Models of household location and urban amenities - DTU Orbit (06/12/2018)
Models of household location and urban amenities: HELP International report nr. 3 - Higher Educated Location Preferences (HELP)

1.1 Skilled workers and regional development
The research carried out in the HELP project concerns the importance of urban amenities for the location choices of highly educated workers. Why is this important? A general answer to this question is that such workers are generally regarded as being the drivers of economic prosperity and growth in cities. In this introductory section we discuss some evidence that motivates this idea.

In ‘The Economy of Cities’ Jane Jacobs (1970) puts forward the thesis that human interaction is a crucial aspect of urban economies. Economists such as Lucas (1988) picked up this idea, which they interpreted as human capital externalities. That is, interaction between educated individuals generates benefits for society that exceed those accruing to the individuals. The high population density in cities stimulates such interactions, which can alternatively be viewed as a kind of agglomeration economies. Cities thus become more productive places and this process works continuously and generates growth. Empirical evidence in favor of this hypothesis was provided by Rauch (1993) who estimated that an additional year of schooling of the labor force in an urban area gave rise to an increase in total factor productivity of 2.8%. Later studies include Glaeser and Maré (2001), who find that workers moving to the city realize important wage gains, especially when they are young. They do not lose these gains when they later move to rural areas, which suggests that their sojourn in the city has permanently increased their productivity.

1.2 Consumer city
If it is true that the interaction of highly educated workers generates substantial external effects, it is clearly important for urban policy makers to know how they can attract such workers and, when they are present, make them stay. An important contribution to the economic literature on this issue was made by Roback (1982). The basic idea of this paper is that of equilibrium: if identical workers live at different locations, they must be equally well-off in all of them. The well-being of workers depends on wages, but also on the price of consumer goods, including housing, and on the presence of local amenities. There is a trade-off between these determinants: workers can, for instance, be compensated for high house prices by higher wages or better amenities. Workers can only be attracted to cities if there are jobs and although local labor markets may differ in many respects, it is generally the case that higher wages lower the demand for workers. However, if a city has good amenities it may continue to attract highly educated workers even when wages are not that high. This reasoning thus suggests an important connection between urban amenities and economic prosperity.

Although urban economic theory has traditionally regarded the city primarily as the location of jobs, increasing attention is paid to the importance of consumer amenities for urban life. A pioneering contribution was Brueckner et al.’s (1999) answer to the question why central Paris is rich while downtown Detroit is poor. Amenities make the difference, according to the theory developed by these authors. When the central city is attractive high income households are willing to pay a lot for living there and contribute to a vital central city, whereas the lack of amenities make the rich choose for luxury houses in the suburbs with the risk of a desolate inner city. Another seminal study is Glaeser et al. (2001), who provide a large amount of empirical evidence that suggests that consumer amenities are important for cities. Later studies include Van Duijn and Rouwendal (2013), who show that cultural heritage – they use ancient inner cities as a proxy – is indeed an important attractor of cities. Their sorting model is of the same type as those used in this report.

The external effects generated by the interaction of highly educated workers may mitigate this effect, but should not be expected to provide full compensation.

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