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# Inequality in the Creative City: Is There Still a Place for “Old-Fashioned” Institutions?

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*Creative class theory, now a mainstay of local economic development policy, has a dark side: Cities that have a larger creative talent pool are also likely to have greater income inequality. Richard Florida, in acknowledging this disturbing trend, has assigned a new role to the creative class—helping low-wage service sector employees harness and express their creative energy and talent. In this article, the authors explore the complex relationship between creative workers and earnings inequality in the context of the broader urban economy. Drawing on this analysis and an expansive body of literature on urban income inequality, the authors propose an alternative set of policy actions aimed at mediating creativity and inequality through a deepening of traditional labor market institutions and legislative supports. In contrast to claims that these are obsolete solutions in the new economy, the authors argue they are necessary for the long-term sustainability of the creative economy.*

**Keywords:** *creative class; inequality; living wages; unions; immigration*

**Florida’s central thesis is that the role of place has changed substantially as the U.S. economy continues its transition from traditional industry to high-tech and advanced services. Whereas people once followed jobs in traditional industries, jobs now follow highly mobile, creative people, who increasingly base their location decisions not on job opportunities but on the urban amenities and cultural environment of a city.**

Across the globe, Richard Florida’s book *The Rise of the Creative Class* (2002) has captured the imaginations of economic developers, businessmen, and urban dwellers alike. Florida’s central thesis is that the role of place has changed substantially as the U.S. economy continues its transition from traditional industry to high-tech and advanced services. Whereas people once followed jobs in traditional industries, jobs now follow highly mobile, creative people, who increasingly base their location decisions not on job opportunities but on the urban amenities and cultural environment of a city. Florida’s creative hypothesis, therefore, implies that the economic prosperity of a city is based not on traditional economic development strategies—such as industrial recruitment, export promotion, or workforce development—but rather on its success in attracting and retaining creative talent (Florida, 2002).

Florida’s idea has proven to be quite infectious: Chasing creative talent has replaced cluster theory as today’s ubiquitous development strategy. Cities across the globe have latched onto his creative roadmap, transforming old factories into swanky loft spaces, opening trendy coffee shops, and promoting local art galleries, all in an effort to please the fickle creative class. The main urban attractors—the three T’s of talent, tolerance, and technology—are whipped off the tongues of city boosters, followed by quick recitations of where their city ranks on Florida’s creativity, bohemian, and gay indexes. The creative class strategy can rescue the deindustrializing economy and in the process make cities, and not suburbs, the place to be.

Yet, with all the hype surrounding the creative class strategy, a disturbing and less publicized trend has emerged: a concurrent rise in income inequality in cities attracting this very class.

Florida acknowledges this and explains it as an unfortunate, yet seemingly unavoidable “externality” of creative class growth (Florida 2002, 2003, 2005; Stolarick, 2003). According to this logic, income inequality is a reflection of creative-class consumption habits and, specifically, an increased demand for personal services like food preparation, dry cleaning, dog watching, and housekeeping, activities that fall on the low end of the urban wage scale (Florida, 2002; Stolarick, 2003). Saskia Sassen (1990; Sassen-Koob, 1984) began documenting this trend in the early 1980s, noting that the “critical mass” of high-income professionals in America’s global cities was leading to a rapid increase in the demand for low-end—and thus, low-paying—services. The new economic hope for cities, it seems, also has a dark side.

To combat rising inequality, Florida assigns a new role to the creative class—helping working and service classes to harness and express their creative energy. In the process, *noncreatives* can leave the shackles of menial, mind-numbing labor behind to reach their full creative potential (Florida, 2005). As one example, Florida (2005) encourages management teams to transform their old-fashioned workplaces into “creative factories,” thereby allowing workers at all levels to develop and apply their creative talents through greater participation in management and design processes (Florida, 2002). For the service class, informal mentoring supports are also suggested, with members of the creative class empowering those in low-end services to expand their creative skill sets. Florida gives the example of his own housekeeper, who—with his support—moved beyond the more mundane chore of household cleaning to advising on home decoration and interior design (Florida, 2002; Peck, 2005). These examples help to illustrate Florida’s fundamental belief that urban inequality is best addressed through greater creative class leadership (Florida, 2002, 2005; Maliszewski, 2004; McCann, 2007; Peck, 2005).

Florida also makes clear his opinions on what will not work to reduce inequality: “obsolete” solutions, such as union representation, a rise in the minimum wage, or extension of living wage campaigns (Florida, 2002; Peck, 2005). He essentially dismisses these as “creativity-stifling” strategies that seek to strengthen the position of the noncreative classes vis-à-vis the creative class by preserving “noncreative” categories of work (Florida, 2005; Peck, 2005). Rather, Florida would like the creative class to be more encompassing; in essence, the creative class may be the problem, but it can also be the solution.

But does this recommendation for creative-led actions accurately reflect the relationship between income inequality and the creative class? Are new economy sources of inequality really that different from those in earlier economic periods? Is there sufficient evidence to support a dramatic shift in strategy that favors a creative class solution, not just for urban economic development and renewal but also for social mobility? Unfortunately, Florida’s own analysis fails to provide a full answer to these questions. As a result, he leaves those embracing his development logic with few tangible policy options for reducing the rising inequality potentially left in its wake.

In this article, we closely examine the relationship between inequality and the creative class and the policy implications of this complex and mediated interaction. Drawing on an expansive body of literature on earnings inequality, we explore several interrelated questions. First, is the presence of the creative class in a metropolitan area the main predictor of inequality, or are alternative factors—skills-biased technical change, educational attainment, or immigration—better predictors? Second, are old-fashioned labor market institutions—such as the minimum wage or union protections—really obsolete solutions today? And third, what policies can creative-seeking metro areas undertake to lessen inequality?

