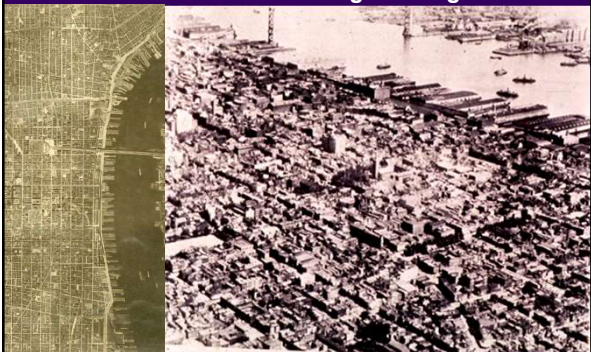
- Time of rapid urbanization  
Home for 50%+ of American population



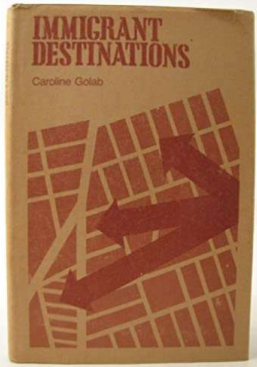
### 1908: Huge importing and exporting city



### Working class neighborhoods adjacent to port Southwark: Immigrant neighborhood



## 46 different ethnic churches/synagogues 1920

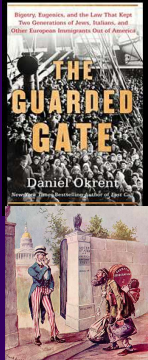


LOCATION OF RELIGIOUS INSTITUTIONS, C. 1900-1920—SOUTHWARK  
 1 St. Stanislaus, Bishop and Martyr, Roman Catholic Church and School (Polish); 2 Holy Trinity, Roman Catholic Church (Ukrainian); 3 St. Philip Neri, Roman Catholic Church (Italian); 4 St. Peter and Paul, Roman Catholic Church (Czech); 5 St. Joseph, Roman Catholic Church (Czech); 6 St. Ignace, Roman Catholic Church (Czech); 7 St. Elizabeth, Roman Catholic Church (Czech); 8 St. Ann, Roman Catholic Church (Czech); 9 St. Michael, Roman Catholic Church (Czech); 10 St. Vincent, Roman Catholic Church (Czech); 11 St. John, Roman Catholic Church (Czech); 12 St. James, Roman Catholic Church (Czech); 13 St. George, Greek Orthodox Church; 14 St. Nicholas, Greek Orthodox Church; 15 St. Raphael, Greek Orthodox Church; 16 St. Basil, Greek Orthodox Church; 17 St. Demetrius, Greek Orthodox Church; 18 St. George, Greek Orthodox Church; 19 St. Nicholas, Greek Orthodox Church; 20 St. Raphael, Greek Orthodox Church; 21 St. Basil, Greek Orthodox Church; 22 St. Demetrius, Greek Orthodox Church; 23 St. George, Greek Orthodox Church; 24 St. Nicholas, Greek Orthodox Church; 25 St. Raphael, Greek Orthodox Church; 26 St. Basil, Greek Orthodox Church; 27 St. Demetrius, Greek Orthodox Church; 28 St. George, Greek Orthodox Church; 29 St. Nicholas, Greek Orthodox Church; 30 St. Raphael, Greek Orthodox Church; 31 St. Basil, Greek Orthodox Church; 32 St. Demetrius, Greek Orthodox Church; 33 St. George, Greek Orthodox Church; 34 St. Nicholas, Greek Orthodox Church; 35 St. Raphael, Greek Orthodox Church; 36 St. Basil, Greek Orthodox Church; 37 St. Demetrius, Greek Orthodox Church; 38 St. George, Greek Orthodox Church; 39 St. Nicholas, Greek Orthodox Church; 40 St. Raphael, Greek Orthodox Church; 41 St. Basil, Greek Orthodox Church; 42 St. Demetrius, Greek Orthodox Church; 43 St. George, Greek Orthodox Church; 44 St. Nicholas, Greek Orthodox Church; 45 St. Raphael, Greek Orthodox Church; 46 St. Basil, Greek Orthodox Church.

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## Nativism & anti-immigrant sentiment

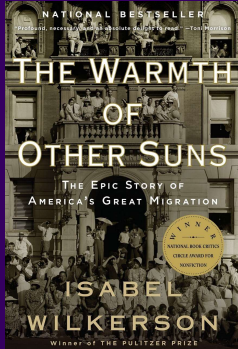
- Building from the 1880s and 1890s
- World War 1: immigration shut down
- Formalized in 1924 restriction of immigration; didn't end until 1965
- Cut off foreign supply of industrial labor



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## African American migration north & to California

- starting in WW1 & growing thru 1920s & 1930s migration of African-Americans from south to north
- Recruited by northern industry; leaving segregation, Jim Crow & rural share-cropping for opportunities in northern cities



