The Forgotten Adjustment Variable – Quantity! For Business Students and General Readers

by Anne Emerson

This essay will explain why a skewed path of change is not obvious in the "instantaneous mutual satisfaction" (technically, general equilibrium) model. In that model, market prices respond to changing conditions and determine how much of everything is bought and sold.

What follows is NOT mainstream economic theory; in fact, some "instantaneous mutual satisfaction" (a.k.a. general equilibrium) believers may find it disturbing.

We start by stating that many economists believe that high wages encourage labor migration. Then we explain that the *data do not support this belief*. That is, not only my data, but also other people's data, suggest the following: IF we have sufficient detail on costs of living and distributions of jobs, we find that similar jobs pay similar wages, nationwide.

Some may say that city wages are higher than rural wages. I will reply that high-paying jobs are more prevalent in cities than in rural regions. This brings the average wage up, for cities, but it does not mean that similar jobs pay more in the city than in the countryside. We see some people migrating from city A to city B, and other people migrating from city B to city A. We see very few people migrating from city to countryside (before the pandemic), and quite a lot of people migrating from countryside to city.

IF these people cannot expect a higher wage in their destination from what they could get in their place of origin, why would they move? I say that jobs open up at different rates in different places. Jobs are offered at the prevailing wage and qualified workers fill them. Some of these workers are migrants. More migrants go to where more jobs are opening, often in cities.

Data suggest that the prevailing wage for a specific job may change over time, but it does not differ significantly across regions at a moment in time. Thus, our "moment-in-time" model, the instantaneous mutual satisfaction model (a.k.a. general equilibrium), finds this acceptable. (Technically, we have equilibrium in the labor market, nationwide.) This model does not usually explore the impact of different levels of regional wealth on well-being.

Yet, regional wealth (as contrasted with individual wealth) affects the types of products, services, and educational opportunities available to residents. For example, an impoverished region may not be able to offer its residents a good hospital, or high-tech schools, or internet access. A wealthy region may be able to offer its residents a life of luxury.

Here are some consequences, for worker behaviors:

Poorer regions experience a brain drain – the best and brightest depart for places where they think they can do better. Impoverished regions find it challenging to sustain viable communities with good hospitals, schools, local governments etc.

The paragraph above matches what many people understand about job markets and migration. Mainstream economics (general-equilibrium economics) also assumes that regional and worker inequities are temporary; a satisfactory adjustment will occur soon enough.

Here is where Annie says no – it is worse than that! IF the advantages of wealth and training accrue so quickly in cities that they *outstrip* adjustments back to a comfortable "instantaneous mutual satisfaction" (general equilibrium) situation, then *regions or industries* that don't use high-tech, big-city skills will be left behind for the long run. (That is, no overall systemic adjustment brings us back to any type of new inter-regional or inter-industry equilibrium. Our differences keep diverging.)

Cities (money-magnets) will grow from strength to strength and it will feel good; declining (resource-losing) regions will keep declining and it will feel bad. They will lose QUANTITIES of many things, but PRICES will likely look "in step" with the rest of the economy. What this means is that analysts who think that market pricing delivers equity will completely miss the fact that loss of regional wealth/revenue/income implies a loss of quantities of many things that maintain a comfortable community.

And, *people and families* who cannot learn the skills for entry into an educated, big-city world will be left behind for the long run in a similar way. Often, poverty is a factor in preventing access to education. But, if we think education is a way out of poverty, we forget that there are still some non-big-city-type jobs that need doing. People working these jobs will become even more low-paid, unappreciated, and misunderstood while the rest of the economy races away from them.

Consider, for example, child-care and senior care. Do children and seniors today enjoy the everyday time and attention of the people most important to them? If not, who cares for them? If you are a busy executive, can you ensure that those carers will be paid enough so that they love your family as you would want them to be loved? Will they treat society's most-vulnerable residents well? Can you offer similar assurances to people who work two jobs just to keep the bills paid? Perhaps some of them work for YOUR business. (Why do you think many of our best carers come from foreign countries?)

In sum, if viable hospitals are mega-hospitals, viable universities are very wealthy, country doctors expect big-city wages, dependent care is expensive, and infrastructure is costly to update; but poorer regions cannot afford these things, then poorer regions will not have them. Many people will not want to locate in poorer regions; young people may leave. It has got worse, historically, as city sectors have grown. Consider, today, the game-changing impact of the COVID-19 pandemic on remote work. A new reality may offer many opportunities to address the challenges of both excess wealth and excess poverty.

These challenges have resulted from incorrect expectations of what the free market can deliver under current preferences for low prices and rapid technological progress. Annie thinks it will not be difficult to change the narrative. People see that something is wrong. Her model suggests some answers; it also offers an alternative way to organize and analyze economic data, which can be used alongside other models, going forward.