

Part 3

Urban ghettos and the labor market

We would now like to use the tools developed in Parts 1 and 2 of this book to understand the relationship between urban ghettos and the labor market outcomes of ethnic minorities. Indeed, most cities in the world are characterized by areas (ghettos) with a high level of poverty and a high concentration of ethnic minorities (see e.g. Massey and Denton, 1988, 1993; Cutler and Glaeser, 1997; Cutler, Glaeser, and Vigdor, 1999; Anas, 2006). The geographical position of these areas within cities in general coincides 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 for the transmission and persistence of poverty across city tracts.

Let us be more precise about the facts. In the United States, it is generally observed that unemployment is unevenly distributed both within and between metropolitan areas. In particular, in most cities, the unemployment rate is nearly twice as high downtown as in the suburbs (see Table 7.1), mainly because of the concentration of blacks in these areas (see Table 7.2), who are mainly unskilled (see Table 7.3). Indeed, because of the massive migration of blacks from the rural south to the urban north after World War I and World War II and because of discrimination on the housing market, blacks had no choice but to live in the central city ghettos. While there has been a substantial suburbanization of blacks in some cities, the legacy of that period remains in the form of inner-city ghettos. In the same period, there has been a massive suburbanization of jobs (see Table 7.4). To what extent does this history explain the higher rates of unemployment among blacks than whites?

[Insert Tables 7.1, 7.2, 7.3 and 7.4 here]

Since the seminal work of Kain (1968), many economists contend that the spatial fragmentation of cities can entail adverse social and economic outcomes. These adverse effects typically include the poor labor market outcomes of ghetto dwellers (such as high unemployment and low income) and a fair amount of social ills (such as low educational attainment and high local criminality). Even though there is no general theory of ghetto formation, there has been a series of theoretical and empirical contributions, each giving a particular insight into some of the mechanisms at stake.

An interesting line of research revolves around the “spatial mismatch hypothesis”, which states that because minorities are physically distant from job opportunities, they are more likely to be unemployed and obtain low net incomes. Table 7.5 documents these features using Raphael’s and Stoll’s (2002) measure of spatial mismatch. The authors measure the spatial imbalance between jobs and residential locations using an index of dissimilarity, which

ranges from 0 to 100, with higher values indicating a greater geographical mismatch between populations and jobs within a given metropolitan area. For instance, a dissimilarity index of 50 for blacks means that 50 percent of all blacks residing in the metropolitan area would have to relocate to different neighborhoods within the metropolitan area in order to be spatially distributed in perfect proportion to jobs. Table 7.5 shows that in the largest metropolitan areas in the US, access to jobs for blacks is quite bad (especially in Detroit and New York).

[Insert Table 7.5 here]

Surprisingly, the numerous empirical works that have tried to test the existence of a causal link between spatial mismatch and the adverse labor-market outcomes of minorities (see the surveys by Holzer, 1991; Kain, 1992; Ihlanfeldt and Sjoquist, 1998; Ihlanfeldt, 2006; Zenou, 2008c) are not based on any theory. The typical approach is to look for a relationship between job accessibility and labor-market outcomes for blacks, using various levels of aggregation of the data: individual level, neighborhood level and metropolitan level. Most papers have shown that bad job accessibility deteriorates labor-market outcomes, thus confirming the spatial mismatch hypothesis.^{14,15} However, following three decades of empirical tests, it is only in the late 1990s that theoretical models of spatial mismatch have begun to emerge. This is why most theoretical models have not yet inspired any specific empirical tests (Zenou, 2006b; Gobillon, Selod, and Zenou, 2007).

How can we proceed in constructing a model consistent with the empirical regularities described in the above tables? Theoretical models of urban labor markets in which unemployment is endogenous must be developed. The aim of this part is precisely to use the urban and the search and efficiency wage models developed in the first two parts of this book to

¹⁴There are, however, econometric problems since residential location is endogenous because families are not randomly assigned a residential location but instead choose it. Indeed, self-selection and unobserved heterogeneity (for example unobserved productivity such as motivation or perseverance) rather than distance to jobs may explain why black workers have adverse labor market outcomes. Åslund, Östh, and Zenou (2008) have recently overcome this problem by exploiting a quasi-natural experiment based on a policy in Sweden under which the government assigned refugees to neighborhoods with different degrees of geographic job accessibility. They find that immigrants who in 1990-91 were placed in a location surrounded by few jobs had difficulties of finding work also after several years in 1999. Doubling the number of jobs in the initial location in 1990-91 is associated with 2.9 percentage points higher employment probability in 1999.