To address these questions, we first examine existing explanations for earnings inequality including skills-biased technical change, global economic integration, and the weakening of prolabor institutions in the United States. Using these, we present a statistical analysis to examine the relationship between the creative class and earnings inequality in American cities. Through this analysis, we find that there is a significant relationship between the creative class and inequality in metropolitan areas. But this relationship should not overshadow the model’s broader findings, which point to the roles that institutions can play in limiting inequality within a region. Based on these results, we make three interrelated recommendations for cities pursuing a creative class

**To combat rising inequality, Florida assigns a new role to the creative class—helping working and service classes to harness and express their creative energy.**

strategy of urban development and revitalization. The first is greater use of living wage coalitions to promote an increase in the state minimum wage. The second is legislative support for union organizing in the service industry, which includes increased access to vocational training and career advancement supports. The third is greater policy support for immigrant work centers with the goal of enhancing skills and career advancement opportunities for less educated immigrant workers in the United States.

### WHY IS INEQUALITY A PROBLEM?

Is inequality really a problem? After all, neoclassical economists have long suggested that inequality can have positive impacts on economic growth. To the extent that inequality encourages individuals at the top end of the income distribution to save, inequality has been associated with increased investment (Kaldor, 1956; Lewis, 1954). In addition, inequality may provide incentives both for investment in human capital and for Schumpeterian factors such as entrepreneurship and other risk-taking behaviors; inequality makes the potential payoffs from such investments or actions high (see Partridge, 2005, for a review). Other economists have argued that the recent academic focus on inequality is misguided. Russell Roberts (Boushey & Roberts, 2006), for example, argues that inequality ignores broader gains in economic well-being, including the fact that low-income families today are materially better off than those of earlier generations.

Although a complete review of the counterarguments to these claims is beyond the scope of this article, it is important to reference a few. The strongest argument calling for a reduction in inequality is an outgrowth of the social and economic justice movements and reflects the view that modern wealthy democratic societies should not have a permanent underclass. This articulation reflects long-held religious and philosophical traditions that emphasize the need to care for all members of society (see Krueger, 2002, for a review).

In addition, there are economic arguments to be made for reducing inequality. Drawing inspiration from Keynesian theory, economist Heather Boushey (Boushey & Roberts, 2006) writes that inequality—and in particular the declining wages of those at the bottom end of the income distribution—can significantly alter the consumption patterns of lower- and middle-income Americans. Because final goods consumption is a key driver of the economy, Boushey suggests that rising inequality could pose a serious threat to long-term economic stability if purchasing of these goods is curtailed (Boushey & Roberts, 2006). Mark Partridge (2005) reports that many of the beneficial incentives associated with inequality might be realized only when a society also contains a “vibrant” middle class and when people perceive there are “sufficient” opportunities for upward mobility.

Finally, there are increased political and security concerns associated with inequality. Alan Krueger (2002) suggests that the influence of an increasingly small, wealthy minority in politics, for example, can lead to very undemocratic outcomes. The international development literature has long suggested that political instability associated with inequality can lead to poorly formulated policy responses and social unrest, which could undermine investment and development (Alesina & Perotti, 1996; Persson & Tabellini, 1994). Alan Greenspan put this eloquently when he said in 2005,

In a democratic society, a stark bifurcation of wealth and income trends among large segments of the population can fuel resentment and political polarization. These social developments can lead to political clashes and misguided economic policies that work to the detriment of the economy and society as a whole. (as cited in Boushey & Roberts, 2006)

Thus, although the reasons we should care about inequality reach back to the foundations of society in religion and philosophy, they also have very real repercussions for the sustainability of our economy and stability of our society and should therefore not be brushed aside.

## OTHER SOURCES OF INEQUALITY

Florida is not alone in identifying growing urban inequality as a major economic development challenge of the 21st century. In recent years, labor economists have increasingly turned their attention to this issue. This section examines recent studies of inequality to pinpoint the influences behind this disturbing trend. We use the results to identify six additional contributing factors, which we then test against Florida's central claim that rising inequality is the result of creative class consumption patterns and preferences.

We have divided these additional factors into three main categories. The first contains what we consider to be institutional factors, such as declining union representation among American workers and a low real minimum wage. The second contains factors that influence the earnings of skilled workers, including the supply of college-educated adults and increased demand due to skill-biased technical change. The third contains factors that influence the earnings capacity of less skilled workers, such as the increased supply of immigrant labor and the decreasing demand for less skilled manufacturing workers due to international trade.

### **The Institutional Approach: Deunionization and the Declining Minimum Wage**

Economists have increasingly recognized the role institutional mechanisms play in the widening of the American wage structure. One important institution is labor unions. Unions often act as compressors in the wage structure, influencing wages directly through collective bargaining and indirectly through the union "threat effect" and by fostering workplace norms and standards (DiNardo, Fortin, & Lemieux, 1996; Fortin & Lemieux, 1997; Osterman, 1999). Although many economists have pointed to the national trend of declining unionization as a contributing factor to rising inequality, the relative significance of deunionization's influence on inequality remains debated. Some economists claim that deunionization represents only a small portion of the growth in inequality, especially when compared to skill-biased technical change (see Blackburn, Bloom, & Freeman, 1990; Cline, 2001).

Other economists, however, point to the decline of unions as playing a much more important role in the recent rise in income inequality, especially on the bottom end of the earnings distribution. David Card (2001) writes that deunionization can account for 15% to 20% of the increase in male inequality, confirming earlier research by Fortin and Lemieux (1997) and Freeman (1993).<sup>1</sup>

A second institutional factor is the change in the real minimum wage, which has declined as inequality has increased. There are two competing theories as to how the minimum wage might affect wage inequality. First, a higher minimum wage might lead to lower employment levels, removing low-wage workers from the work world; when the real minimum wage falls, workers will be reabsorbed into the workforce, leading to an increase in observed inequality. However, the disemployment effects of a rising minimum wage appear to be small, suggesting that this hypothesis is not relevant (Brown, Gilroy, & Kohen, 1982; Card & Krueger, 1994; Teulings, 2003). Second, and more likely, the falling minimum wage may lead to a compression in the income distribution (Teulings, 2003).

As with deunionization, considerable debate about the importance of the minimum wage remains. Most econometric models suggest that the falling real minimum wage has not been a strong contributor to rising inequality (Cline, 2001; Horrigan & Mincy, 1993; Juhn, Murphy, & Pierce 1993; Katz & Murphy, 1992). William Cline (2001), for example, has estimated that the declining real minimum wage accounts for only about 5% of the increase in the skills wage premium compared to 15% from declining unionization. This could, in part, be a result of the fact that although many Americans have low earnings, few actually earn the minimum wage (Blackburn et al., 1990).