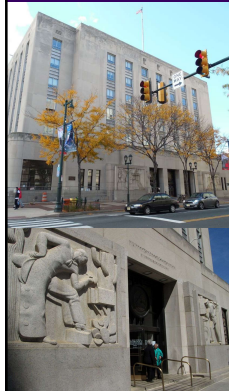
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## Depression & the New Deal

- 1930s, in response to collapse of economy, FDR & New Deal
- No federal "social safety net" until 1930s; charity is local
- National government takes on compensatory/redistributive role: unemployment insurance, aid to mothers with dependent children, social security –
- US no progressive income tax until 1913-1914
- New Deal funded thru progressive income tax
- Social Security: mandatory payroll withholding
- all introduced in Europe in 1880s & 1890s

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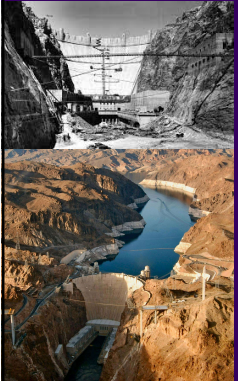
## Works Progress Administration (WPA) projects



- Bridges, highways, post offices infrastructure as job generation: Robert Moses
- Rural electrification thru Tennessee Valley Authority (TVA)

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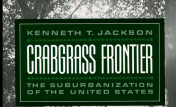
## Hoover Dam, Nevada



- Building of dams; power generation & water supply in the west; Colorado River
- Dedicated by FDR in 1935
- Job generation through infrastructure investment, but no specific urban development strategy

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Post World War 2 National government supports mobility strategies but not many place-based strategies:

- Interstate highway program
- FHA/VA mortgage insurance programs facilitate suburbanization
- Urban renewal 1949 – originally just housing downtowns & university campuses 1954-1968
- Funded significantly lower than highways



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**Huge economic expansion 1945-1973**

- New Deal programs remains in place even with Dwight Eisenhower, Republican President 1952-1960
- Labor/management peace
- Strong, expanding national economy
- Post-war Commitments to rebuild European & Japanese economies.
- Huge build up of permanent military/aerospace industry in the south and west (Texas and California)
- Cold-war; anti-communism; both Democrats & Republicans; bipartisan support for the Vietnam War
- US commitment to global free-trade; democracy, capitalism & free-trade

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**Post World War 2: North American & European cities steadily de-industrialize**

The Rust Belt was formed when industries began migrating south into the Sun Belt for more favorable economic policies, affordable and abundant housing options and a decreased union presence.



- US – City to Suburbs, from north to south Rust Belt/Sun Belt & then global
- Arab Oil Embargo 1973; stagflation
- Emergence of Asian economies: 1980s; global competition
- Standard of living ceases to grow robustly

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**Ronald Reagan sworn in as President 1981-1988 Continued under Bush 1988-1992: New Federalism**

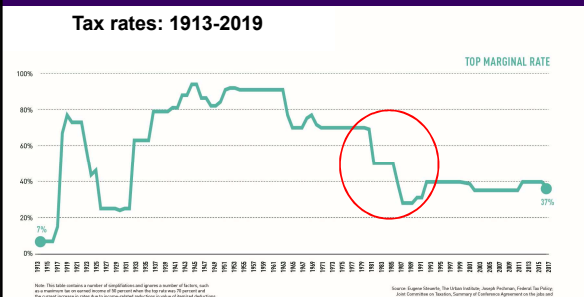


- Deregulation of industry
- Lowering tax rates
- Reduced funding for New Deal/Great Society
- Government is the problem
- Government needs to get out of the way of entrepreneurial capitalism
- Strong national government build up of military; Sunbelt robust anti-communist agenda

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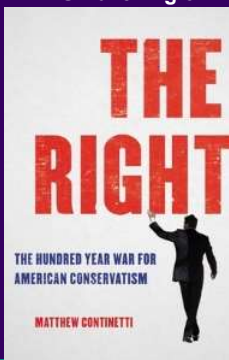
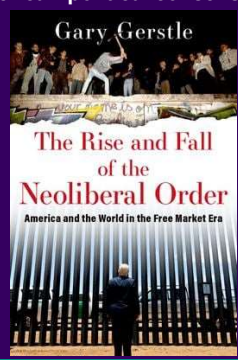
**Cutting of federal tax rates: 1980s Continued by Clinton: New Democrats/Neo-liberalism The engine of growth is the private market**

**Tax rates: 1913-2019**



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**Transformation of American political parties Unravelling of American political consensus**

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1990 to 2008

Little or no national development policy  
freedom of capital: mobility of investment  
Collapse of Soviet Union:  
"the triumph of democratic capitalism"

Absent anti-communism; Republican party begins to move away from  
globalism & free-trade

Little national commitment to infrastructure investment  
other than highways; Obama attempt to fund High Speed Rail

Contrast that to state managed & directed capitalism  
China and Singapore –

In the European Union:  
coordinated regional & industry growth strategies  
European union funding of infrastructure investment.