¹⁵Most empirical studies are using US data. Very few are European. Exceptions include Thomas (1998), Fieldhouse (1999), Patacchini and Zenou (2005), for the UK, Dujardin, Selod, and Thomas (2007), for Belgium, Gobillon, Magnac, and Selod (2008) for France and Åslund, Östh, and Zenou (2008) for Sweden.

better understand these empirical features and propose different policies aiming at fighting against high unemployment rates among black workers.

Chapters 7 and 8 will provide theories explaining the spatial mismatch hypothesis. In Chapter 7, we use the different urban search-matching models developed in Part 1 to provide some mechanisms of the spatial mismatch. A first mechanism is that workers' job search efficiency may decrease with the distance to jobs and, in particular, workers residing far away from jobs may have few incentives to search intensively. Moreover, for a given search effort, workers who live far away from jobs have few chances of finding 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 only allow 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 minimum amount of time searching for jobs and thus, their chance of leaving unemployment will be quite low.

In Chapter 8, we use the theoretical models of Part 2, i.e. the urban efficiency wage theory, to address the issue of the spatial mismatch hypothesis. In particular, we provide two main 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 a relatively lower productivity than whites. Second, using one of the models of Chapter 6, we show that, by skewing ethnic workers towards the city center, housing discrimination increases the number of applications for central jobs and decreases the number of applications for suburban jobs. As a result, those workers living in the central part of the city but working in the suburbs experience a lower unemployment rate and earn higher wages than ethnic workers living and working in the central part of the city.

The spatial mismatch hypothesis essentially focuses on distance to jobs and claims that it is the main reason for the adverse labor-market outcomes of ethnic minorities. However, in cities like New York, Chicago, or Philadelphia, ethnic minorities (especially blacks) reside

relatively close to jobs and still experience high rates of unemployment. This means that other aspects than distance to jobs may play a role in explaining these adverse labor-market outcomes. 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 that are not necessarily linked to distance to jobs. These typically revolve around local externalities in education (Benabou, 1993; Borjas, 1995), labor discrimination (Coate and Loury, 1993; Altonji and Blank, 1999), crime (Glaeser, Sacerdote, and Scheinkman, 1996; Zenou, 2003; Verdier and Zenou, 2004; Raphael and Sills, 2006), housing discrimination (Yinger, 1986; 1997), social distance, social capital and social networks (Akerlof, 1997; Calvó-Armengol and Jackson, 2004).

In order to explain the adverse labor market outcomes of black workers living in segregated areas, we will focus on the last aspect in Chapter 9, namely the importance of social networks in the labor market and show how they are linked to urban segregation. Indeed, individuals seeking jobs read newspapers, go to employment agencies, browse on the web and mobilize their local networks of friends and relatives. Empirical evidence indeed suggests that about half of all jobs are filled through contacts. Sociologists and labor economists have produced a broad empirical literature on labor market networks. In fact, the pervasiveness of social networks and their relative effectiveness vary with the social group considered. For instance, Holzer (1987, 1988) shows that among 16-23 year old workers who reported job acceptance, 66% use informal search channels (30% direct applications without referral and 36% friends/relatives), while only 11% use state agencies and 10% newspapers.¹⁶ Networks of personal contacts mediate employment opportunities which flow through word-of-mouth and, in many cases, constitute a valid alternative source of employment information to more formal methods.

Geographical space is linked to social space, however. Topa (2001) argues that the observed spatial distribution of unemployment in Chicago is consistent with a model of local interactions and information spillovers, and may thus be generated by an agent's reliance on informal methods for job search such as networks of personal contacts. Bayer, Ross, and Topa (2009) also document that people who live close to each other, defined as being in the same census block, tend to work together, that is, in the same census block. As a result, residential segregation may be harmful to ethnic minorities (Cutler and Glaeser,

¹⁶See also Corcoran, Datcher, and Duncan (1980) and Granovetter (1995).

1997) because it deteriorates their social networks and limits their information about jobs (Wilson, 1996; Ihlanfeldt, 1997; O'Reagan and Quigley, 1998; Conley and Topa, 2002).

In Chapter 9, we will see that if ethnic minorities are physically separated from the majority group, they are likely to experience high unemployment rates which, in turn, will affect the quality of their social network. There is a vicious circle of high unemployment rate, segregation and poor social networks in which ethnic minorities are trapped.