However, DiNardo et al. (1996) find that the declining minimum wage has had a substantial effect on inequality, possibly accounting for 25% of wage dispersion in the 1980s. They suggest that conflicting findings could stem from differing study populations. Many studies of inequality

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(e.g., Juhn et al., 1993; Katz & Murphy, 1992) focus on full-time, male workers, whereas DiNardo et al. (1996) included all workers. Indeed, they find that the minimum wage has a greater impact on women than on men. More recent work by Coen Teulings (2003) has confirmed the findings by DiNardo et al. (1996); in the 1980s, the falling real minimum wage can account for the entire increase in wage dispersion in the bottom half of the income distribution.

### **Skilled Workers: College-Educated Workers and Skill-Biased Technical Change**

Income inequality is often framed as a story of unequal earnings between two groups of people: Skilled workers with higher levels of formal education and less skilled, less educated workers. The increasing pay gap between these two groups has led many economists to suggest that there is a shortage of skilled workers in the economy or what is often referred to as a *skills mismatch*. This theory relies on two complementary forces. The first is skill-biased technical change, which suggests that the majority of recent technological innovations have favored workers with higher skill levels. This has led employers to shift hiring preferences away from less skilled workers and toward those with greater skill (and education) levels (Bound & Johnson, 1992; Katz & Autor, 1998). The second force is a hypothesized limited supply of college-educated (or skilled) workers. Even though the proportion of the population with higher educational levels has risen, the demand for these workers continually outstrips the ever-growing supply because of new advances in technology (Katz & Murphy, 1992). This has led to a relative shortage of available talent, which translates into salaries of skilled workers rising dramatically compared to salaries of less skilled workers.

More recently, economists have reframed the story of skill-biased technical change and the supply of skilled, educated workers. The traditional story, as outlined above, is one of increasing demand with supply not adequately responding. The retelling of the story, drawing on endogenous growth theories, suggests that there is a more complex relationship between technical change and skills.

Daron Acemoglu (1998, 2002, 2007) writes that firms develop or implement new technologies only when it is profitable to do so; without a sufficient supply of skilled workers, it is not profitable to explore and implement new technologies. Using this lens, the postwar decrease in the cost of technology and the dramatic increase in skilled, educated workers made it advantageous for firms to upgrade their technologies, leading them to develop skill-biased technology. That is, the rapid increase in college graduates may have *induced* new forms of technology or management styles biased toward skilled workers, making the economy less favorable for less skilled workers. Furthermore, Acemoglu notes evidence that skill-biased technical change has in fact accelerated over the past quarter of a century. This new theory suggests that having a large portion of college-educated workers might actually lead to *higher* inequality because it promotes greater exploration and exploitation of new technologies.

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### **Less Skilled Workers: International Trade and Rising Immigration**

The extent to which various forms of globalization, both international competition in manufacturing and rising immigration levels, have influenced inequality has been hotly debated. Both aspects of globalization may have implications for the plight of less skilled workers. International trade and the resultant deindustrialization of America are hypothesized to decrease the demand for less skilled U.S. workers, whereas increasing immigration is hypothesized to increase the pool of less skilled workers. If both hypotheses are true, the wages of less skilled workers will suffer relative to those of skilled workers.

Most researchers conclude that international trade and the resultant decline of the U.S. manufacturing sector have not been major factors in inequality. The impact of international competition on inequality is quite small when compared to the effects of skill-biased technological change or even institutional factors (see, e.g., Borjas, Freeman, & Katz, 1997; Cline, 2001). Like many other areas of inequality research, however, the determination of causal factors remains sensitive

to both the data and models employed. United Kingdom economist Adrian Wood (1995), for example, has argued that the majority of studies examining international trade have underestimated its impact on widening inequality. Most notably for regional research, there is recognition that the national “break-even” conclusion (where the long-term specialization that trade allows is expected to offset any short-term dislocation problems) may be spatially uneven. In her studies, Sassen (1990; Sassen-Koob, 1984) concludes that global restructuring of the economy and subsequent off-shoring of stable, middle-income manufacturing jobs have led to the bifurcation of urban labor markets between low-wage service jobs and high-wage professional service jobs. Even economists point to regional and unquantifiable discrepancies; J. David Richardson (1995), for example, suggests that econometric models often do not take into account the “subtle and chronic” transitional effects of the interregional or intersectoral immobility of labor. These are potentially significant factors in regional studies, particularly in sectorally less diverse regions or where worker skills are not transferable.

A second focus of study for labor analysts is the role of immigrant labor on inequality. Although clearly not without controversy, the argument is that a rise in immigration increases the supply of less educated, less skilled Americans because, on average, immigrants have fewer years of schooling than native-born Americans (Borjas et al., 1997; Reed, 2001).<sup>2</sup> Therefore, one may expect wages for less skilled workers to be driven down by an ever-increasing supply of less skilled immigrant workers.

Yet the role of immigration in statistical studies has been mixed, largely depending on the geographic area studied. Most national studies suggest that immigration has been a relevant, though minor, factor and one that has a detrimental effect only on the wages of those with the lowest levels of education, such as workers who have not completed high school (Borjas et al., 1997; Cline, 2001). Several regional studies, on the other hand, have found much larger impacts of immigration on inequality. Richard Topel (1994), for example, found that immigration, particularly in the western region of the United States, had considerable detrimental impacts on inequality. In her regional study, Deborah Reed (2001) found that immigrants could account for between one quarter to one half of the regional variation in inequality. Case study evidence suggests that the working arrangements facilitated by immigration, such as the informal sector, which often pays below the minimum wages, could be the reason for these regional effects (Sassen-Koob, 1984; Zlotniski, 1994).

In summary, the literature presents compelling reasons for the increase in wage inequality. The increase in the share of college-educated adults may have induced new business forms or technologies more amenable to skilled workers, and immigration has had local effects on inequality by increasing the numbers of less skilled workers willing to work for substantially lower wages or in informal sectors. The demand for workers has shifted from less skilled to skilled, which could be driven by both international trade and skill-biased technical change and possibly even induced by the latter. Finally, deunionization has decreased worker bargaining power, and the falling real minimum wage has failed to ensure that the lowest paid Americans continue to see their incomes rise relative to the highest paid workers.