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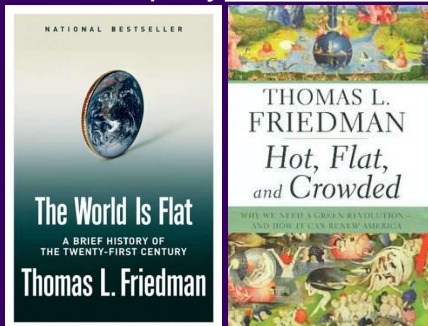
Free-market "neo-liberalism" (supported by Clinton/Bush)  
In US Cities compete against their own regions & each other:

- for investment capital
- federal capital grants
- expansion of existing businesses
- relocation of businesses
- start-up of new firms
- conventions & professional meetings
- for retail sales
- for residential decision making
- sports franchises

Few constraints on mergers/acquisitions  
Cities also compete in global context  
environment is one of competitive capitalism  
business free to locate where-ever it chooses  
including overseas

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This world was described best  
Thomas Friedman, World is Flat in 2005  
Subsequently Hot Flat & Crowded, 2008



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Data & money move digitally around world at touch of finger.

outsourcing began in manufacturing  
(foreign labor cheap enough to overcome costs of transportation)

Moved from low skilled services –call centers & then slowly  
moved up the skill ladder to outsourcing of high-skilled  
professional services

"outsourcing" is parochial term  
Internationally owned firms & globalization of capital able to  
contract for labor & carry out production in lower cost markets

Corporations no longer tied to place

- NAFTA & free-trade (Clinton)

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In Friedman's view: competitive cities & regions,  
the places that will thrive & increase prosperity for their  
residents have minimum barriers to entry;

these are places that make it easy to start businesses,  
raise capital & become entrepreneurial; places with  
simple, equitable & transparent regulations;

they have an educated, energetic & versatile workforce  
workforce that thrives in a competitive, rather than  
sheltered environment.

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In this global economic context urban economic  
environment characterized by turbulence,  
responding to forces beyond local control

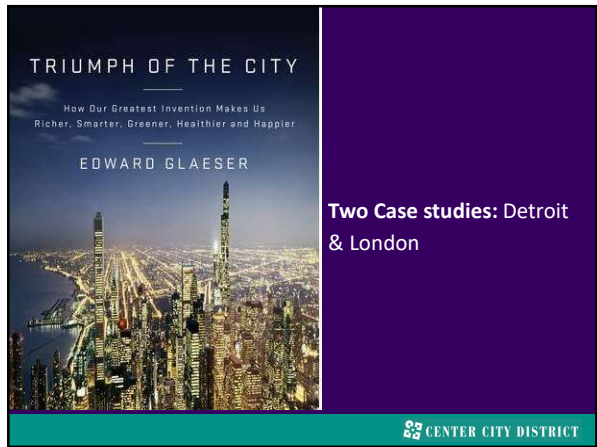
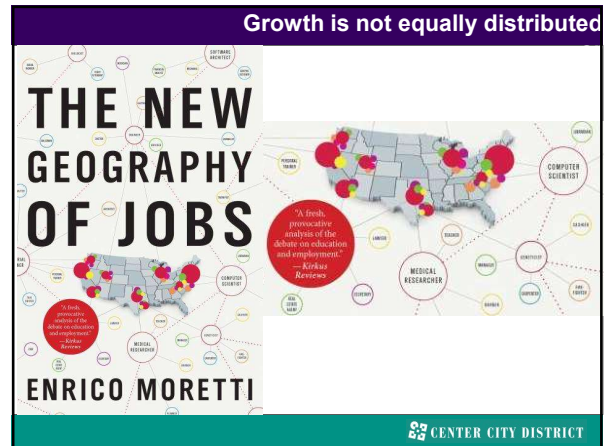
over 10 years any given place is likely to lose  
*one-half its jobs.*

"Great divergence"  
places that don't respond to these challenges  
"places in trouble"  
places that lose market share  
places that decline with high poverty rates  
Patrick Sharkey, chapters 1-3

Successful places continually innovate & grow new  
businesses; expand market share

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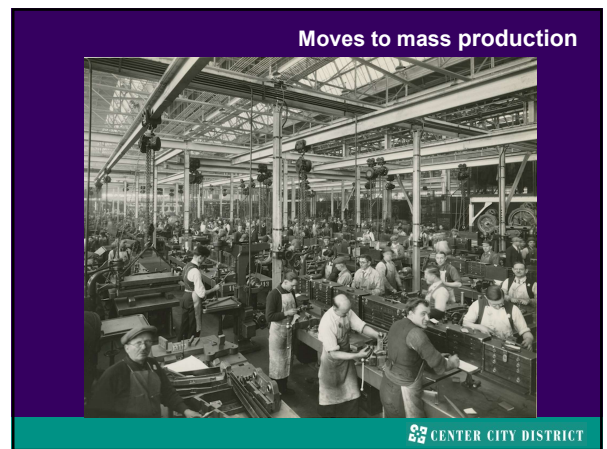


Detroit—early 20<sup>th</sup> century emergence of auto industry

innovation comes out of densely clustered, competitive environment –lots of inventors & entrepreneurs all crammed into small area of Detroit

Automobile emerged by combining 2 existing ideas horse-drawn carriage + the gas engine – both of which had been made in Detroit –

Skilled workers ready to adapt  
lots of small firms frantically competing with each other to innovate, break through & capture market share.





