

A beautiful city means productive workers

What are the qualities that draw you to a city? Is it the sunny skies or the snowy slopes? Maybe it is a thriving restaurant scene or an emerging arts culture. For years economists and policymakers alike have analyzed the relationship between leisure amenities and the attraction of people and jobs to certain cities, hoping to unlock the key to urban growth and development. Economist Gerald Carlino has an intriguing new take on the subject in his article “Beautiful City,” published in the third quarter 2009 edition of the Federal Reserve Bank of Philadelphia’s *Business Review*.

In a 2008 study conducted with his research partner Albert Saiz, Carlino found a positive correlation between the number of leisure tourists who visited a city in the 1990s and the growth of both employment and population during the same period. The study shows that leisure amenities—such as historic districts, architectural beauty, and variety in cultural and recreational opportunities—are important for an area’s growth, even after the researchers controlled for

a city’s proximity to a coast and for a city’s climate, which are two advantages that cannot be reproduced. For example, in the 1990s population growth was about 2.2 percentage points higher and employment growth was 2.6 percentage points higher in a city with twice as many tourists as another city. Carlino and Saiz also found evidence of acceleration in house-price appreciation and rent growth in cities with more tourists. A city with twice as many tourists as another city has a 2-percentage-point higher house price appreciation and a 1.3-percentage-point higher rent growth.

Citing many shortcomings in the quality-of-life approach to assessing a city’s potential, Carlino and Saiz use “a more encompassing measure of the demand for urban amenities that stems from a revealed preference for these amenities as represented by the number of leisure tourists who visit a metropolitan area.” The qualities that attract tourists to an area—culture, ambiance, architecture, pleasant public spaces, scenic beauty, and so forth—attract households to cities when they decide to make these places their permanent homes.

Carlino and Saiz believe that the association between leisure amenities and growth may occur because such amenities disproportionately attract more productive workers. A city with twice the level of tourists as another city has a 0.3-percentage-point increase in the growth rate of the share of the population with at least a college education.

While past studies have focused mainly on the relationship between city growth and business agglomeration economies, Carlino notes that, with technological advances in communication and transportation, businesses have more freedom than ever before to choose their locations. He implies that businesses today decide where to locate on the basis of where their workers choose to live.

But why are leisure-related amenities associated with economic growth? Carlino suggests that “beautiful cities” are attractive to high-skill workers—and it is especially these workers who are known to stimulate both employment and population growth. Highly educated individuals are highly productive workers who, in turn, enhance the productivity of their coworkers. □