Martin Prosperity Institute

High Tech Companies, Inequality, and Inclusive Prosperity

Cities

Rotman

The Cities Project at the Martin Prosperity Institute focuses on the role of cities as the key economic and social organizing unit of global capitalism. It explores both the opportunities and challenges facing cities as they take on this heightened new role.

The Martin Prosperity Institute, housed at the University of Toronto's Rotman School of Management, explores the requisite underpinnings of a democratic capitalist economy that generate prosperity that is both robustly growing and broadly experienced.

High Tech Companies, Inequality, and Inclusive Prosperity

Richard Florida

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Dynamic entrepreneurial companies have long been the drivers of America's economic growth, from the first industrial revolution in New England to Andrew Carnegie and the rise of Pittsburgh's steel industry, from Henry Ford and the automotive industry in Detroit to the startup revolution in Silicon Valley. But, in recent years, high-tech firms and the talented people who work for them have come under fire for driving up housing prices and contributing to growing inequality—especially in the San Francisco Bay Area, where mounting protests have targeted both techies and tech companies.

This is not just coming from local activist groups but from leading U.S. politians. As Senator Cory Booker, a potential 2020 presidential candidate put it this summer: "We've got to start having a conversation in this country: How are we going to measure the success of the tech sector?" Booker asked. "Is it by its ability to create a small handful of billionaires, or the ability for us to create pro-democracy forces — empowering individuals, improving quality of life, improving financial security, expanding opportunity — the kind of things we want largely for democracy?"

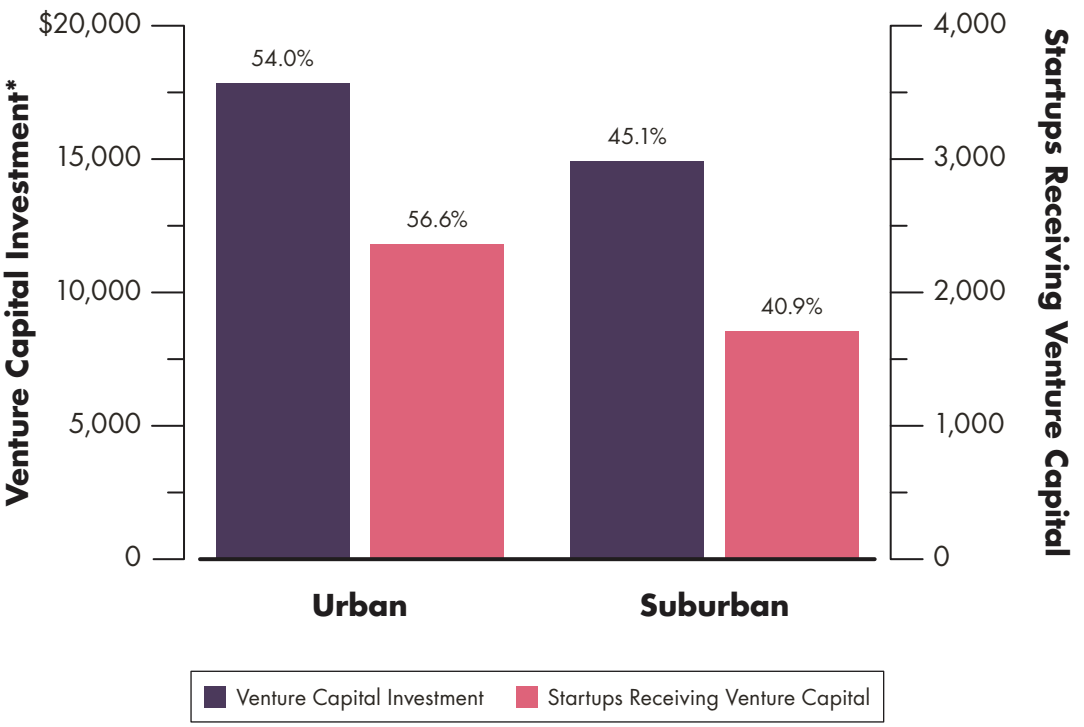
Prompting this backlash is a major shift in the nature and location of high-tech industry. Not too long ago, high-tech industry was a product of the suburbs. In the 1980s and 1990s, virtually all high-tech companies and startups were located in suburban office complexes or generic "nerdistans." Intel and Apple were in suburban Silicon Valley, Microsoft was in Redmond outside Seattle, and there were numerous corporate campuses and office parks along the Route 128 beltway outside Boston or in North Carolina's Research Triangle.