### IS IT JUST THE CREATIVE CLASS?

The economics literature provides a clear framework for evaluating the relationship between the creative class and inequality. Does, as Florida suggests, the creative class bear the brunt of what determines inequality? Or do arguments outlined by economists provide a more robust framework of analysis? The following section provides a brief overview of the model on which our policy proposals are based.<sup>3</sup>

The model includes variables drawn from the economics literature and Florida’s writings, a structure that allows us to fully explore inequality in creative cities. We use an ordinary least square (OLS) model that includes observations for 277 metropolitan statistical areas (MSAs) in the United States.<sup>4</sup> Because our model specification is cross-sectional, we cannot fully capture

causality. The independent variables span the years from 1990 to 2003, and the dependent variable is wage inequality in 2004.

Specifically, the dependent variable used in the model is the inequality index, created by Richard Florida's collaborator Kevin Stolarick (Florida, 2002; Stolarick, 2003).<sup>5</sup> The index is a ratio of the average income of the creative class to the average income of the noncreative classes in a metropolitan area and therefore measures occupational-based inequality between classes. Unfortunately, because the inequality index is derived from the earnings averages of each of the occupational classes, it cannot capture detailed inequality across the entire earnings distribution in a metropolitan area, nor can it capture inequality within Florida's (2002) classes. Yet, examining inequality through the lens of this index may be useful because policy makers instituting Florida's creative class strategies may think of their labor market as being composed of creative and noncreative workers. Therefore, the results of these models may directly address strategies instituted locally.<sup>6</sup>

The independent variables in the model are driven both by the economics literature and by Florida's (2002) views on the causes of inequality. Variables representing education, immigration, international trade, skill-biased technical change, low unionization, and the low real minimum wage represent traditional economic success. Florida's theory—that the presence of the creative class is the main cause of inequality—is also represented in the model.<sup>7</sup>

Although portions of the economics literature reviewed in the previous section detail how historical changes in economic factors (such as unionization or trade) have led to increased income inequality, our model uses static representations of these economic factors and a static measure of inequality. By using static measures, our approach is consistent with Florida's assertion that the *level* of a region's creative class is directly related to the region's *level* of inequality because, according to Florida, inequality is an inherent part of the creative economy (Florida, 2005; Stolarick, 2003).<sup>8</sup>

## Variables

Unfortunately, union representation numbers are not readily available at the MSA level, so the percentage of a state's workforce represented by a union in 1990 (see Appendix A, unionrep90) has been used to represent the hypothesis that metropolitan areas with lower unionization levels will exhibit higher inequality. Although this is not a perfect representation of the metropolitan area itself, the inclusion of state-level data captures both statewide labor laws (such as those governing worker rights and whether the MSA is in a right-to-work state), as well as the "threat-effect" of unionization that may or may not be felt by companies in an MSA.<sup>9</sup>

Many states have combated the declining real minimum wage by implementing their own higher minimum wage. State minimum wages (mw) in 2003 have been included to represent the hypothesis that metropolitan areas in states with higher minimum wages will have lower levels of inequality. Both unionization and minimum wage variables are expected to have negative coefficients because they raise the wages of the lowest skilled workers relative to the highest skilled workers.

The percentage of a metropolitan area's adult population with a college education in 1990 (coll90) represents the supply of college-educated workers. Though original inequality theories hypothesized that this variable would have a negative coefficient, some contemporary research suggests that the supply of college-educated adults may have a *positive* coefficient because firm investment in new technologies or management techniques will occur only when there is a large presence of college-educated workers (Acemoglu, 2002, 2007).

Unfortunately, skill-biased technical change is much harder to quantify, particularly at the MSA level. Florida's TechPole variable from 1990 (techpole90), which measures high-tech industrial output (a measure of regional high-tech industry mix) is used here as an approximate measure of skill-biased technical innovations at the MSA level because high-tech industries are likely to be skill biased. TechPole is expected to have a positive coefficient.

The percentage of a metropolitan area's population that is foreign-born (foreignborn) in 1990 represents the immigration hypothesis and is expected to have a positive coefficient. Regions with higher levels of immigrant workers will have a large pool of low-wage labor available,

**TABLE 1**  
**OLS Model Results: Dependent Variable: Inequality Index**

<i>Variable</i>	<i>Coefficient</i>	<i>Standardized Beta Coefficient</i>	<i>Standard Error</i>	<i>Variance Inflation Factor</i>
coll90	14.81**	0.21	4.08	2.48
foreignborn	14.62**	0.22	3.19	1.71
mfge90	-3.42	-0.08	1.82	1.50
techpole90	3.27**	0.31	0.66	2.92
unionrep90	-9.82**	-0.15	2.80	1.44
mw	-0.91**	-0.14	0.28	1.37
cc98	28.74**	0.31	4.60	1.82
bohoidx90	0.37	0.03	0.52	1.62
nmsa30	-0.40	-0.04	0.39	1.25
pop90	-0.17	-0.04	0.21	2.36
constant	26.61		1.89	

Note:  $R^2 = 0.6404$ ; Adjusted  $R^2 = 0.6269$ ; F-value = 47.38.

\*\* $p < .01$ .

depressing the wages of less skilled workers. Because manufacturing is likely to suffer from international trade, a variable representing the percentage of an MSA's earning that came from manufacturing in 1990 (mfge90) has been included to represent the international trade hypothesis. This variable is expected to have a negative coefficient because MSAs with low levels of manufacturing employment are likely to have higher inequality.

Florida's creative class variable represents the percentage of the MSA workforce employed in creative occupations and has been included to reflect Florida's hypothesis. Creative class (cc98) is expected to have a positive coefficient.<sup>10</sup> The bohemian index from 1990 (bohoidx90) has been included as a control variable for the creative class. Florida's creative class occupations include both high-end service and artistic occupations. Artistic occupations usually pay lower wages than the high-end service occupations; cities with higher artistic occupation representation might have lower creative class wages relative to noncreative class wages than do cities with low artistic occupation representation. The bohemian index captures these artistic occupations and is expected to have a negative coefficient.