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Cities are a magnet for unskilled labor

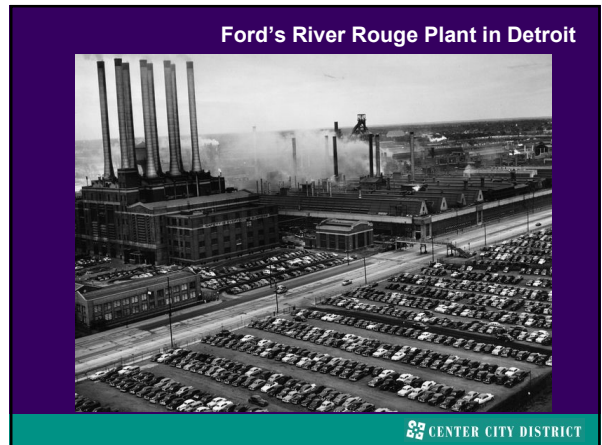
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More than a dozen competitive firms,  
Successfully producing cars for the market.

Detroit 1900-1920 booming city

But as Henry Ford introduced mass production on assembly line, it lowered the cost of production, sold cars at lower cost & it reduced the need for knowledge intensive workers & innovation.

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Ford's River Rouge Plant in Detroit

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To compete, no longer relied hand craftsmen, who designed, redesigned & built between **10-50** cars/year,

Capital & labor intensive factories, mass production; the routinization of function.

Drove mergers: reduced field to just 3 large companies: Ford, General Motors & Chrysler  
American Motors in 1960s

They dominate the global markets (40 years)  
Few domestic upstarts to challenge big 3  
*Lack of competition drives out creativity*

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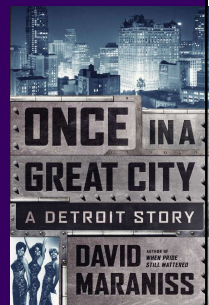
Huge expansion – after World War 2 for a decade until late 1950s US had few global competitors for auto production

But by 1963 – half the cars in the world were made outside of US

By 1964: 500,000 imports were sold in US

1970s & 1980s German & Japanese auto producers began to undercut the domestic market providing smaller, more fuel efficient cars as energy prices rise

Detroit goes into decline – population declines from 1.7 million to 688,000



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**Dominic Vitiello, Engineering Philadelphia**

Tells similar story of early innovation & then the decline of manufacturing beginning in the 1920s

East German cities, smaller Japanese cities; Camden; East St Louis, Rochester, Reading PA

These are the loser cities in deindustrialization & globalism

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**Contrast London, England.**

a city of production & exporting for first ¾ of the 20<sup>th</sup> c  
Manufacturing decline & containerization of cargo made ports obsolete

City lost 25% of population by 1980

New innovative cycle: 1986 deregulation of financial services – opening up to global competition

Good international connections- investment in Heathrow Airport  
Excellent position in global time zone: do business with Asia in AM; North America in PM

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**The post-industrial economy**

A trusted legal system, stable politics, a trusted bureaucracy; no need for bribery to do business

Less regulated business environment than European continent

Becomes a global financial capital; attracted huge influx of immigrant entrepreneurs – from former colonies

Global wealth poured in, driving up housing prices –

Lower skilled immigrants come for opportunity; often going directly to some suburbs; wealth concentrates at the center

1/3 of Londoners & 1/3 of New Yorkers born outside of these countries

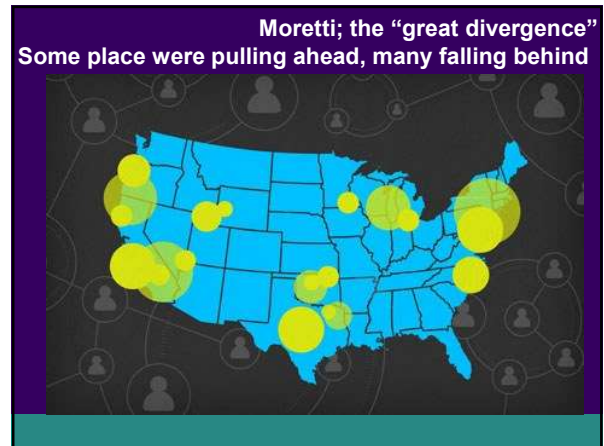
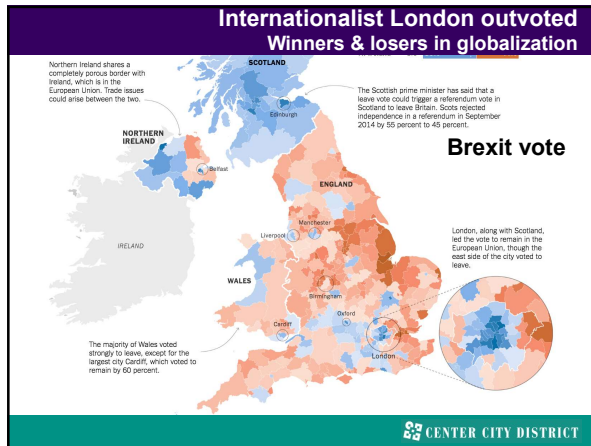
Miami as haven for South American wealth (Gateway cities) – Vancouver, BC - Asian