Much of that has changed today. While many large, high-tech companies remain in suburban locations, urban areas are by far the top locations for venture capital investment. The Bay Area's share of venture capital-backed startups has increased from 22 percent in 1990 to more than 45 percent today. Taken together, the San Francisco Bay Area and the so-called Acela corridor that runs from Boston through New York to Washington, D.C. accounts for two-thirds of all venture capital investment across the U.S.

In 2016, the San Francisco metro ranked as the leading location for venture capital investment in tech startups, bringing in $23.4 billion, or more than three times that of Silicon Valley ($6.7 billion). That same year, the New York City metro—which lacked nearly any venture capital backed startups in the 1980s—took in $7.6 billion. Boston-Cambridge was close behind with $6 billion, followed by Los Angeles with $5.5 billion.

Today, more than half (54 percent) of all venture capital investment flows to urban neighborhoods (identified by their ZIP codes) (*Exhibit 1*). In the Bay Area and Boston-Cambridge, more than 60 percent of venture capital investment gravitates to these neighborhoods. In Greater New York, nearly 85 percent does.

Venture capital-backed startups are also concentrated in urban neighborhoods where a relatively large share of commuters walk, bike, or use transit to get to work (*Exhibit 2*). Nearly 40 percent of all venture capital investment in the Bay Area flows to neighborhoods where more than 30 percent of workers walk, bike, or use transit. In downtown San Francisco, where venture capital investment is most thickly concentrated, over 50 percent of venture capital investment flows to these neighborhoods. Just two neighborhoods in downtown San Francisco alone each take in more than a billion dollars in venture capital. In these neighborhoods, roughly 60 percent of workers walk, bike, or use transit to get to work. In New York, an even greater share of startups—80 percent—flows to transit-oriented neighborhoods. And,



* In millions of U.S. dollars

Exhibit 1: Venture Capital Investment in Urban vs. Suburban Neighborhoods
Source: Richard Florida and Karen King, *Venture Capital Goes Urban: Tracking Venture Capital Investment and Startup Activity across U.S. Zip Codes*, Martin Prosperity Institute, June 2016.

in Boston-Cambridge, nearly half of all tech startups are located in neighborhoods where more than half of workers walk, bike, or take transit to work.

Across all three metros, more than 45 percent of venture capital investment is located in neighborhoods where more than 30 percent of workers walk, bike, or use transit to get to work, and 38 percent is located in neighborhoods where more than half of workers do. This is a veritable sea-change from the car-dependent suburban high-tech office parks of a generation ago.

In short, cities and startups are a natural fit, with the diversity, density, and cultural creativity of urban centers acting as a major draw for startup talent. While most large, well-established tech companies like Microsoft, Apple, and Facebook remain in the suburbs, the startups that power innovation and economic growth increasingly draw their strength and inspiration from cities. Tumblr and Buzzfeed, for example, launched in New York City to take advantage of the proximity of leading media and advertising agencies. Meanwhile, Uber and Airbnb are focused on making cities work more efficiently. For these companies, cities are more than locations—they're the sites of the very problems their innovations aim to solve.

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But, to what extent is urban tech to blame for rising inequality and the burgeoning New Urban Crisis of our cities?

On the one hand, tech companies are at least partially responsible for rising housing prices in high-tech metros like San Francisco or San Jose. This unaffordable living is most burdensome for less advantaged blue collar and service workers, who work in fields like food service, routine clerical work, and retail sales. In San Francisco, the average service class worker