Two controls have been included in the model. The population of the MSA in 1990 (pop90) has been included to control for possible population and agglomeration effects, and a variable representing the number of MSAs within 30 miles of the target MSA (nmsa30) has been included to control for possible spillover effects.

## Data Analysis

The results from the model are presented in Table 1. The significance of the variable representing the creative class (cc98) suggests that Florida is correct: Inequality is highest in creative cities. Yet the significance of all but one of the variables pulled from the economics literature indicates that the relationship between the creative class and inequality is not so simple. Other forces clearly contribute to the dispersion of wages in creative cities. The variable techpole90 is significant, as is the variable representing college-educated adults (coll90). These findings echo the theory that induced skill-biased technical change can lead to higher levels of inequality. The significance of immigration (foreignborn) is consistent with regional models that find a relationship between immigration and inequality. The insignificance of trade (mfge90) is consistent with mainstream economic thought and suggests that low manufacturing employment has not had a major impact on inequality. Finally, the significance of the variables for unionization (unionrep90) and the minimum wage (mw) illustrates how institutional factors can actively shape local earnings structures.

A simple way of assessing the relative explanatory power of the creative class vis-à-vis the economic factors is to start with a base economic model and add the creative class and bohemian variables. When we do this, we see that Florida's creative class and bohemian variables add very little explanatory power; the adjusted  $R^2$  increases from 0.5751 to 0.6269. However, reversing the order and adding the six traditional economic factors to a model with only Florida's variables increases the adjusted  $R^2$  from 0.4564 to 0.6269. Although this is a larger increase, it should be noted that many more variables were added.

Although the variables are significant, small changes in the coefficients of the variables do not predict substantial changes in the inequality index; a 1% increase in a region's creative class is consistent with an inequality index increase of 0.29. Similarly, 1% increases in a region's college-educated and immigrant populations each correspond with inequality index increases of 0.15. A 1% increase in statewide union representation leads to a decrease in the inequality index of 0.10, and a \$1 increase in a state's minimum wage decreases the inequality index by 0.91.

The findings suggest that Florida's creative-led strategies may be incomplete. Proponents of the creative economy have suggested that there is a direct link between the creative class and inequality; inequality is "embedded" in the creative economy because "high-end, creative types depend on a veritable army of service workers to tend to things they don't have time for" (Florida, 2005, p. 187). This logic effectively excludes other economic forces from the relationship between the creative class and inequality and ignores the deeper question of how this class-based division of labor leads to such unequal wages. Florida's policy recommendations reflect this and largely focus on incorporating noncreative workers into creative work environments.

Yet, ultimately, the ability of Florida's proposed policies to adequately address inequality rests on recognition of all of the mechanisms operating in urban areas that could contribute to urban inequality. Whereas our model provides strong support for the hypothesized link between creative workers and earnings inequality within a region, the results also suggest that the problem of urban inequality is far more complex than creative-class supporters have theorized.

For proponents of the creative economy, the result of placing too much of the blame for inequality on the shoulders of the creative class means that Florida's proposed policies place too much of the burden of reducing inequality on these same workers. By excluding other significant influences, Florida's proposed policies and actions may not be able to fully address the root causes of inequality; policies aimed at reducing inequality should involve actions not just by the creative class and their companies but also by local government and advocacy groups.<sup>11</sup>

**Whereas our model provides strong support for the hypothesized link between creative workers and earnings inequality within a region, the results also suggest that the problem of urban inequality is far more complex than creative-class supporters have theorized.**

### COMBINING OLD AND NEW SOLUTIONS

Given these findings, what steps can policy makers and development practitioners take to ensure that the inequality associated with Florida's creative class is kept at bay? In the remaining sections of this article, we present three interrelated strategies. The first is the use of living wage coalitions to promote an increase in the state minimum wage. The second is expanded support for service sector unionization. The third is greater policy support for immigrant "work centers" with the goal of enhancing career advancement opportunities for immigrant workers in the United States.

At first it might seem strange that our list does not include the suggestion to increase the number of college degree holders within disadvantaged and underserved socioeconomic populations. This, after all, is a popular (and more politically neutral) policy option. This omission is deliberate on our part and reflects the growing belief among labor economists that education-focused solutions, in and of themselves, are insufficient and fail to recognize stagnating wages among college degree holders (i.e., evidence of within-group inequality), as well as growing evidence of underemployment of college educated youth (Benton, 1994; Gottschalk, 1997; Livingstone, 1997).

More research is clearly needed to fully understand the complex relationship between human capital investments and rising metropolitan inequality. Existing case studies in this area, however, point to the need for combined or nested institutional supports, that is, the strategic partnering of prolabor and proeducation initiatives, and strengthening K through 12 and vocational education (Florida, 2003; Harrison & Weiss, 1998; Howell, 1994, 2000; Lautsch & Osterman, 1998; Melendez,

2004; Osterman, 1999; Osterman & Batt, 1993). Ultimately, these hybrid approaches are designed to improve the economic position of less educated workers and therefore, *indirectly* address the role of skill-biased technical change in increased urban inequality. Our policy recommendations build on these recent analyses to provide some insights into what these nested supports might look like at a state and local level.

### Wage Standards

As a start, our findings on minimum wages—that localities in states with higher minimum wages display lower levels of inequality—suggest that regional actors should promote an increase in the state minimum wage. In promoting this course of action, it is important to first recognize widespread concern that an increase in the minimum wage might result in reduced demand for local workers—in other words, the gains from increased wages might be offset by losses in state employment opportunities. Although a full review of this argument is beyond the scope of this study, recent labor market analyses provide strong evidence to refute this claim, lending support for increasing state and federal minimum wages (Brown et al., 1982; Card & Krueger, 1994; Teulings, 2003).

