

The rise in knowledge-intensive services and wage inequality: Evidence from US Metropolitan Areas

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Abstract

Over the last couple of decades, the economics literature has renewed the interest in income inequality. The emergence of the knowledge-based economy has changed the mechanisms of generation and governance of new technological knowledge. However, the transition from a manufacturing-based towards a knowledge-based economy has called attention to the dark side of innovation and its consequences on economic inequality. This article examines the effect of the increased demand for knowledge-intensive services on wage inequality by exploiting cross-city variation in the US between 1980 and 2010. The baseline econometric model tests the relationship between the decadal change in wage inequality against the decadal change in the knowledge-intensive services employment rate as a proxy for the demand for these industries. The estimates indicate that knowledge-based services exert a positive and statistically significant impact on overall wage inequality and wage inequality within non-routine cognitive occupations. Therefore, the increased demand for knowledge-based services increases both overall wage inequality and the competition for high-paid positions. Indeed, workers operating in non-routine cognitive tasks receive a wage premium for applying their skills to a knowledge-based service sector compared to other sectors. These results are robust to using different inequality measures, econometric models, spatial units of analysis and time structures. The findings suggest that increasing attention should be devoted to the rising demand for knowledge-based services and its unequal effects on wage distribution.

Keywords: Knowledge-Intensive Services; Wage Inequality; US Cities; Superstar's Economy.

JEL classification: O33, J31, R11.