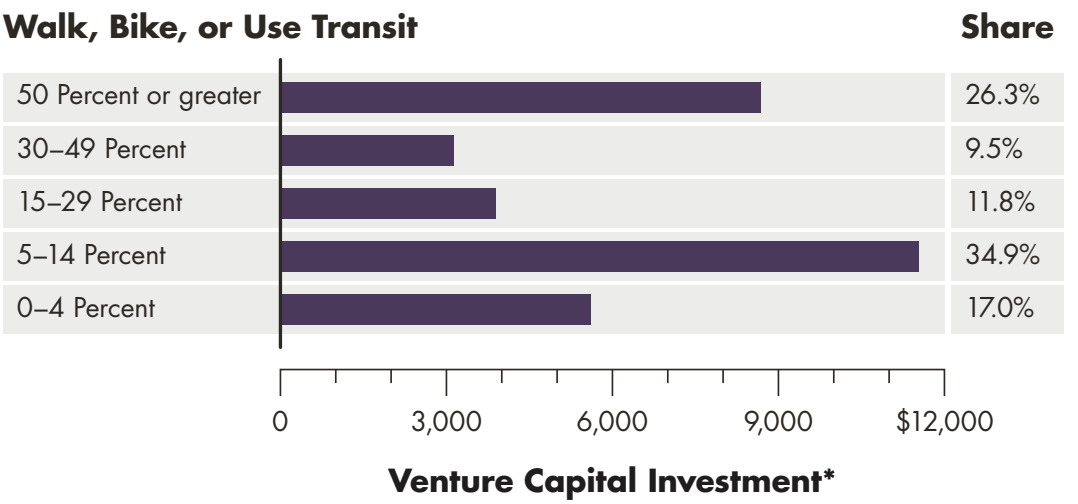

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Exhibit 2: Venture Capital Investment by the Share of Commuters Who Walk, Bike or Use Transit to Get to Work
Source: Richard Florida and Karen King, *Venture Capital Goes Urban: Tracking Venture Capital Investment and Startup Activity across U.S. Zip Codes*, Martin Prosperity Institute, June 2016.

has just $16,806 left over after paying for their housing compared to $71,741 for the average knowledge worker. In New York, the average service worker has $17,861 left over compared to $71,245 for the average knowledge worker. And in Boston-Cambridge, the average service worker has $16,206 left over compared to $66,871 for the average knowledge worker. Cities struggle to survive when the very people who keep them running—nurses, EMTs, teachers, policemen, and other service providers—can no longer afford to live in them.

The relationship between high-tech startups and our urban divides come through in the maps below, which overlay the locations of startups and the residential locations of the three major classes across three regions.

In San Francisco, venture capital-backed startups are clustered in advantaged creative class neighborhoods around downtown, SoMa, and the Mission District, spreading into the Marina District, the historically upscale neighborhoods of Pacific Heights and Russian Hill, and out-

