What Workers Lose By Staying Put

BY ENRICO MORETTI

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REVIEW --- What Workers Lose By Staying Put

Moretti, Enrico . Wall Street Journal , Eastern edition; New York, N.Y. [New York, N.Y]26 May 2012: C.3.

ABSTRACT

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FULL TEXT

Americans have historically been an unusually mobile people, constantly seeking better economic conditions. But this process of geographical readjustment isn't perfect. In fact, it is highly uneven. Even if everyone is completely free to move elsewhere to look for a better life, not everyone takes advantage of the opportunity to the same degree, and this has profound implications for inequality in America.

In Italy, where I grew up, most people spend their entire lives in the city where they were born, which is often the city where their parents were born. Young Italians are particularly immobile. In a study published in 2005, I calculated that Italians tend to live with their parents until quite late in life: 83% of Italian males 33 or younger still live at home. And when they do leave the parental nest, they don't move far away. Young people commonly get an apartment in the same neighborhood as their parents, often in the same building. Though Italians may be an extreme case, Europeans are generally much more geographically rooted than Americans. Compared with people in most other developed nations, Americans are outliers. The Great Recession has temporarily slowed Americans' mobility, but once the economy rebounds, people will start moving again.

This willingness to relocate is a large factor in America's prosperity, and it always has been. Today, about half of American households change addresses every five years, a number that would be unthinkable in Europe, and a significant number relocate to a different city. About 33% of Americans reside in a state other than the one they were born in, up from 20% in 1900.

This staggering degree of mobility has both positive and negative effects. On the one hand, moving has social and personal costs. Compared with Europeans, Americans tend to live farther from their parents and siblings. They are less attached to their neighborhoods and less familiar with their neighbors. But there are also advantages to mobility: If the economic conditions in a region aren't particularly good, Americans tend to look for better opportunities somewhere else. By contrast, Italians and other Europeans tend to stay put. They give up career opportunities and higher salaries to be close to their parents and friends.

Among Americans, however, there are large differences, with some groups much more willing to move than others. At the time of the Great Migration in the 1920s -- when more than two million African-Americans abandoned the South for industrial centers in other regions -- less-educated individuals were more likely to migrate in search of better lives. Today, the opposite is true: The more education a person has, the more mobile he or she is. College graduates have the highest mobility of all, workers with a community-college education are less mobile, high-school graduates are even less and dropouts are the least mobile of all.

Today the economic performance of American cities is more uneven than ever before. Some cities are growing fast, attracting innovative employers and adding well-paying jobs. Other cities are falling behind, shedding jobs and losing population. As the economic fortunes of American communities keep growing apart, the financial return for geographic mobility keeps increasing, but only some Americans exploit this opportunity.

In 2009, at the peak of the recession, unemployment in Detroit was 18%, while unemployment in Iowa City, about 500 miles west of Detroit, was only 4.5%. The experience of an unemployed worker in the two cities could not have been more different. A 4.5% unemployment rate is so low that economists consider it zero for all practical purposes. It means that anyone looking for a job in 2009 could have found one quickly in Iowa City, while in Detroit it could have taken years. Even in more normal times, unemployment in Detroit is typically higher than the national average and double that of fast-growing states like Texas.

But not all unemployed people leave Detroit at the same rate. While college graduates are streaming out of the city, the flow of high-school graduates is much slower, and the flow of dropouts is a trickle. Using data from the Census, Notre Dame economist Abigail Wozniak matched workers in their late 20s to the economic conditions they faced in their state when they were 18 and about to enter the labor market. She found that the willingness of young workers to move to a state that has better conditions is mostly explained by education.

In total, almost half of college graduates move out of their birth states by age 30. Only 27% of high-school graduates and 17% of dropouts do so. This is an important reason for the increasing inequality in income and unemployment rates between workers with college education and workers with less education. A college graduate today makes 75% more than a high-school graduate. This salary difference is more than double what it was in 1980, and an increasing part of this difference reflects differences in mobility.

Why does a lack of education lead to lower mobility? For some, it reflects a dearth of information about opportunities elsewhere, a shortage of the kinds of skills necessary to make a big life change and, especially, a lack of cash. Relocating is like an investment: You spend money up front -- to cover the costs of a move and of living expenses until a job becomes available -- in exchange for a better job later. But because of limited savings and access to credit, many low-skilled unemployed workers are unable to make this investment. For them, lack of mobility isn't a choice. Cultural differences also play a role. Like some Italians, some less-educated Americans choose not to move away, presumably because they value staying near their family and friends over better job prospects -- a perfectly legitimate choice, but one with economic costs.

This distinction between causes is important because it suggests a policy reform that could end up helping those workers whose lack of mobility isn't a choice. The unemployment-insurance system is essentially the same now as when it was introduced in the 1930s. What is striking is that the system doesn't provide any incentive for workers to look for jobs in locations with better labor markets. If anything, it discourages mobility from high-unemployment areas to low-unemployment ones, because the former have falling costs of living and the latter have rising costs. An unemployed worker in Detroit has limited incentives to move to, say, Chicago, a more expensive city but one where the labor market is stronger.

Unemployed individuals living in areas with above-average unemployment rates should receive part of their unemployment insurance check in the form of a relocation voucher. The voucher would cover some of the costs of moving to a different area. Instead of encouraging unemployed residents to remain in Detroit, in other words, the federal government could help them relocate to another city with financial support that covers part of their moving expenses.

This policy would help even those who aren't willing to move. If there are 1,000 unemployed workers looking for jobs in a city and only 100 job openings, the probability of each worker finding a job is one in 10. But if 500 of these unemployed workers relocate, the probability that each of the remaining workers finds a job is doubled. Unemployed workers who stay in a local labor market with high unemployment effectively impose a negative externality on everyone else in that market, while workers who move away generate a positive externality. A voucher is a way to shift this calculus in favor of mobility.

The idea isn't completely new. The government already provides a limited relocation allowance as part of Trade Adjustment Assistance, an obscure federal aid program that helps workers who have lost their jobs as a result of foreign trade. It is time to extend the allowance to include all workers receiving unemployment insurance.

Dr. Moretti is a professor of economics at the University of California, Berkeley. This essay is adapted from his new book, "The New Geography of Jobs," published by Houghton Mifflin Harcourt.

Credit: By Enrico Moretti