Unfortunately, outside of pushing state representatives for improved wage standards, policy avenues for pursuing higher minimum wages may initially be limited. An expanded living wage campaign represents an alternative, yet complementary, policy route. Successful living wage campaigns typically result in municipal and county-level ordinances that raise wage levels for a targeted group of residents above that of the prevailing minimum wage (Bernstein, 2005). Although living wage levels vary across localities (the average in 2006 was around \$9.00 an hour plus benefits), they are calculated to reflect the local cost of living such that a household with a single wage earner has sufficient net income to cover basic household expenses, such as a food, housing, health care, child care, and transportation. According to recent estimates, more than 100 localities have adopted living wage ordinances. In most cases, these ordinances establish living wage standards for companies that provide contracted services to government agencies or that receive tax-financed business subsidies (Bernstein, 2005; Brenner, 2004).

In contrast to state minimum wages that are typically applied to *all* companies, local living wages are usually limited to either government contractors, businesses seeking public assistance, and/or social service providers (Bernstein, 2005; Luce, 2005; Pollin & Luce, 1998). Relative to either state or federal minimum wages, therefore, living wages reach far fewer low-wage workers; Brenner (2004) estimates that living wages reach fewer than 1% of workers in cities that have implemented them.

A good example of how living wage campaigns have the potential to flow upwards from the local level to exact state-level change is the case of Michigan, which in 2006 passed a statewide minimum wage that will reach \$7.40 an hour by 2008. Interestingly, Michigan also has some of the oldest living wage ordinances in the country, dating back to Detroit in 1998; today, 15 Michigan municipalities or counties have active living wage ordinances. Though Michigan's Republican-controlled state legislature was initially opposed to increasing the state minimum wage, they agreed to consider this action after a successful organizing drive resulted in a 150,000-signature petition to the state (Association of Community Organizations for Reform Now, 2006). This petition drive was led by the Association of Community Organizations for Reform Now (ACORN), an international group of community organizations at the forefront of living wage movements, in partnership with the Michigan Democratic Party, labor organizations, and community and faith-based organizations. An economic justice organization was also instrumental in the campaign and helped the coalition fend off potential legal challenges. Many of these same organizations were active in earlier local living wage campaigns (ACORN, 2006).

Living wages cannot reduce inequality directly, but to the extent they can be used as a stepping stone toward higher state minimum wages, they may reduce inequality indirectly. As the Michigan example demonstrates, the promotion of a living wage ordinance by a grassroots coalition should be treated as both a policy goal and a means to a larger policy end. Furthermore, successful living wage campaigns often result in formation of broad-based coalitions that can work toward

promoting statewide equity goals. Community coalitions have recently turned their attention to expanding the reach of local living wages to cover target industries and employers such as hotels and restaurants in key tourist destinations (e.g., Los Angeles and San Francisco). In doing so, they help bolster union efforts to target low-paying service sector employers (Bernstein, 2005; Zabin & Martin, 1999). Living wage coalitions can also be critical in uniting immigrant and non-immigrant worker groups.

### **Connecting Living Wages to Labor Bargaining Legislation**

The results from the model indicate that MSAs in states with higher union representation have lower levels of inequality. Unions are not simply defenders of higher wages and benefits but increasingly play a key role in enhancing business competitiveness. They advocate for improved training supports for new and incumbent workers, operate effective screening processes for new workers, generate greater worker loyalty and, thus, reduce costly turnover, enforce professional standards that can result in improved performance and customer satisfaction, and, when collectively financed, encourage investment in worker training by reducing fear of “poaching” by another firm (Rothman, 2003; Shaiken, 2004; Waddoups, 2002). In creative cities, where the creative class is spending their dollars in gourmet eateries and hip coffee shops, service and ambiance are key to attracting this fickle class. Unions can play a key role in improving the quality of urban services.

In a market where service and ambiance are key—Las Vegas—management in the hotel and gaming industry has formed a quality-enhancing partnership with local unions. Because the quality of service separates successful, profitable properties from those that are not, major hotels and casinos in Las Vegas realized that their business depends on the benefits that unions can provide (Rothman, 2003). Together, unions and hotels created vocational training centers where both potential and existing employees can receive skills training to make them better workers, able to provide superior service to hotel guests; current employees can improve and increase skills, and the hotels can screen potential employees as they are learning (Waddoups, 2001, 2002). The unions in Las Vegas reduced hiring and training costs, as well as employee turnover, making them more cost competitive, even with higher wages and benefits (Greenhouse, 2004; Rothman, 2003; Shaiken, 2007). Perhaps most important in terms of inequality, unions in Las Vegas played a “significant role” in keeping the hotel-casino workers above poverty wages, allowing them to function as middle-class members of society (Rothman, 2003; Waddoups, 2001).

Whereas Las Vegas may seem like another world (and indeed is classified as “uncreative” by Florida), unionization has also been successful in the most creative and high-tech place—Silicon Valley. In the 1980s, the “Justice for Janitors” movement organized a largely immigrant subcontracting workforce and in the early 1990s pushed Apple Computer into replacing its nonunion subcontracted janitors with union janitors, largely to avoid damage to their public image (Zlolski, 1994). This gets at the interesting question proposed by Baris (2003) in her review of *The Rise of the Creative Class*: How can successful, creative regions draw on their creative base to “pressure firms into providing better wages and benefits for low-end service workers, therefore creating a potential path from creative economy success to overall reduction of poverty” (p. 45). With their focus on image and service, pressure on creative companies to hire union contractors or follow norms set by unions could be successful. Furthermore, companies like Whole Foods or Costco do not pay higher wages or work with unions because of a deep empathy for their employees; they do it because it is good for business (Greenhouse, 2005).<sup>12</sup>

### **Immigrants and Labor Market Institutions**

As our model indicates, MSAs with higher percentages of immigrants have higher inequality. Whereas some may interpret this result as a call to expel immigrants from the country, this would be misguided; it is the structure of the economy, with its emphasis on low-cost subcontracting under few enforced labor laws that pulls immigrants into the economy. Cities seeking to capitalize

on the creative class should also refrain from drastic, anti-immigrant stances because fostering a diverse and tolerant community is an important piece of the development strategy (Florida, 2002, 2005). The answer, then, is not to expel immigrants but to further integrate them into the U.S. economy through strengthened labor market institutions and greater integration into the formal labor market.