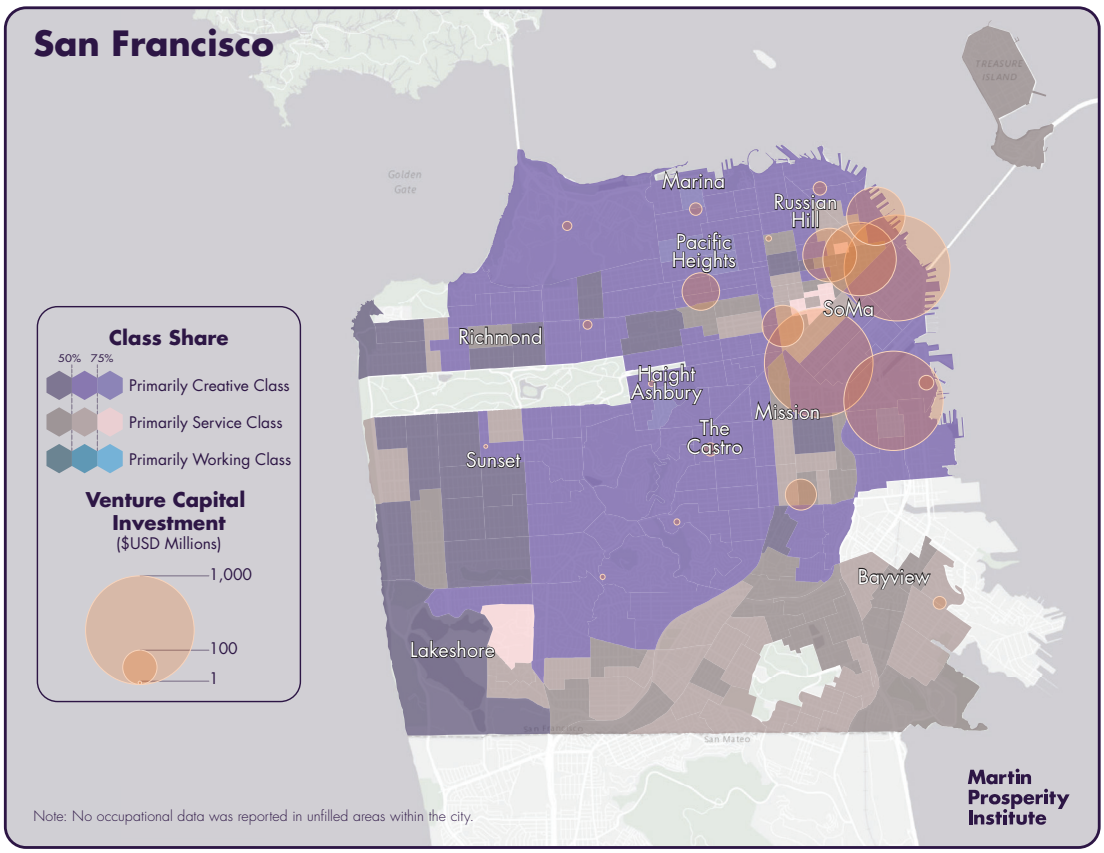

Exhibit 3: San Francisco's Class Divides and Venture Capital Investment
Source: Adapted from Richard Florida and Karen King, *Venture Capital Goes Urban: Tracking Venture Capital Investment and Startup Activity across U.S. Zip Codes*, Martin Prosperity Institute, June 2016; and Richard Florida, Zara Matheson, Patrick Adler and Taylor Brydges, *The Divided City: And the Shape of the New Metropolis*, Martin Prosperity Institute, September 2014.

ward to the University of California in Berkeley, Marin County in the north, and Stanford University and Silicon Valley in the southeast and southwest (*Exhibit 3*). The less-advantaged service class occupies the historically disadvantaged areas of the city, especially Chinatown and the Tenderloin. Long bands of service class neighborhoods run from Oakland to Fremont, in Menlo Park, and in East Palo Alto in the heart of Silicon Valley.

In New York, startups are clustered in a tight band in Manhattan that runs southeast from Midtown through Chelsea and Gramercy Park

