

Neighborhood-level unemployment trends

Although the unemployment rate in U.S. metropolitan areas has trended downward over the last several decades, urban unemployment has grown more geographically concentrated. In other words, the Nation's metropolitan areas have become divided into neighborhoods of relatively high unemployment and those of relatively low unemployment. In the Federal Reserve Bank of St. Louis *Review*, Christopher H. Wheeler seeks to explain the trend by analyzing unemployment at the neighborhood (block group) level using data from the Census of Population for 1980, 1990, and 2000. Wheeler considers three possible explanations for the trend: 1) urban decentralization (changes in urban population density and suburban sprawl), 2) industrial shifts and declining unionization, and 3) increased geographic segregation by levels of income and educational attainment. He finds little support for the first two explanations, but considerable evidence for the third.

Specifically, Wheeler's results show little relation between increased concentrations of unemployment and changes in population density, union coverage, or industrial composition. At the same time, the results show "a strong positive association between unemployment concentration and measures of segregation according to income and (college) education across neighborhoods." Wheeler concludes that increased concentrations of urban unemployment are closely related to an increase in residential sorting among households by level of income and educational attainment.

Wheeler attempts to measure "the degree to which unemployment is spatially concentrated" in two ways.

First, he computes the differences between three different percentiles (90th, 50th, and 10th) of the distribution of unemployment rates at the neighborhood level; higher differentials mean greater disparity. Second, he computes an "index of dissimilarity," which measures the extent to which unemployed persons are unequally distributed in a city's neighborhoods. The index basically calculates the portion of the unemployed that would have to move for unemployment to be distributed equally in a given area. Both measures increased over the period from 1980 to 2000.

To test his hypothesis, Wheeler constructs a statistical model to measure the extent to which increased unemployment concentration is associated with changes in population density, industrial composition, union membership, and level of income and education. The model also controls for demographic characteristics such as race, age, gender, and immigration status. Areas with large populations of young people (less than 24 years) or older persons (more than 65 years), for example, tend to have relatively high concentrations of unemployment. Areas with large numbers of foreign-born workers, by contrast, tend to have lower concentrations of unemployment. Wheeler also demonstrates that very little association exists between unemployment concentration and suburban sprawl, declining unionization, or industrial shifts. At the same time, his tests reveal a strong correlation between changes in the amount of residential segregation by income and education level and geographic concentrations of unemployment.

Wheeler notes that his findings are especially interesting, given that the literature argues that a person's

labor market outcomes are closely related to his or her place of residence. He suggests that increased concentrations of unemployment might help explain other trends in the U.S. economy, such as rising income and earnings inequality and increasing unemployment duration.

Big firm-small firm redux

In the Federal Reserve Bank of Kansas City *Economic Review*, Kelly Edmiston compares the roles of small and large firms in local economic development. He cautions against "smokestack chasing," luring large companies with tax abatements and other subsidies, on two grounds. First, the net creation of jobs can often be much smaller than the direct employment in the new facility. Negative spillovers including labor supply constraints, upward wage pressure, and congestion, may outweigh the positive externalities of supplier employment, more consumer spending, and knowledge transfers. Second, local public services can be constrained if fiscal incentives are offered to the new firm and, as a result, non-subsidized firms may be discouraged or even driven out.

Edmiston is not a one-dimensional small business advocate, however. He also shows that large firms often offer better jobs, as measured by wages, benefits, and stability. While he admits that small firms are important innovators in today's economy, he also concludes, "There is no clear evidence that small businesses are more effective innovators." In the end, Edmiston restates the new wisdom for economic developers: "... an attractive and supportive environment that might enable any business, whether large or small, to flourish." □