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**Brexit: withdrawal from European Union**  
Erection of trade barriers – restrictions on mobility of capital

Amsterdam, Frankfurt & Paris all position to capture market share of financial services

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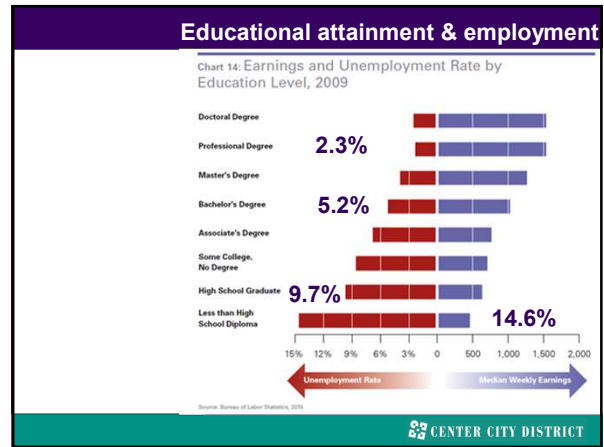


For years, economists have understood that post-industrial economy was dividing into

High-skilled knowledge-intensive jobs,  
& lower skilled jobs;

Advantage of a college & graduate degree

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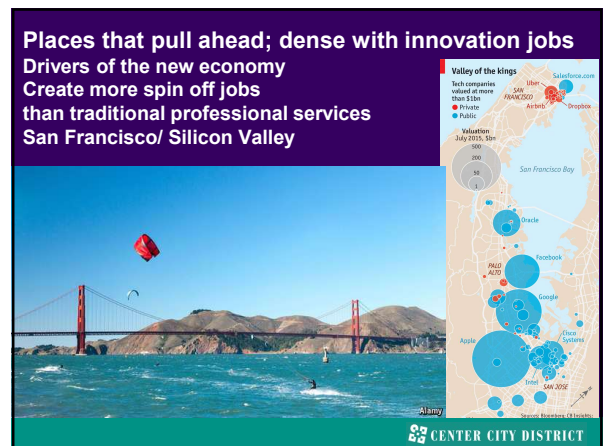
Moretti's focus is on the place dimension of this change: *“the great divergence”*

- Places with knowledge-intensive jobs, draw to them a solid base of workers & the presence of knowledge-workers is attractive to firms – mutual reinforcement.
- knowledge-intensive industries tend to geographic agglomeration; “clustering”

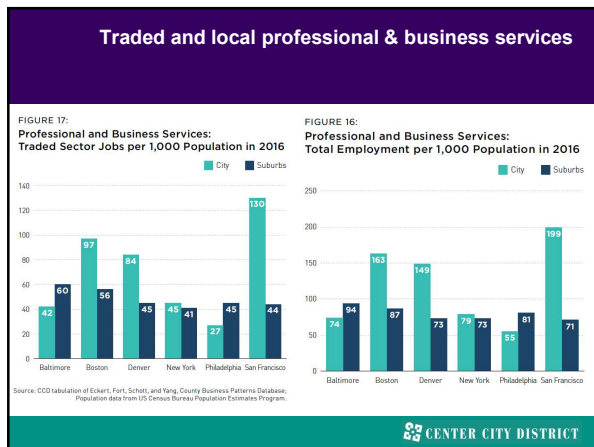
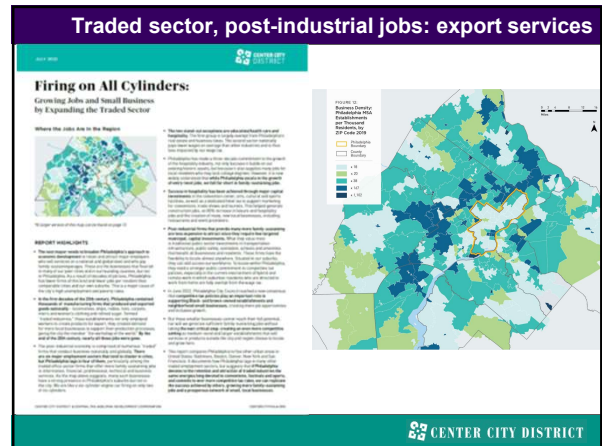
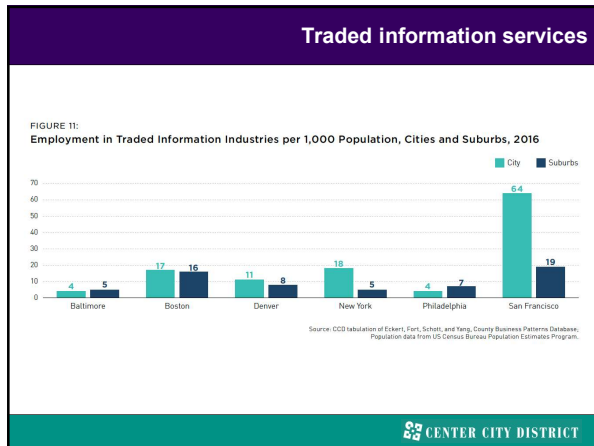
They cluster & want to be near each other & near venture capital not evenly dispersed across places

