OPINION

One Path to Better Jobs: More Density in Cities

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In San Francisco, people dead set against change squeezed the housing supply. But the lack of housing has also slowed the growth of wages.

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"HELL is other people," wrote Jean-Paul Sartre. He nonetheless spent much of his life in Paris, the better to interact with other French intellectuals. Cities have long been incubators and transmitters of ideas, and, correspondingly, engines of economic growth.

That has never made the crowds less annoying. Maybe that's why people try to tame the city by chaining it down and limiting who can build what where along its quieter streets. We lobby leaders to fight development, aiming to protect old buildings and precious views, limit crime and traffic, and maintain high-quality schools. But what makes a city a city and a not-city a not-city is the fact that a city is dense and a not-city isn't. The idea of it may chill a homeowner's heart, but the wealth supported by urban density is what gives urban homes their great value in the first place.

And when it comes to economic growth and the creation of jobs, the denser the city the better.

How great are the benefits of density? Economists studying cities routinely find that after controlling for other variables, workers in denser places earn higher wages and are more productive. Some studies suggest that doubling density raises productivity by around 6 percent while others peg the impact at up to 28 percent. Some economists have concluded that more than half the variation in output per worker across the United States can be explained by density alone; density explains more of the productivity gap across states than education levels or industry concentrations or tax policies.

Put two workers with similar skill levels in cities of different densities and the one in the denser place will be more productive, according to two decades' worth of research from economists. The resistance to greater density slows job creation in productive places. Take, for instance, the San Francisco Bay Area, a beautiful place, blessed with outstanding climate, scenery and culture. It's also an economic juggernaut, hub of the country's tech industry and home to some of America's highest wages. In 2009, the average Silicon Valley household earned about $85,000. Despite this, over 500,000 residents of the Bay Area moved elsewhere in the 2000s. Many of them left for places like Phoenix, which attracted over 500,000 residents from other American cities, despite wages 40 percent below Silicon Valley levels.

Factors like taste and taxes account for some of the migration, but the biggest reason for the shift is housing costs. The average Phoenix home is worth about 30 percent of the price of a house in San Jose. The difference in prices is mostly due to differences in building. In every year from 1992 to 2009, Phoenix granted permits for two to three times as many new homes as did the San Francisco and San Jose metropolitan areas combined. Around the San Francisco Bay, neighborhoods dead set against change successfully squeezed the housing supply, just as OPEC limits the supply of oil when it wishes to raise its price.

The "Not in My Backyard" philosophy sometimes, though by no means always, supports a high quality of life. Yet the effect is to raise housing costs and make rich cities more exclusive. Real trouble occurs when the idea-generators in cities with that NIMBY approach become so protective of their pleasant streets that they turn away other idea-generators, undermining the city's economic role. And that is happening. Entrepreneurship rates in Silicon Valley were below the national average during the tech boom because firms couldn't attract enough skilled workers.

Productivity and wages are rising in these growing Sunbelt cities, but not as fast as in the denser cities that workers are leaving. The average wage per job in Phoenix rose $10,700 from 2000 to 2009, while in San Francisco the increase was $14,500. But, while wages are growing in San Francisco, they would be growing faster if the city allowed the construction of more housing. More workers would be able to take advantage of the good job opportunities in the Bay Area, and the metropolitan and national economies would function better.

DENSITY isn't a magic elixir. One can't create wealth just by crowding people together; otherwise the super-dense metropolitan areas in emerging Asian countries would be richer than American cities. Density simply facilitates interaction. Interactions translate into wealth when a population is educated and local institutions support private enterprise and entrepreneurship.

The world's richest places tend to be dense, with well-educated residents and a free-market-orientation (or tax havens or oil-rich) — think of New York and the Bay Area, of Singapore, Hong Kong and the Netherlands. Without a stock of skilled workers and a relatively open marketplace, density's impact on growth and productivity will be limited.

What is it exactly that dense cities are doing? Consider a simple example. Suppose that within a population one person in 100 develops a taste for Vietnamese cuisine, and suppose that a Vietnamese restaurant needs a customer base of 1,000 people to operate profitably. In a city of 10,000 residents, there aren't enough people to support a Vietnamese restaurant. The only restaurants that can operate profitably are those appealing to considerably more than one in 100 people — restaurants offering less daring fare. In a city of 10,000 people, there is little room for specialization, and less for experimentation.