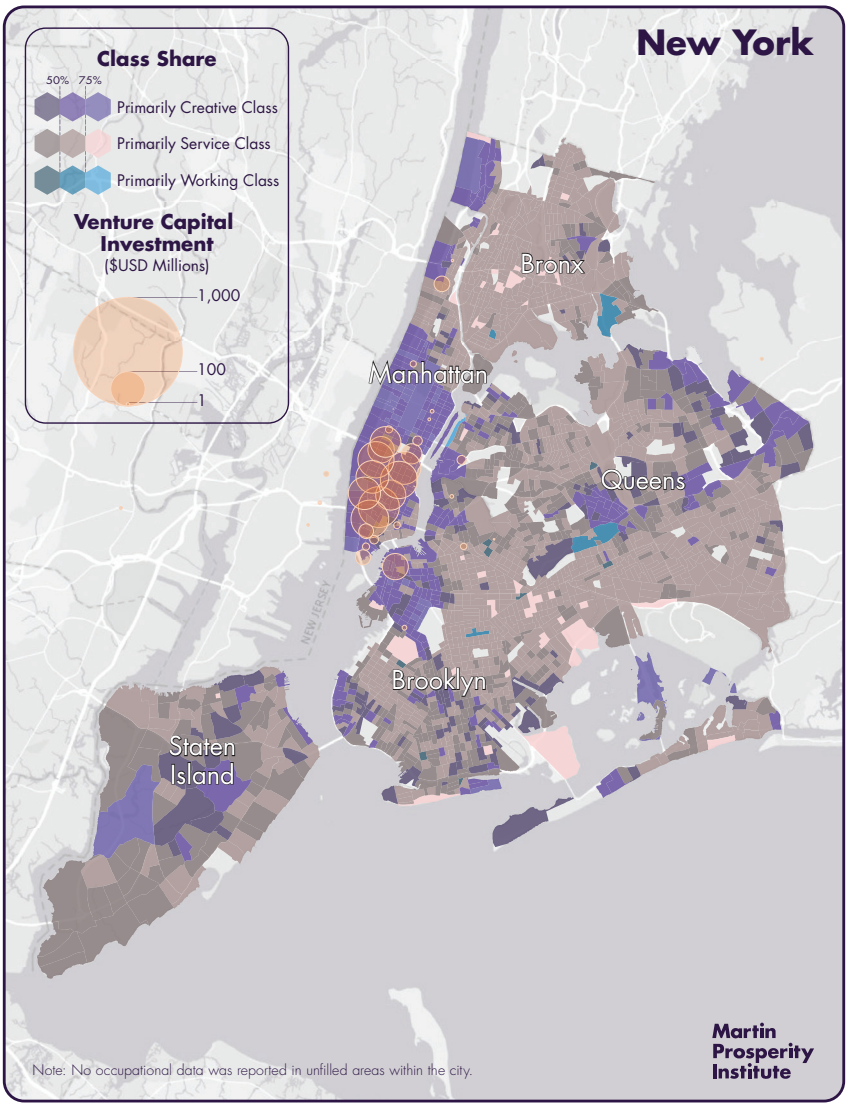

Exhibit 4: New York's Class Divides and Venture Capital Investment
Source: Adapted from Richard Florida and Karen King, *Venture Capital Goes Urban: Tracking Venture Capital Investment and Startup Activity across U.S. Zip Codes*, Martin Prosperity Institute, June 2016; and Richard Florida, Zara Matheson, Patrick Adler and Taylor Brydges, *The Divided City: And the Shape of the New Metropolis*, Martin Prosperity Institute, September 2014.

to the Village and Soho around NYU, south to Tribeca, and across the East River to adjacent parts of Brooklyn (*Exhibit 4*). This overlaps with the uber-gentrified advantaged colonies that line both sides of Manhattan, from the Financial District through Tribeca, SoHo, the Village, Chelsea, and the Upper East and Upper West Sides. For all the talk of gentrification in Brooklyn, the creative class is confined almost completely to the northern part of the borough. The less-advantaged service class is massed in the outer boroughs.

In Boston and Cambridge, startups again align with advantaged creative class neighborhoods, which are tightly clustered in and around Boston's downtown core, from the Financial District and the Seaport to upscale Beacon Hill and Back Bay (*Exhibit 5*). There is an even greater cluster of high-tech startups near MIT in Cambridge, where an astonishing two-thirds of residents are members of the creative class. The creative class also clusters along the Route 128 high-tech corridor, as well as affluent communities along the northern coastline