Incorporating immigrant workers into formal labor market environments can be difficult, especially if they are undocumented. But this is not an impossible task. Janice Fine (2006) has studied the emergence of a new form of immigrant labor market institution, the worker center, which is a “community-based mediating institution that provide[s] support to low-wage workers,” (p. 2) and where “advocacy and organizing activities [are] the priority” (p. 100). Formed originally by African Americans in the U.S. South to combat institutionalized racism, worker centers are now identified with immigrant workers—a group that accounts for 80% of the membership base of these organizations.

Interestingly, of the working centers researched by Fine (2006), only 15% had a strong relationship with labor unions. Fine explains this in relation to a “dramatic culture clash” between union organizers and immigrant advocates. Immigrant advocates and worker center members claim that unions are “top-down, undemocratic, and disconnected from the community”; Unions claim that the immigrants are unfamiliar with unionization laws and are unrealistic about the time and effort required to win a union organizing drive (Fine, 2006). This lack of coordination is not entirely surprising. Unions and immigrants have had a volatile past. Unions have traditionally viewed immigrants as a threat to their existence, in part because immigrants work in the same sectors as unionized workers, though through informal arrangements and for very low wages. Still, by not working with immigrant centers, unions may be limiting their ability to protect the economic well-being of less educated and less skilled workers in the United States, and they forgo a key opportunity for expanding their membership and support base (Briggs, 1998).

Fortunately, there are working models that show how successful immigrant-union partnerships can be forged. In Lowell, Massachusetts, the community group Coalition for a Better Acre (CBA), composed of immigrants and minorities from one of Lowell’s poorest and oldest immigrant neighborhoods, the Acre, acted in conjunction with local unions, the University of Massachusetts–Lowell (UMASS–Lowell), the Cambodian Mutual Assistance Association, and the Environmental Protection Agency (EPA) to integrate Acre residents into Lowell’s downtown redevelopment and brownfields clean-up initiative. This was no small task; Lowell, the birthplace of America’s textile industry, has one of the highest concentrations of brownfields in the United States, and most brownfields are in poor ethnic and minority communities. In the end, Lowell’s program brought good-quality jobs to some of Lowell’s poorest residents and integrated a long-standing immigrant community into the city redevelopment process (National Institute of Environmental Health Services, 2000; U.S. Environmental Protection Agency, 2002).

Interestingly, the Lowell case also provides an example of an equity-based strategy for promoting the creative class. The city’s most recent redevelopment efforts are designed to attract artists and professionals to the city by converting old textiles mills into mixed-use projects that include urban lofts, restaurants, galleries, and boutique shops (City of Lowell, 2006; Gavin, 2005). In fact, the creative class strategy has led Lowell to continue to clean up its brownfields and redevelop its industrial mills (Gavin, 2005). As this case suggests, local authorities can work with unions and immigrant communities to ensure that the redevelopment process benefits all.

## CONCLUSION

This article set out to answer three questions: Is the creative class the sole predictor of earnings inequality in metropolitan areas? Is there a role for well-established labor market institutions to play in reducing inequality in the creative economy? And, if so, what policies and actions can local metropolitan areas undertake to bolster these existing institutions in an attempt to lessen the impacts of inequality?

**Is it possible to reduce inequality while simultaneously promoting creative class growth? The answer is “yes,” if localities are prepared to support parallel initiatives designed to enhance the earnings capacity and advancement opportunities of low-wage service sector employees.**

The model presented in this article suggests that Florida is partially correct: Inequality does in fact plague the creative city. Still, our analysis points to other important influences and mitigating forces and, as a result, reflects the findings of earlier studies that suggest deeper sources of inequality more endemic to a changing society. The economic and institutional restructuring of cities—characterized by a declining manufacturing sector, weakening labor market institutions, and a never-ending supply of less-educated immigrant workers—has essentially allowed highly paid professionals to live in a service paradise fueled by low-wage labor.

This begs the question: Is it possible to reduce inequality while simultaneously promoting creative class growth? The answer is “yes,” if localities are prepared to support parallel initiatives designed to enhance the earnings capacity and advancement opportunities of low-wage service-sector employees. Obviously, there are national, if not global, forces causing local inequality, and national-level policies are clearly needed. Whereas the policies we outline above represent good steps, by themselves they will not radically reduce inequality in a city. But this does not mean that localities should wait for or rely on national policies; as they implement the creative class strategy, localities have ethical and economic responsibilities to limit associated inequality.

Florida has suggested that inequality can be reduced by encouraging businesses and customers to tap the creative potential of service-sector workers. We argue for more coordinated action: greater policy support for broad-based coalitions working to promote living- and minimum-wage campaigns, enhancing labor bargaining power, and facilitating social mobility for less-educated immigrant workers. Without this support, we are likely to observe continued socioeconomic polarization within creative cities. This is not only troubling from an ethical and political perspective but also has severe implications for the long-term sustainability of the creative economy.

#### APPENDIX A VARIABLES, DESCRIPTIONS, AND SOURCES

<i>Factor</i>	<i>Measure</i>	<i>Symbol</i>	<i>Description</i>	<i>Source</i>
Earnings inequality	Inequality index	wi04	A ratio comparing creative to noncreative earnings in an MSA, using a simplified Theil-T index. The index is “the sum of the share-weighted log of the ratio of each class’s average wage to the overall average wage.” The index has been rescaled by a factor of 100.	Florida, 2002, p. 282
Technology or management inducement	College-educated adults	coll90	The percentage of population aged 25 and older with at least a bachelor’s degree in the MSA, 1990.	U.S. Bureau of the Census, 1990
Immigration	Foreign-born presence	foreignborn	The percentage of the population that is foreign-born, 1990.	U.S. Bureau of the Census, 1990
International trade	Manufacturing sector	mfge90	The percentage of MSA earnings from manufacturing, 1990.	Bureau of Economic Analysis, 2005
Skill-biased technical change	Technology in an economy	techpole90	The cube root of the combination of: MSA’s high-tech industrial output as a percentage of total U.S. high-tech industrial output; and MSA’s location quotient of high-tech industrial output, 1990.	Florida, 2002
Unionization	Union representation	unionrep90	The percentage of the workforce in the state that is represented by a union, 1990.	Bureau of Labor Statistics, 2005