Bay area – SF/Silicon Valley, London, Bangalore, India; Shenzhen & Pearl River Delta in China

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Edward Glaeser, Triumph of the City

Virtues of density for economic development  
Density enables a virtuous cycle to begin in which employers are drawn by the large pool of potential employees & workers are drawn by abundance of potential employers

The denser the cluster of employers  
The greater the chance for upward cycle (Detroit)

Writing about Bangalore India  
Glaeser, *Triumph of the City*

"These cities create a virtuous cycle in which employers are attracted by the large pool of potential employees and workers are drawn by the abundance of potential employers. So firms come to Bangalore for the engineers and engineers come for the firms."

Urban scale also makes it easier for workers to move from job to job. In highly entrepreneurial industries, workers get ahead by hopping from firm to firm. Young people become more productive and better paid as they switch employers and acquire new skills." Thick labor markets (1 architect firm)

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Rather than a leveling & dispersing effect of internet & digital technology- reinforce/cluster  
More phone calls. Emails. Social media messages are sent to people in close proximity

In the presence of competition, everyone improves their game  
Example: Tennis, squash, fencing

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Margaret O'Mara, *The Code*



Moretti: Knowledge intensive jobs = higher wage jobs, so that even as American cities have desegregated from the perspective of race,

they are sorting themselves by income; smart cities get smarter; smart cities get richer smart cities get less affordable absent public policy

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Moretti "secular" change – long term & structural & not "cyclical" (ups & downs of the business cycle)

part of long-term transition from manufacturing to service

manufacturing employment in the US peaked in 1978-1979 and then began a steady decline; Pre-Nafta

#### Factors

rise of Asia - Japan, Korea, China with lower cost labor as a manufacturing powerhouses; garment industry, cars, home appliances, computers, personal electronics, sportswear; free-trade can facilitate but this is embedded structurally in the knowledge economy

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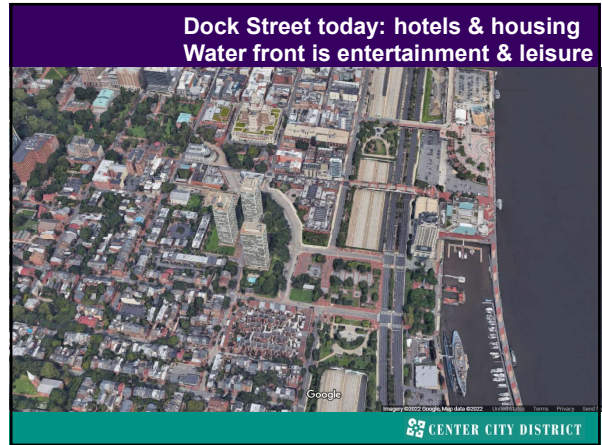
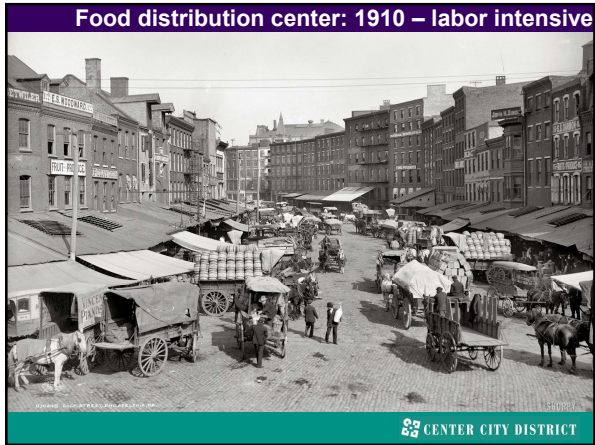
Not simply "off-shoring" from US the application of technology to manufacturing in the US– reduced the size of workforce in 1950 each General Motors assembly line worker made 7 cars per year

Due to mechanization, by 2013 the average worker made 28 cars/year

Much higher productivity = less labor needed

Containerization of cargo – Queen Village

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From container ship



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To trains.....



