

# THE WALL STREET JOURNAL.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<https://www.wsj.com/articles/why-amazon-needs-some-cities-more-than-they-need-amazon-1505922101>

## CAPITAL ACCOUNT

# Why Amazon Needs Some Cities More Than They Need Amazon

Buyer beware for mayors mulling a bid on the internet retailer's second headquarters



Amazon.com is looking to build a second corporate headquarters in another location, but the company's human capital requirements limit its options. PHOTO: DAVID RYDER/GETTY IMAGES



By Greg Ip

Sept. 20, 2017 11:41 a.m. ET

When Amazon.com Inc. announced this month it was searching for a home for a second headquarters, it made it clear the winning city should expect to dole out big incentives.

Mayors should think twice before writing a big check because the playing field between cities and companies has changed.

As the U.S. economy has shifted from manufacturing to knowledge-intensive products, that has also altered where companies decide to locate.

Countless places could host a factory or the sort of distribution center Amazon opens several times a year. In that case it makes sense for cities to outbid each other with hefty incentive packages.

But Amazon's head office operation will produce ideas, patents, and software, the product of human rather than physical capital. That significantly limits its options.

Whereas physical capital can be anywhere, including overseas, human capital clusters in a handful of cities defined by deep pools of innovative workers and companies and the quality of life that keeps them there. Such cities don't need to offer cash to attract the likes of Amazon.

Back in the 1990s, it was thought the internet would be the "death of distance." Since employees could work from almost anywhere, they would move to cheap, low-tax cities, fleeing the costly, congested, overtaxed coastal enclaves of California's Bay Area, New York and Boston.

In fact, as Enrico Moretti, an economist at the University of California, Berkeley, notes in his 2012 book, "The New Geography of Jobs," the opposite happened: The wealthiest

**The Techie Get Techier**

Job creation in the technology industry in recent years has favored cities where the sector is already entrenched. Tech job growth, 2013-15



Note: Includes software publishing, data processing and hosting, computer system design

Source: Brookings Institution analysis of Moody's Analytics data

cities have pulled further ahead while the laggards have fallen further behind. The divergence has grown since the last recession.

Mark Muro and Sifan Liu of the Brookings Institution noted in a March article that between 2010 and 2015, 14 of the country's 100 largest metropolitan areas materially increased their share of the nation's tech jobs. The three biggest share gainers—the San Francisco, San Jose and Austin areas—are already home to clusters of such jobs.

Mr. Moretti attributes this to the “network effects” of knowledge work: “Being around smart people makes us smarter and more innovative. ... Once a city attracts some innovative workers and innovative companies, its economy changes in ways that make it even more attractive to other innovators.”

Many cities justify throwing massive incentive packages at new employers on the theory that they will then attract new businesses, creating spillover benefits. For the country it's zero sum but for a city it can be positive sum. A study co-written by Mr. Moretti shows that when a large plant locates in a county, productivity at neighboring plants also rises, reflecting the spillover benefits.

Such logic drove Wisconsin to offer an eye-watering \$3 billion to Taiwan's Foxconn Technology Group to build its first U.S. factory, making liquid crystal displays, in the state's southeast. Foxconn was scoping out a half dozen other states, all of which could have offered the same basic amenities.

“You could place the Foxconn operation in many places in the Midwest and the product of that establishment wouldn't change that much,” says Mr. Moretti. Where a factory locates “depends a lot on the bids and less on the characteristics of the community.”

Foxconn isn't about to turn Wisconsin into a hotbed of innovation; public largess virtually never does.

Innovative people, top-notch universities and serendipity can.

Silicon Valley owes its pre-eminence to the decision by William Shockley, one of the transistor's inventors, to start a semiconductor business there in 1956. Seattle was a run-down, declining city when Paul Allen and Bill Gates moved Microsoft to the area to be close to their families in 1979. Microsoft's presence, in turn, encouraged Jeff Bezos to start Amazon there since it guaranteed access to a lot of software engineers.

World-class universities are usually essential, as Boston and Austin demonstrate. This is a relatively modern phenomenon. The demise of Boston's factories turned the city into a “hollowed-out hull” by the 1970s, Harvard University economist Edward Glaeser wrote in his 2011 book, “Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier.” Its universities made possible the city's resurgence on “education-oriented industries” such as engineering, computers, financial services, management consulting and biotechnology.

Those educational disparities are growing: Mr. Moretti has found that since 1980 the best educated cities have expanded their college-educated workforce share much faster than others, defying expectations of convergence.

Mark Sweeney, whose firm McCallum Sweeney Consulting advises companies on where to locate, says there's a good chance the winner of the Amazon headquarters project will pay more than Wisconsin did for Foxconn: "This really is a transformational project."

For any city not already brimming with knowledge workers, landing Amazon's second headquarters, which it says will bring up to 50,000 high-wage jobs and \$5 billion in construction spending, could indeed be transformational.

But what if your city already has them? The case for paying a rich company to do what is in its own interest is much weaker. If Amazon passes you by, odds are another company will come along. Or, says Mr. Glaeser, "You'll create your own Amazon."

**Write to Greg Ip at [greg.ip@wsj.com](mailto:greg.ip@wsj.com)**

*Appeared in the September 21, 2017, print edition as 'Amazon Needs Cities More Than They Need It.'*

Copyright ©2017 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.