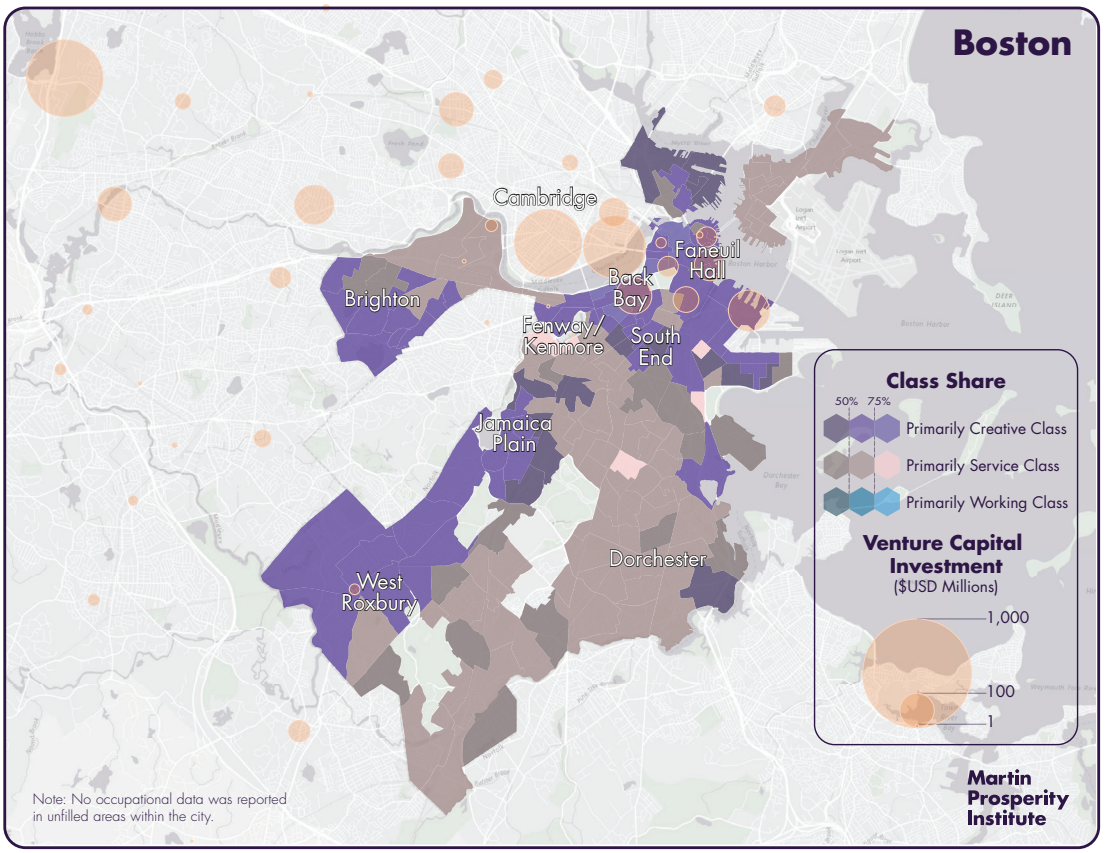

Exhibit 5: Boston's Class Divides and Venture Capital Investment
Source: Adapted from Richard Florida and Karen King, *Venture Capital Goes Urban: Tracking Venture Capital Investment and Startup Activity across U.S. Zip Codes*, Martin Prosperity Institute, June 2016; and Richard Florida, Zara Matheson, Patrick Adler and Taylor Brydges, *The Divided City: And the Shape of the New Metropolis*, Martin Prosperity Institute, September 2014.

like Manchester-by-the-Sea, Swampscott, and Marblehead. The less advantaged service class is concentrated in a tight band outside downtown Boston, mainly in South and East Boston around historically black Roxbury and near Logan Airport, as well as in the suburbs.

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Whether tech firms really deserve such strong criticism, they are increasingly seen as the enemy—wealthy, advantaged corporations who take from cities—and not as sources of innovation and job creation. In San Francisco, protesters have targeted the private shuttle busses that move techies between the city's downtown and the Silicon Valley. In November 2000, the city also narrowly defeated a ballot measure aimed at banning high-tech development from its downtown neighborhoods. More than a decade later, Bill De Blasio was elected mayor of New York City after his campaign highlighted the city's growing inequality. New York, he argued, had become a "tale of two cities," divided between the privileged few and millions of struggling residents.

It's time for high-tech companies to step up to the plate. Under the Trump administration, the idea that the federal government will help address the problems of urban inequality, unaffordable housing, low-paying jobs, and transit is simply out of the question—as is the idea that cities have the resources to fix these problems on their own. As the five most highly-valued companies in the world, Apple, Google, Microsoft, Amazon, and Facebook have the resources and capabilities to help address America's deepening urban divides and move toward inclusive prosperity. But it's also in their interest to do so.

During the Great Depression and New Deal, industrialists like Henry Ford advocated for "$5 dollar day wages," or paying workers more so they could join the middle class and buy the cars they were producing. At the same time, retail magnates like Lincoln Filene advocated for government programs to spur demand, rebuild the middle class, and ignite the economy. Like Ford and Filene, today's tech companies can work to create a new era of inclusive prosperity, while reaping the economic benefits of a happier, more productive workforce.

To start, tech companies can work closely with cities to build more housing, thereby reducing the economic burden of steep housing costs. Much of this can be achieved by investing in efforts to liberalize outdated zoning and building codes. Even more importantly, tech companies must support the development of affordable housing for residents, and particularly affordable workforce housing for service and blue-collar workers.

Next, tech companies can work with state and local governments to support and invest in additional and improved public transit. At the very least, these initiatives can help shed the negative image of private shuttle bus systems, which appear extravagant and self-interested. On a larger scale, improved public transit systems can better connect outlying areas to booming downtown cores and tech clusters, where the majority of jobs are located. As a result, tech companies can spur denser real estate and business development around transit stops and stations.

Finally, and perhaps most critically, tech companies must work to upgrade service jobs, which employ more than 45 percent of the U.S. workforce. In addition to improving their own service jobs, tech companies have the resources, knowledge, expertise, and platforms to engage the wider business and public policy communities in their efforts. In the 1930s and 1940s—in the wake of the union movement and the New Deal—American industrial corporations were able to transform low-wage

manufacturing jobs into high-paying, family supporting work. Decades later, in the 1980s and 1990s, leading manufacturing companies worked closely with their suppliers to upgrade manufacturing jobs by raising blue-collar salaries and engaging workers in collaborative tasks and lean production. These efforts have consistently led to greater productivity and huge dividends in the form of the shop-floor innovations. Today, high-tech companies can work with service companies in hospitality, retail, clerical work, and more to turn low-wage service work into higher-paid, sustainable careers. As research from MIT's Zeynep Ton has shown, these efforts increase productivity and performance across service sectors. In this way, raising workers' wages would do for companies in the service sector what it once did for manufacturing firms.

While America's tech industry has generated a host of challenges for cities, many, if not all, of these challenges have been born from its own success. It's now time for tech companies to channel their resources, talent, and skills to heal the very divides they've created while continuing to power new growth and innovation.

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