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Or trucks; significant reduction in need for labor  
Huge gains in efficiency



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Rotterdam



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Loading & unloading  
moves away from central waterfront



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Packer Marine Terminal



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Similar process in San Francisco  
Move to Oakland



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Port of Oakland California



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Oakland



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West 57<sup>th</sup> Street, Pier 97 in the 1960s  
Move across to New Jersey

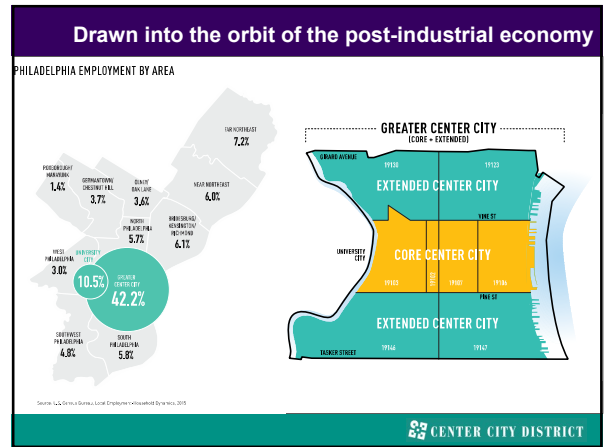
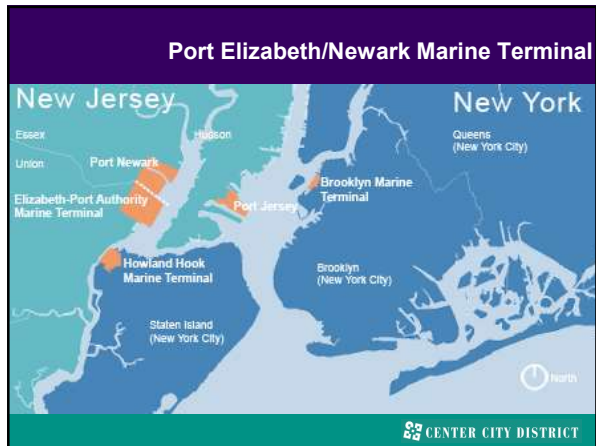


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Port Elizabeth/Newark Marine Terminal



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Mechanization has steadily moved up the skill chain & has been occurring in the Asian economy as well (lower costs in Vietnam –providing competition for China)

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Post-industrial economy is built around greater human knowledge as the major input not manual labor;

But, argues Moretti, the presence of high-skilled high-wage workers has a positive impact on creating opportunity for all.

This is different from Richard Florida's "creative economy" argument in that he lumps artists, craftspeople; different from "trickle down"

Moretti is focused on high-tech & innovation jobs Seattle, San Francisco, San Jose, Boston, Bangalore, Pearl River Delta

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High-tech jobs have the highest multiplier effect, creating 5 additional jobs around them;  
Both high-skilled services: lawyers, accountants, bankers & doctors

Lower skilled service jobs: waiters, personal trainers hair dressers, taxi & Uber & Lyft drivers

"While service jobs are the largest portion of the economy, they are the effect, not the cause of economic growth" innovative industries as driver

As an urban development strategy: Moretti, makes the case for focusing on innovation, tech & pharmaceutical sectors; bio-med

Pennovation center; Schuylkill Yards

Only **10%** of US jobs in innovation sector  
Majority of jobs are in the service sector  
FIRE, law, financial services accounting,

personal services  
Low-skilled services Macdonalds, Walmart

But innovation sector is where job-generation comes from

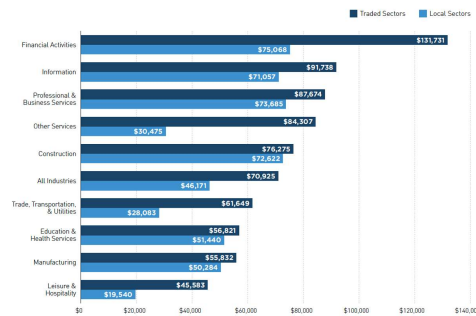
Particularly in the "traded sector" products & services sold outside the region into larger national & global market  
Google, Microsoft – Comcast, Facebook  
Entertainment: Hollywood, Korean KPop

Jobs created in one place, sell outside region import wealth back to home region  
page 58-59: multiplier effect innovation jobs in traded sector

Boeing Aircraft – traditional manufacturer has more jobs in Seattle than Microsoft.  
But generates less spin off jobs.  
Microsoft employs 40,000 people, 28,000 of whom are high-skilled RD engineers

### Traded sector firms pay higher wages

FIGURE 10: Philadelphia Average Wage per Employee by Supersector, Traded and Local Industries, 2016



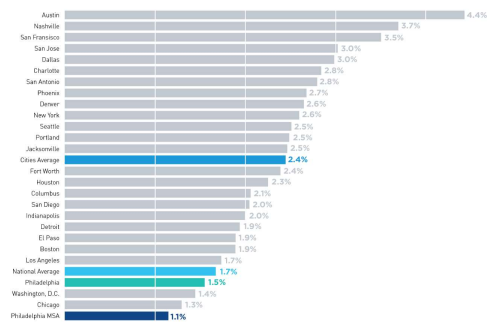
High tech & innovation jobs = high wage jobs  
Higher profit margins in global economy.  
Auto manufacturing compared to  
Pharmaceutical production & digital technology