*(continued)*

## APPENDIX A (continued)

<i>Factor</i>	<i>Measure</i>	<i>Symbol</i>	<i>Description</i>	<i>Source</i>
Minimum wage	State minimum wages	mw	The state minimum wage in 2003.	U.S. Department of Labor, 2006
Creative division of labor	Creative class	cc98	The percentage of MSA workforce in super-creative core and creative professional occupations in 1998.	Florida, 2002
Controls	Bohemian index	bohoidx90	The location quotient for artistically creative people in MSA in 1990.	Florida, 2002
	Population	pop90	The population of the MSA in 1990 in millions.	U.S. Bureau of the Census, 1990
	Number of MSAs	nmsa30	The inclusive number of MSAs within 30 miles of target MSA.	Goldstein and Drucker, 2006

APPENDIX B  
DESCRIPTIVE STATISTICS

<i>Variable</i>	<i>Observation</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Hypothesized Direction</i>
wi04	277	32.19	4.29	20.90	45.70	—
coll90	277	0.20	0.06	0.06	0.42	Positive
foreignborn	277	0.06	0.06	0.00	0.47	Positive
mfge90	277	0.20	0.11	0.02	0.56	Negative
techpole90	277	0.49	0.41	0.06	2.72	Positive
mw	277	5.48	0.67	5.15	7.40	Negative
unionrep90	277	0.17	0.07	0.06	0.31	Negative
cc98	277	0.27	0.05	0.15	0.41	Positive
bohoidx90	277	0.93	0.38	0.23	2.90	Positive
pop90	277	0.70	1.13	0.07	8.88	NA
nmsa30	277	1.16	0.45	1.00	4.00	NA

## NOTES

1. Deunionization has little effect on earnings inequality for women, who tend to be less unionized than men.
2. Immigrant education levels are bimodal: Immigrants are more likely to have fewer than 9 years of schooling than are native-born Americans but are also more likely to have higher levels of education (Borjas, Freeman, & Katz, 1997). Because the former far outweighs the latter, immigrants are generally—and perhaps too simplistically—classified as “less educated.” And though immigrants possess skills, these skills are often not recognized; our categorization of immigrants as “less skilled” reflects this mainstream classification of immigrant skill levels.
3. The model presented in this article is drawn from an earlier, and more in-depth, statistical analysis (Donegan, 2006). For a copy of the original article, please contact the authors.
4. The metropolitan statistical areas follow 1999 guidelines as defined by the U.S. Census Bureau. Primary metropolitan statistical areas (PMSAs) and New England consolidated metropolitan areas (NECMAs) are considered equivalent to metropolitan statistical areas (MSAs) (U.S. Bureau of the Census, 1999). Of the 318 total MSAs, PMSAs, and NECMAs, two were excluded (Honolulu, Hawaii, and Anchorage, Alaska) due to their economic and geographic isolation. Only 277 were used in the regressions due to missing values.
5. We would like to thank both Richard Florida and Kevin Stolarick for providing their data.
6. More detailed information about all the variables used in our model are in Appendices A and B.
7. Because the inequality index is a ratio of creative to noncreative earnings, index values are clearly influenced by Florida’s (2002) selection of creative occupations. As such, it is a narrowly defined measure of inequality as it limits the analysis to two sectors, rather than comparing across a range of socioeconomic groups. Still, the value of the creative class inequality index is its direct and easy applicability for cities that are associated with or actively use the creative class strategy of development. Although beyond the scope of this analysis, additional research comparing Florida’s creative class-oriented inequality index to traditional, nonclass-based measures of inequality—such as the Gini Coefficient—would make a valuable contribution to the literature by testing the relationship between the creative class and nonclass-based inequality.
8. In his work, Florida (2002) examines the relationship between the presence (or level) of the creative class and the level of inequality. By using only static variables in the model, we can directly compare and test the performance of

Florida's variables to alternative economic theories. We believe that our use of static measures remains consistent with the previously surveyed economic arguments concerning inequality. For example, the deunionization hypothesis states that declining union representation among American workers has contributed to an increase in inequality. Yet unions can maintain wages only to the extent that they have a presence in a city to either directly determine represented workers' wages or indirectly influence wages through a "threat effect." Therefore, even if two MSAs suffered similar declines in union representation over a period of time, we would expect the city with a higher level of union representation at a point in time to have a lower level of inequality than the city with a lower level of union representation.

9. Two schools of thought exist on the effects of unionization. The "threat-effect" school suggests that higher levels of unionization will make nonunionized firms act like unionized firms to hold off unionization. The "crowding" school suggests that unionized firms limit employment, leading to a higher supply of workers for nonunionized firms to pull from. The threat effect leads to higher wages in nonunionized firms, but the crowding effect leads to lower wages in nonunionized firms. Though considerable debate remains, David Neumark and Michael Wachter (1995) suggest that the threat effect holds in metropolitan areas due to large, dense, and highly visible unions.

10. The earliest available measure of the creative class is from 1998, making the creative class the only variable besides the minimum wage not from 1990. Although this is unfortunate, we do not believe that this will bias our results. The pair-wise correlation between the 1998 and 2004 measures of the creative class is 0.77, indicating that the presence of the creative class in a metropolitan area is relatively stable.

11. There is some risk that the relationship between the creative class and inequality is a spurious one. Sassen-Koob (1984) has made this point arguing that economic and industrial restructuring is the likely cause of both urban dominance by high-wage service workers and the informal, low-wage economy. Yet, even if we acknowledge the possibility that large-scale economic restructuring initially contributed to the socioeconomic polarization of cities, it is highly likely that urban inequality continues to be fed not by continuous deindustrialization but by other forces, such as those included in our analysis.

12. Community and labor coalitions can also leverage living-wage campaigns to support pro-labor legislation. First, they can push for "worker retention" legislation to ensure that unionized government jobs are not subcontracted to nonunionized, low-wage firms. Second, they can include "labor peace" ordinances, which mandate that employers remain neutral during unionization votes so that unionization is not made unduly difficult. Alone, each of these ordinances would be difficult to pass, yet they can be successfully integrated into or build on existing living wage legislation (Bernstein, 2005; Zabin & Martin, 1999).

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