

Urban economics

What can economics tell us about cities? What can be learned by applying the tools of economics to urban issues such as housing and poverty? Why do people choose to live so close to each other?

Edward L. Glaeser gives an overview of urban economics in, “The Economics Approach to Cities” (National Bureau of Economic Research, Working Paper 13696).

Urban economics, the author says, is based on the study of the spatial equilibrium that develops as employers, workers, and builders answer the question, “Where?”: Where to live, where to do business, where to build? Much like the old real estate maxim — “location, location, location” — location choice is central to urban economics.

In a spatial equilibrium, the advantages (for a worker or employer) of a given location are balanced by that location’s disadvantages; something good is offset by something bad. For a worker, a residential location with a short commute will be expensive; for an employer, high productivity is offset by high wages.

In the urban economist’s models, no benefit is gained by a change of location once spatial equilibrium is reached. The worker seeking a less expensive home will endure a longer commute. The firm moving to a lower-wage location will end up with lower productivity. Such urban economic models can be used to analyze housing prices at varying distances from the city center.

Some geographical advantages have changed with changes in technology. As transportation technology has made shipping costs relatively lower, the advantages associated with

locations around inland waterways have diminished. Witness the decline in manufacturing employment in cities that were centers of manufacturing in decades past, and note the concomitant decline in wages.

Today’s high-wage cities are those that attract professionals in business services. With teeming populations of highly-educated people, these cities become “incubators of innovation.” How to attract firms in these industries is the problem for forward-looking mayors. Not an easy thing to do. As the author concedes, no one really knows exactly what things attract a skilled population to a city.

The high school graduation rate

The U.S. high school graduation rate—the proportion of the population that has graduated from high school—is an important social and economic statistic. It has long been understood that more education generally means greater prosperity, on both an individual and societal level. A high school diploma is often considered the minimum level of education needed in today’s competitive labor market. Throughout much of the 20th century, the high school graduation rate steadily increased, with the members of each successive generation more likely to have graduated from high school than those in the preceding one. In the last several decades, however, the rate has risen more slowly and, according to some measures, it has even declined. In addition, since the early 1970s, the gap in earnings between high school graduates and dropouts has grown considerably. Not surprisingly, then, education as an issue features promi-

nently in public debate.

In a recent study from National Bureau of Economic Research, economists James J. Heckman and Paul A. LaFontaine of the University of Chicago examine the issue from a variety of perspectives. The authors analyze data from several prominent national surveys in an attempt to measure the high school graduation rate more accurately. According to the National Center for Education Statistics, for example—whose statistic the authors call the “official rate”—U.S. high schools graduated nearly 88 percent of students in recent years. But Heckman and LaFontaine cite other sources that show the rate as low as 66 percent, which they say is an “astoundingly wide range for such a basic statistic.” One important difference among the rates pertains to whether or not GED recipients are counted as high school graduates. In addition, the gap in the graduation rates of the majority population and those of minorities has grown. Among their other findings, the authors conclude that the high school graduation rate actually peaked at about 80 percent in the late 1960s and has dropped by 4 or 5 percentage points since then. They also find that the rate for blacks and Hispanics, at around 65 percent, is substantially lower than the rate for non-Hispanic whites. □

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