# Big Cities Lure Smart People. Don’t Fight It, Fed Economists Say

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(Bloomberg) -- As America’s most skilled knowledge workers gravitate to the biggest cities, policy makers elsewhere in the country are trying to stem the flow out of concern about a widening wealth gap.

Those efforts are misguided, economists at Princeton University and the Federal Reserve Bank of Richmond argue in a new paper.

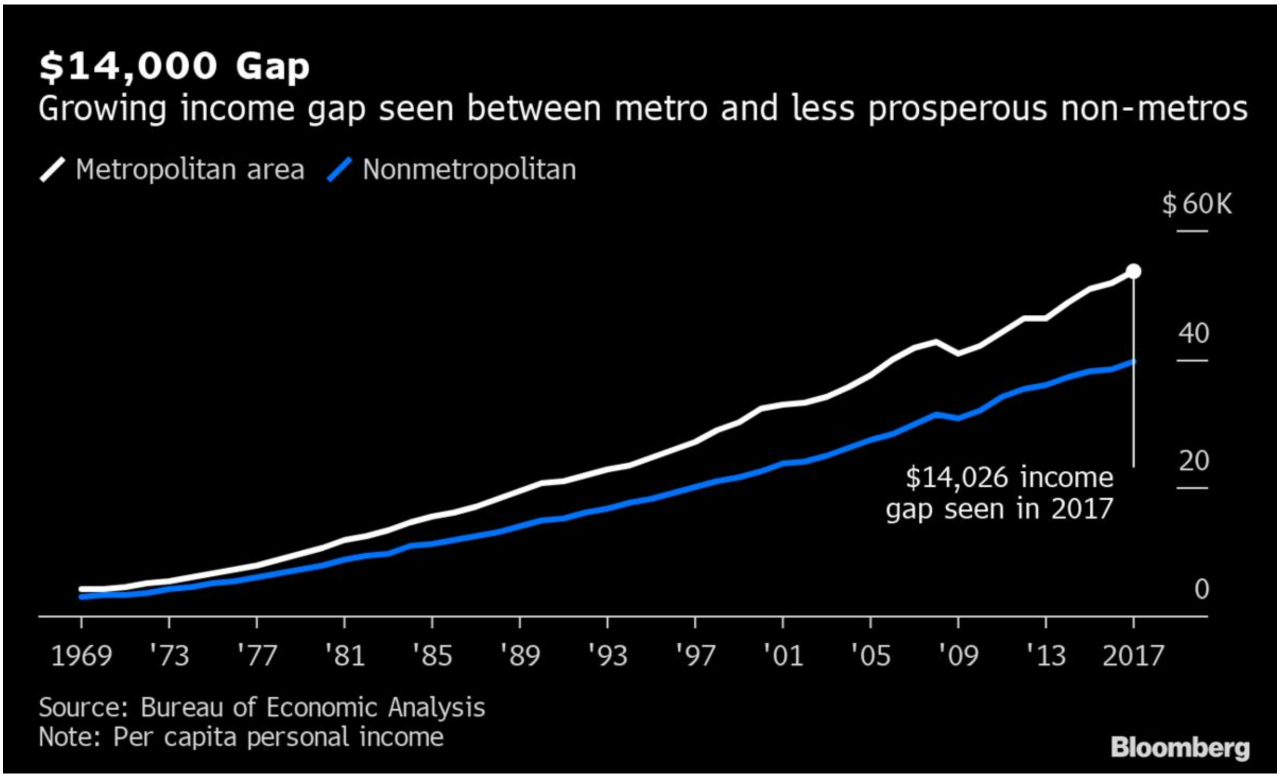
The study says “cognitive non-routine” or CNR workers are more productive when they’re clustered in the same place, typically a large metropolis. They’re “too valuable” to be distributed across smaller towns, which would amount to a “waste of resources,” the authors write.

They argue that any resulting inequality is better addressed via taxes on the high-earning urban hub workers and subsidies for their lower-paid peers outside -- essentially a version of Universal Basic Income for the latter group. The authors calculate that with a transfer of around $17,000 per high-skill worker per year, everyone can come out ahead.

## Polarized in Space

The researchers are taking on a question that's increasingly central to American politics: What to do about the widening divide between richer cities and less prosperous non-metro areas.

It helped shape the 2016 presidential race. The 472 counties won by Democratic candidate Hillary Clinton, for example, accounted for 64% of U.S. GDP, according to research from the Niskanen Center's Will Wilkinson. President Donald Trump won 2,584 counties, representing the remaining third of the economy.




The paper by Princeton University's Esteban Rossi-Hansberg and Pierre-Daniel Sarte and Felipe Schwartzman of the Richmond Fed comes in the wake of the district bank President Thomas Barkin's efforts to study how smaller, non-metro communities can thrive. He's personally visited several small cities and towns in the district, which includes the Carolinas, Maryland, Virginia, most of West Virginia and the District of Columbia.

The U.S. economy has seen growing "skill and occupational polarization across space" since the 1980s, the study says.

The trend has “motivated policymakers and city governments to advocate policies to attract CNR workers to smaller towns in order to reverse their fortunes,” it says. “A better policy is to reinforce existing trends and let them concentrate in cognitive hubs while incentivizing non-CNR workers to move and help smaller cities grow.”

## ‘Thought Experiment’

The paper doesn’t address a wide range of potential outcomes from such policies that go beyond the narrow economic effects.

Those include the risk of increased racial segregation, given the higher educational attainment of whites versus Hispanics and blacks, or deeper political polarization. Nor does it discuss the disruption of family and social networks that would result from encouraging lower-income workers to move out of larger cities.

The Richmond Fed declined to comment beyond the research.

The study is a “thought experiment about the optimal allocation of workers,” said Wilkinson, the Niskanen Center’s vice president for research, who wrote about urbanization and polarization in a June report. “I can’t imagine the political circumstances in which you would work this out.”