

THE WALL STREET JOURNAL.

- WSJ.com
- [ECONOMY](#)
- NOVEMBER 29, 2011
- http://online.wsj.com/article/SB10001424052970204753404577066470694261462.html?mod=ITP_pageone_1
-

Recipe for Middle-Class Jobs

'Brain Hubs' Like Austin, Texas, Create More Work for Less-Educated Residents

By [CONOR DOUGHERTY](#)



WSJ's Conor Dougherty profiles Austin, Texas and its efforts to attract highly skilled workers, in the hopes that they will find enough success to bring on a middle-class, lower-skilled workforce. AP Photo/Jack Plunkett

AUSTIN, Texas—As the nation grapples with stubbornly high unemployment, Texas's political and high-tech capital shows one way to create good jobs for people who didn't go to college: Attract highly skilled entrepreneurs, and watch the companies they start hire lower-skilled workers.



Agence France-Presse/Getty Images

The Texas state Capitol in Austin, a city that in the past decade has added 50,000 'middle-skill' positions that pay roughly \$38,000 a year.

Praxis Strategy Group, an economic-development consultancy, estimates Austin added 50,000 "middle-skill" positions in the past decade. These are jobs that require a two-year associate's degree or the equivalent work experience, and pay a median wage of \$17.30 an hour, or \$38,000 a year. That pace of growth is roughly four times faster than the nation's as a whole, three times that of New York and Portland, Ore., and twice that of Phoenix.

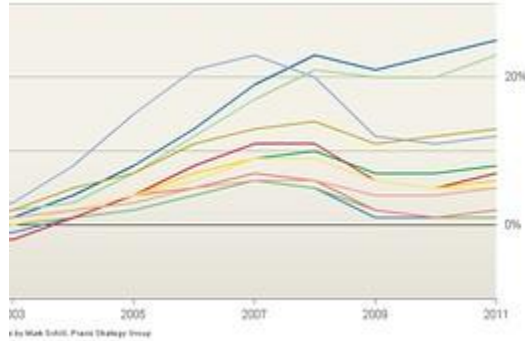
Austin's success in creating middle-class jobs runs against the grain of national trends. As America's shift from manufacturing to the service sector has accelerated, economists have noted a hollowing out of such jobs.

In recent decades, a select number of brain hubs like Austin have attracted a higher percentage of well-educated workers and a lopsided share of new investment and young companies. In 1970, the top 10 most-educated metropolitan areas among the nation's 100 largest had an average of 23% of workers holding a bachelor's degree or higher, compared with 10% in the bottom 10, according to an analysis of Census data by Harvard University economist Edward Glaeser. The 13-percentage-point gap has widened every decade since, and had doubled by 2010.

Where Jobs Can Be Found

See the growth in middle-skill jobs from 2001 in Austin and other regions.

[View Interactive](#)



- [More photos and interactive graphics](#)

Beyond creating new middle-skill jobs, such brain hubs have generally higher incomes and for the most part have performed better through the recession. In Austin, the 7.1% average unemployment rate in 2010 was well below the nation's during the same period.

Of course, Austin also has a fast-growing population, which helps create jobs in any economic environment. And it's not as if other cities can create a more-educated populace overnight.

Still, Austin's success in creating middle-level jobs shows how a well-educated work force can raise the fortunes of lesser-educated workers as well. Raleigh, N.C., has benefited from the same dynamic.

- [Brain-Hub Cities Attract Jobs](#)
- [435 Step to Create Jobs](#)

One consequence of the economy's shift away from production toward brain work is that companies are constantly seeking new ways to break down high-value intellectual tasks into smaller, cheaper bits. Much the same way that assembly lines created millions of new jobs by reducing mass production to a sum of tasks, employers in Austin and elsewhere are constantly breaking down higher-skill jobs to "create new middle-skill, middle-income specialties," according to a recent report by the McKinsey Global Institute.

Take [Homeaway](#) Inc., a vacation-rental service founded here in 2005 that went public this year. Its rapid growth allows entry-level employees to substantially raise their income, said Brent Bellm, the company's chief operating officer.

