

IAB-Colloquium

zur Arbeitsmarkt- und Berufsforschung

Are the Most Productive Regions Necessarily the Most Successful?

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Economists typically celebrate productivity growth as the way to improve living standards for the general population. In addition, economists also advocate that particular cities and regions should strive to be as productive as possible in order to attract businesses and increase employment. However, while productivity growth can reduce cost or improve quality, if demand is not sufficiently responsive or elastic, then labor demand may decrease, reducing employment in the location. Productivity growth may be skill biased, creating larger wage gaps that increase the area's inequality or poverty. Thus, there may be a fallacy of composition in that productivity growth is good for society as a whole, the most productive locations may face some unintended consequences associated with productivity growth that may reduce quality of life or weaken local labor markets.

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