Urban-Biased Growth A Macroeconomic Analysis

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Since 1980, US wage growth has been fastest in large cities. Empirically, we show that most of this urban-biased growth reflects wage growth at large Business Services firms, which are also the most intensive users of information and communications technology (ICT) capital in the US economy. We provide an explicit economic mechanism whereby ICT is more complementary with labor at larger firms. Quantitatively, we find that with such a complementarity, the observed decline in ICT prices alone can account for most of the urban-biased growth, since Business Services firms in big cities tend to be large.