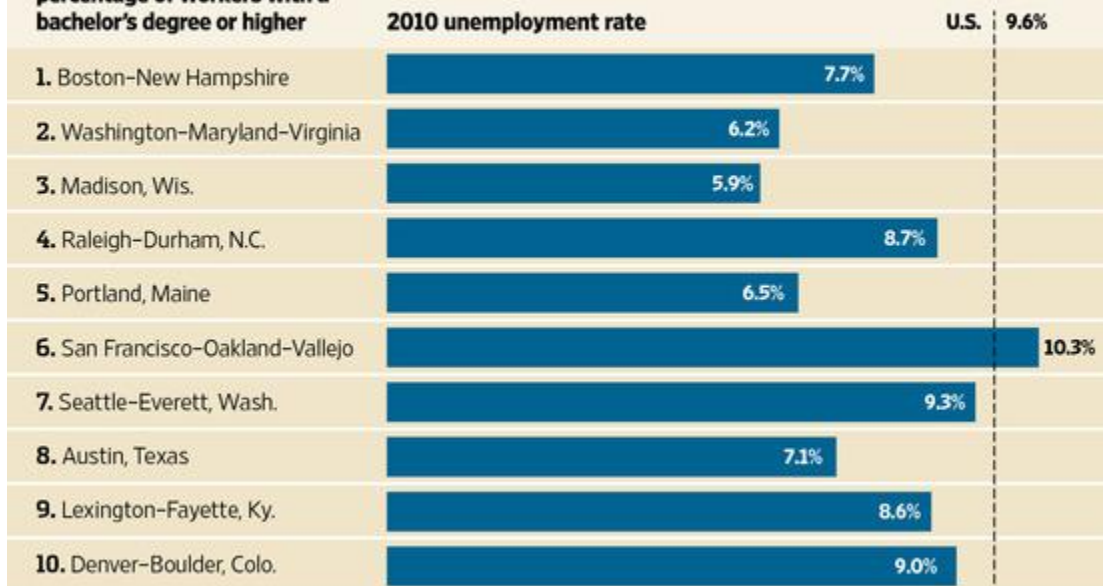
Mr. Bellm points to customer-service representatives, who earn from \$25,000 to the low-\$30,000s range and field phone calls and e-mails from people using the company's website. About one-third of them are promoted annually to areas such as a security team that monitors the site for fraudulent listings and removes shoddy properties. "In a few years, you can go from the high 20s to the 50s," he said.

Simply put, rapid growth boosts the value even of workers who have a limited education but possess knowledge of a company's systems.

Bright Lights

Cities with highly educated workers generally fared better in the downturn

Metro areas with the highest percentage of workers with a bachelor's degree or higher



Sources: Analysis of Census data by Edward Glaeser of Harvard University (metro areas); Labor Department (unemployment); U.S. Census (income)

Enrico Moretti, an economist at the University of California, Berkeley, notes that highly educated cities see faster wage growth for less-educated citizens as well as the high fliers. One reason is that many lower-level employees use the most productive technologies and act as complements to more-expensive and highly-educated workers, making it much easier for companies to raise their wages faster than overall inflation.

Another force, Mr. Moretti notes, is called "human capital spillovers," a fancy way of saying that many "middle skill" workers begin to acquire skills that are much more valuable than their overall education level might suggest.

That's how Douglas Kanneman went from a bored retail clerk feeling grim about his prospects to a computer-equipment technician with a four-bedroom house and the chance to let his wife work part-time while looking after their two children.

Mr. Kanneman, 37 years old, began his working life like a lot of people who didn't go to college—at a retail store with low pay. Looking to better his prospects at 25, he went to community college for computer training and eventually landed a customer-service job at [SolarWinds](#) in Tulsa, Okla., which makes software that controls companies' information infrastructure like computers and phone systems.

Later, when SolarWinds moved to the tech hub of Austin, Mr. Kanneman went with it. As the company grew, he worked his way into the better-paying information-technology department. A year ago, he did something that he said validated the worth of his new skills: He quit for a higher-paying job elsewhere in Austin, and with overtime can now earn more than \$90,000 a year.

"It proved that I was worth as much as I thought I was," Mr. Kanneman said.