A city of one million people, by contrast, can support multiple Vietnamese restaurants. Not only will this larger city enjoy a specialty cuisine unavailable in less populous places, but its ability to support multiple producers of this cuisine allows for competition, improving the price and quality.

A city with multiple Vietnamese restaurants may attract sellers of the fresh ingredients used in Vietnamese cooking, who then invest in distribution of those products in the larger city. This, in turn, attracts the sort of discerning eaters who favor authentic, high-quality Vietnamese food, reinforcing the concentration of Vietnamese eateries. The larger market facilitates competition, which again boosts quality and reduces prices. This is good for consumers. But competition also means better service from suppliers and growth in the consumer market, which is good for the restaurants. The result is a stronger, more productive and higher-quality microeconomy than in the city of 100,000, where only one Vietnamese restaurant can survive, or the town of 10,000, where there is none at all.

Density doesn't work without talent. A small market may only support restaurants producing food that caters to a broad range of tastes. These restaurants will have to hire generalists — cooks who can produce a broad range of cuisines. Specialization and fine-tuning of one's skills aren't rewarded; too few patrons will have the specific taste for the particular cuisine to appreciate the quality. Time spent nailing down the nuances of one cuisine is time a chef isn't using to maintain a good-enough command of a broad range of dishes.

In the larger market, supporting multiple niche cuisines, the calculus is different. Because there may be multiple Vietnamese restaurants competing for patrons, mastery of that specific style is necessary to maintain an edge against the competition. This is particularly true as the concentration of Vietnamese restaurants is likely to attract devotees of the cuisine with a well-developed knowledge of and taste for it. Hence, the larger marketplace pushes for, rather than against, specialization.

Meanwhile, a worker hoping to make a living as a Vietnamese chef will have a much easier time of things in the larger city. Labor turnover may be greater — if there's only one Vietnamese restaurant in a town, then head-chef spots may only rarely open up — and so the odds of finding employment are higher. The larger city also provides insurance against bad fortune. If you're a Vietnamese chef working at the one Vietnamese restaurant in a town and the one Vietnamese restaurant goes bankrupt, then you're obviously in a tough economic situation. You must either take another job for which you're less qualified, which may mean a reduction in compensation, or move. In the larger city, by contrast, competing restaurants can absorb and reemploy the labor and resources of defunct competitors.

This insurance function is important. It reduces the risks associated with specialization and therefore encourages more of it. By allowing workers to focus on tasks at which they're relatively better than others, specialization helps drive economic growth. It's also an engine of innovation. As workers focus on a specific task, they may well find better ways to do it. They might better schedule their days or invent something entirely new — software code written to expedite repeated tasks, or a machine that automates portions of a task. Of course, existing companies can be resistant to innovation. Dense cities, by acting as a source of insurance, enable workers with good ideas to take risks and start new businesses. If these workers fail, they have a good chance of finding employment elsewhere in the city. And if they succeed, the task of staffing the company is made easier by the existing pool of talent, and odds are good that customers and suppliers are close to hand, as well. Big cities provide a climate in which innovation can flourish, and in which innovators have the resources they need to exploit new ideas.

WHAT'S true for Vietnamese cooking is true of skill-intensive industries. The American economy's famous upward mobility rested in part on middle-class access to rich, entrepreneurial cities. This machinery is breaking down, however, mostly because upward mobility strikes too many residents of rich places as too messy a pursuit to accommodate. During the Industrial Revolution, for instance, millions of workers flooded into fast-growing cities. This produced slums, but it also allowed poor workers to take advantage of opportunities in new industries, a process that helped create the middle class.

Rapid urban growth would mean denser neighborhoods, which makes many Americans uncomfortable. Preventing this density, however, denies workers access to the best opportunities, constraining the mechanism that helps support a strong middle class.

We can hope that as the Phoenixes and Houstons grow and attract skilled workers, their wage levels will converge with those of the slow-growing, high-wage coastal cities. Yet that may simply encourage their residents to pull up the ladder after them as coastal residents have. Eventually, Americans will learn that if they can't harness their cities as tools of growth and mobility, they'll have to find costlier ways to address the country's lingering economic ills.

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