Table 7.1. Unemployment rates (%) in 2000

	Central City	Suburbs
Los Angeles–Long Beach	5.9	4.9
New York	5.7	3.0
Chicago	5.5	3.4
Boston	2.7	2.1
Philadelphia	6.4	3.1
Washington	4.3	2.0
Detroit	6.1	2.5
Houston	5.0	3.2
Atlanta	4.7	2.6
Dallas	3.8	2.5
Ten Largest MSAs	5.4	3.0

Source: Calculated by Gobillon et al. (2004) from the Census

Table 7.2. Percentage of blacks by location in 2000

	Central City	Suburbs
Los Angeles–Long Beach	11	8
New York	24	12
Chicago	33	8
Boston	11	2
Philadelphia	43	9
Washington	44	22
Detroit	70	6
Houston	24	10
Atlanta	61	25
Dallas	23	9
Ten Largest MSAs	27	11

Source: Calculated by Gobillon et al. (2004) from the Census

Table 7.3. Distribution of jobs and people in 1994 (in %): Pooled sample of MSAs

	Central City			Suburbs			
	Total Central City	Black Central City	White Central City	Total Suburbs	Black Suburbs	Integrated Suburbs	White Suburbs
All Jobs	25.2	7.6	6.2	74.8	3.0	7.0	64.8
Low-skill Jobs*	20.4	10.2	2.7	79.6	2.7	7.5	69.4
People (25 years and older) All people	27.2	10.1	6.9	72.8	2.5	11.2	59.1
Black	65.3	57.1	5.3	34.8	10.4	6.6	17.8
White	13.1	2.5	6.3	86.9	1.8	8.7	76.4
H.S. dropouts Black	76.3	67.5	5.0	23.6	7.1	4.2	12.3
H.S. dropouts White	22.2	4.4	10.0	77.9	2.1	10.2	65.6
H.S. dropouts Total	44.8	15.6	7.7	55.2	2.1	12.5	40.6

Source: Stoll, Holzer and Ihlandfeldt (2000)

*No High School (H.S.) diploma, no experience of training, no reading, writing, math.

The black (white) central city is defined as that area within the central area with contiguous census tracts of blacks (whites) representing 50 percent or more of the population. The black (white) suburbs is defined as that area within the suburbs with contiguous census tracts of blacks (whites) representing 30 (80) percent or more of the population. The remaining suburban census tracts are defined as integrated suburban areas.

Table 7.4. Percentage jobs in central city and average annual growth rates of jobs by workplace, 1980-1990

	% Job (Central City) 1980	% Job (Central City) 1990	Growth Rate (Central City) 1980-1990	Growth Rate (Suburbs) 1980-1990
Los Angeles – Long Beach	51	51	1.9	2.1
New York	91	89	1.1	3.3
Chicago	50	44	-0.2	2.3
Boston	46	41	0.6	2.4
Philadelphia	41	35	-0.0	2.4
Washington	46	38	1.4	4.5
Detroit	38	28	-2.1	2.5
Houston	78	72	1.0	3.9
Atlanta	35	25	0.9	5.6
Dallas	69	60	1.4	5.6
Ten Largest MSAs	57	51	0.8	3.0

Source: Calculated by Gobillon et al. (2004) from the Census

Table 7.5. American MSAs with the worse spatial mismatch for blacks in 2000

	Blacks			Whites			Total Population
	% Pop	SM	% Un	% Pop	SM	% Un	
Atlanta, GA MSA	29	54	8.98	63	40	3.09	4,112,198
Baltimore, MD, PMSA	27	52	11.69	67	37	3.05	2,552,994
Chicago, IL PMSA	19	69	17.27	66	34	4.18	8,272,768
Cleveland-Lorain-Elyria, OH, PMSA	19	62	14.09	77	31	4.17	2,250,871
Detroit, MI, PMSA	23	71	14.89	71	36	4.27	4,441,551
Houston, TX, PMSA	17	57	10.85	61	40	4.46	4,117,646
Los Angeles-Long Beach, CA, PMSA	10	62	15.57	49	37	6.64	9,519,338
Miami, FL, PMSA	20	65	13.44	66	36	6.23	2,253,362
New York, NY, PMSA	25	70	14.63	49	44	5.61	9,314,235
Newark, NJ, PMSA	22	65	13.90	66	34	3.96	2,032,989
Oakland, CA, PMSA	13	55	12.08	55	37	3.95	2,392,557
Philadelphia, PA-NJ, PMSA	20	64	13.93	72	34	4.47	5,100,931
Saint Louis, MO-IL, MSA	18	63	14.21	78	38	4.11	2,603,607
Washington, DC-MD-VA-WV, PMSA	26	56	8.64	60	42	2.63	4,923,153

Source: Raphael and Stoll (2002) and Census (2000), calculations from Selod and Zenou (2005).

% Pop: Percentage of (black or white) individuals in the population in the MSA or PMSA.

SM: Measure of the Spatial Mismatch (for black or white) between people and jobs using the Raphael's and Stoll's (2002) dissimilarity index.

% Un: Percentage of (black or white) male unemployed in the MSA or PMSA.