

Urban Labor Economics

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July 18, 2006

Introduction to Part 3

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The urban economics literature has often focused on the existence of areas of high poverty and high criminality, namely the ghettos. The geographic position of these areas within cities coincides in general with high unemployment and, more precisely, with the absence of jobs in the areas surrounding the ghettos. The labor market is thus a very important channel of the transmission and persistence of poverty across city tracts. In the U.S., there has been an important empirical debate revolving around this issue.

Unfortunately, ghettos exist in most US and European cities because ethnic minorities and whites are physically segregated from each other and, on average, whites experience better labor-market outcomes than ethnic minorities (see e.g. Massey and Denton, 1988, Cutler and Glaeser, 1997, Cutler et al., 1999, Fieldhouse, 1999, Patacchini and Zenou, 2005). It is thus quite crucial to understand the extent to which labor-market outcomes may be linked to residential segregation. Even though the economic literature in that field has not come up with a clear-cut theory, it has stressed a variety of possible mechanisms linking labor-market outcomes and residential segregation. These typically revolve around local externalities in education (Benabou, 1993, Borjas, 1995), labor discrimination (Coate and Loury, 1993), crime (Glaeser et al. 1996, Verdier and Zenou, 2004), social distance (Akerlof, 1997), or housing discrimination, proximity to jobs and commuting costs (the so-called spatial mismatch hypothesis).

Indeed, in the spatial mismatch hypothesis, first developed by Kain (1968)¹ stipulates that the increasing distance between residential location and workplace is very harmful to ethnic workers and, with labor discrimination, constitutes one of the main explanation of their adverse labor market outcomes. Since the study of Kain, dozens of empirical studies have been carried out trying to test this hypothesis. The usual approach is to relate a measure of labor-market outcomes, based on either individual or aggregate data, to another measure of job access, typically some index that captures the distance from residences to centers of employment. The weight of the evidence suggests that bad job access indeed worsens labor-market outcomes, confirming the spatial mismatch hypothesis. The economic mechanism behind this hypothesis is

¹See the surveys by Holzer (1991), Kain, (1992), Ihlanfeldt, and Sjoquist (1998), and Gobillon et al. (2005).

however unclear. Some tend to argue that black workers refuse to take jobs involving excessively long commuting trips. Others think that firms do not recruit workers who live too far away from them because their productivity is lower than those residing closer.

In the first chapters of part 3 (chapters 7), we use the theoretical of parts 1 and 2 to address the issue of the spatial mismatch hypothesis. In particular, we use the urban efficiency wage models to provide two different mechanisms. First, using one of the models of chapter 5, which assumes that workers' effort negatively depends on distance to jobs, we show that, in equilibrium, it is rational for firms to draw a red line beyond which they will not hire workers. As a result, if housing discrimination against ethnic minorities forces them to live far away from jobs, then, even though firms have no prejudices, they are reluctant to hire these workers because they have relatively lower productivity than whites. Second, using one of the model of chapter 6, we show that housing discrimination, by skewing ethnic workers towards the city center, increases the number of applications for central jobs and decreases it for suburban jobs. As a result, those workers living in the central part of the city but working in the suburbs experience lower unemployment rate and earn higher wages than ethnic workers living and working in the central part of the city.

Then, we use the urban search-matching models to provide some mechanisms of the spatial mismatch. A first one is that workers' job search efficiency may decrease with distance to jobs and, in particular, workers residing far away from jobs may have few incentives to search intensively. Also, for a given search effort, workers who live far away from jobs have few chances to find a job because, for instance, they get little information on distant job opportunities. Based on the models exposed in part 1, these theories state that distance to jobs can be harmful because it implies low search intensities. Indeed, locations near jobs are costly in the short run (both in terms of high rents and low housing consumption), but allow higher search intensities, which in turn increase the long-run prospects of reemployment. Conversely, locations far from jobs are more desirable in the short run (low rents and high housing consumption) but allow only infrequent trips to jobs and hence reduce the long-run prospects of reemployment. Therefore, if minority workers are forced to reside far away from jobs, it will then be optimal for them to spend a minimal amount of time

in searching for jobs, and thus their chance of leaving unemployment will be quite low.

As stated above, other aspects can explain why ethnic workers perform poorly in the labor market. Labor discrimination and prejudices, social networks and peer pressures, identity and assimilation are important elements that should also matter in explaining these pockets of poverty of ethnic minorities. In chapter 8, in order to explain the adverse labor market outcomes of black workers living in segregated areas, we will expose the recent developments of social networks in the labor market. Finally, in chapter 9, we will focus on other issues such that racial prejudices and cultural transmission in cities.

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