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00:00:08 The American Labor Market is undergoing a set of momentous changes. Possibly the most important one has to do with the role of education and the turning the success of workers and communities. Over the past three decades workers who have a lot of education like those who went to college or have a master's degree has seen their wages rise pretty fast while workers who don't have a lot of education like workers with a high school degree or less has seen their wages stagnating or even decline. And the same is true for communities. Communities who have a lot of college educated workers in the labor force have been doing better and better and they've been able to attract innovative employers who, who provide good jobs and, and high wages. While communities that don't have a lot of well educated workers they've been struggling and they have been experience a decline in wages and average income. In my book I call it the great divergence because it exemplifies the strength where winners in this knowledge economy are getting stronger and stronger while losers are getting relatively weaker.

00:01:09 If you look at the economic map of America today you don't see just one country. You see three increasingly different countries. On one extreme you have cities like San Francisco or Seattle or Raleigh-Durham, Austin or Boston that have a very strong

innovation driven economy and one of the labor forces that is among the best educated, most creative and most innovative in the globe. It's also one of the best paid. On the other extreme you have former industrial capitals like Flint, Detroit or Cleveland with shrinking populations and falling wages. In the middle you have the rest of the country who seems undecided in which direction to take. Now, there's always been differences in the level of prosperity of American communities with some communities richer and other communities poorer. Now, what's new is how large the difference is today. In this table I've ranked communities based on the number of college graduates in the labor force.

00:02:09 The number of college graduates in communities at the top of this ranking is five times larger than the number of college graduates in communities at the bottom of this ranking. Now, this is an enormous difference. It's larger than the difference that we see most European countries. And it's also larger than the difference that we see between the US as a whole and poor developing countries like Peru or South Africa. In some sense this is telling us that within the US we see advanced post industrial economies that are highly innovative, innovation driven and highly educated. But also have struggling developing country economies that don't have much I—IT, don't have much high tech and have very low skill levels. What I find particularly striking is that the gap between the

first group and the second group is growing with every passing year. As you can see in this graph where we are plotting the average earnings of college educated workers in the top 10 cities and the average earnings of college educated workers in the bottom 10 cities – and this is the change starting from 1980.

00:03:18 As you can see the first group is growing much faster than the latter group. This means that the top group and the bottom group are diverging. This is why in the book I call this trend the great divergence. It means that communities that started off with, with strong fundamentals with a lot of highly educated workers and high salaries are growing much faster than communities that started off with much weaker fundamentals. Now, how is this possible? How, how can your salary, uh, depend on the number of college graduates who live around you? There are three main reasons. The first reason is that highly educated workers and less educated workers are not substitute, but they're compliment in the production process. That means that they enforce each other productivity. So by working with more and better educated colleagues, a high school graduate becomes more productive and ultimately earns a higher wage.

00:04:14 The second reason is that employers in cities where the labor force is better educated tend to adopt better technologies and newer technologies. And that makes all workers not just the highly

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educated more productive. And the final reason is what economies call human capital [indistinct], which means our own human capital depends not just on our own education, but also on the human capital of those around us. And so if you are surrounded by better educated or smarter colleagues you end up learning more, learning faster and ultimately being more productive. It's natural then to think what can we do as a nation to deal with, with the great divergence. And I think, you know, a lot of the policy discussions that goes on should really focus on two fundamental questions for the future of the American Labor Market. The first one is how can foster growth in the brain hubs – those cities in America that are responsible for larger and larger fraction of GDP and our wealth.

00:05:15 And second what can we do to help those local communities that don't have all these highly educated workers and these highly productive and highly innovative employers? How can we help, uh, the communities that are, that are falling behind? This is a question that is important both for the federal government as well as for our local policy makers. And it's clear that without a coordination between these two levels of government we cannot make progress on these important questions.

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