Those cities that excel in innovation pull ahead – "the great divergence"  
"Cities with the right sectors & with workers who have the right skills are strengthening their position, while others trapped by their past are losing ground" p146

the innovation economy is unevenly distributed.  
Three states—New York, Massachusetts, & California—account for three-quarters of all venture-capital investment in the United States

### Fast growing cities & slow growth cities 2009-2019

AVERAGE ANNUAL PERCENT CHANGE IN PRIVATE SECTOR JOBS, 2009-2019



Successful cities also have more charitable giving - more investment in arts & cultural facilities, parks, services for those in need

So the innovation economy produces & reinforces **income disparities**

Backlash against tech in San Francisco/San Jose

Has pandemic broken the hold of these superstar cities? Does remote work create the opportunity for others?

Moretti: Innovation economy is the driver of economic & technological progress; the solution for cities is to grow more innovative sectors; but this appears to conflict with imperative to provide moderate wage, lowered skilled jobs

Contrast: manufacturing city had thousands of good paying jobs that did not require a college degree (dirty, dangerous, physically exhausting)

But provided upward mobility for working class

Manufacturing centers also produced positive ripple effects elsewhere in national economy

Ship building in San Francisco in mid 19<sup>th</sup> century drove logging industry in Pacific Northwest

Late 19<sup>th</sup> century steel-hulled schooners – steel came by rail from Pittsburgh

World War 2 ship building in San Francisco used steam turbines made in Schenectady, NY  
Gear winches from Tacoma Washington  
Radio equipment from Newark NJ  
Compasses by Detroit  
Generators made in Milwaukee

Supply chains were domestic

Digital firms have huge impact on host cities  
But Google's digital products have no physical supply chain, only warehouses for trucking

Facebook- no dispersed manufacturing facilities;

Apple primarily produces things in Asia.

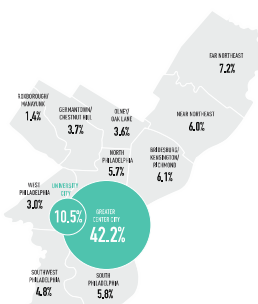
Does successful growth & income disparities Go hand in hand?

Trump & Bernie Sanders critique global capitalism from different political positions

Should (can?) manufacturing be brought back home?

### Job & income disparities

PHILADELPHIA EMPLOYMENT BY AREA



Source: U.S. Census Bureau, 2019

### Lack of job density elsewhere in city

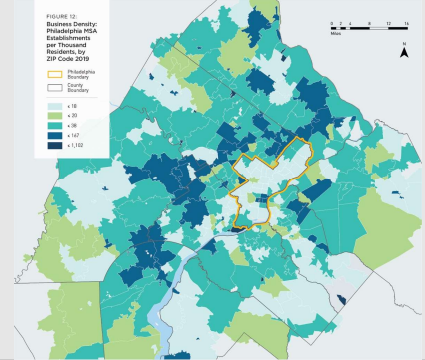
FIGURE 12:

Business Density: Philadelphia MSA

Business Density per Thousand Residents by ZIP Code 2019

Legend: Philadelphia Boundary, County Boundary

Color scale: 0-10, 10-20, 20-30, 30-40, 40-50



### Growing & wealthier cities with greater job density have great tax capacity to redistribute

**Median Household Income**

San Francisco	\$104,552
Washington DC	\$82,000
Boston	\$65,883
NYC	\$60,762
Chicago	\$55,198
<b>Philadelphia</b>	<b>\$43,744</b>

- Diminished tax base
- Housing affordability challenge
- Diminished income to support neighborhood businesses

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### Diminished city tax base Inadequate to support our public schools

**TAX BASE PER PUPIL: 2016-17 PUBLIC SCHOOL & CHARTER ENROLLMENT/ 2017 STEB MARKET VALUE**

LOWER MERION	\$1,547,300
BADKOR	\$1,403,000
COUNCIL ROCK	\$991,300
PITTSBURGH	\$739,000
PHILADELPHIA	\$275,900
ERIE	\$223,400
READING	\$99,100

**Assessed value RE per student**

Philadelphia	\$275,900
State Average	\$487,285
Pittsburgh	\$739,000
Lower Merion	\$1,547,300

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Should income disparities be addressed by expanding Philadelphia economy? by national government focusing more on redistribution by local governments in the absence of the federal government handling income redistribution?

Or by nationalist policies to bring manufacturing back?

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### Next week: role of national tax policy

**Tax rates: 1913-2019**

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### Comparison to tax policy in other cities

**Top Income Tax Rates 1900-2015**

**CAPITAL**  
In the Twenty-First Century  
**THOMAS PIKETTY**

In the U.S., the top marginal income tax rate (applying to the highest incomes) dropped from 70% in 1980 to 28% in 1988.

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### Branko Milanovic

**GLOBAL INEQUALITY**  
A NEW APPROACH FOR THE AGE OF GLOBALIZATION

How to address both local & global inequality

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