Editors' Summary

The *Brookings-Wharton Papers on Urban Affairs* presents new research to a broad audience of interested policy analysts and researchers. The papers and comments contained in this volume, the fifth in the series, were presented at a conference at the Brookings Institution on October 23 and 24, 2003. The conference amply displays the breadth of issues that fall under the rubric of urban economics and includes topics as diverse as the influence of the 1960s riots on long-term outcomes in urban labor markets, alternative explanations for the increasing attraction of people to cities with greater human capital, the role of educational policies in determining residential location choices, the effects of immigrants on the housing opportunities available to native renter households, the impact of states' parole practices, and the effects of larger urban markets on the diversity of television programming.

The Labor Market Effects of the 1960s Riots

William J. Collins and Robert A. Margo investigate the impact of the 1960s riots on long-term labor market outcomes. Although many studies have examined the determinants of race-related civil disturbances in the 1960s, few have explored the consequences.

Collins and Margo analyze riots as natural disasters with direct and indirect effects on the level and location of economic activity. While direct effects of destroyed physical capital may be small, the economic

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impact may be magnified by indirect effects felt over a long time. The authors envision a process of potential self-reinforcing decline as a result of a riot. For a business owner whose property is damaged, potential costs might rise because of higher security expenses and insurance premiums. Potential benefits of remaining in business may decline if customers avoid the area. As businesses decide to close, business revenues and personal income may fall; tax revenues and thus public services may decline; and falling rental and property values may increase poverty. For the population unable to relocate, a new labor market equilibrium may ensue with fewer employed workers, lower wages, and fewer residents with high human capital.

To identify the effects of riots, they cite the work of Seymour Spilerman, who shows that black population size and region were the two most important explanatory factors in predicting the incidence and severity of riots. They also use a two-stage approach, with the number of days of rain in April 1968 used as an instrument. The authors show that just 6 of 752 riots accounted for roughly 60 percent of the total fatalities.

Drawing from both city and individual-level data, the authors conclude that riots were associated with slower subsequent income growth for blacks and that cities that experienced riot-related relative declines in income during the 1960s did not catch up during the 1970s. Cities that had riots had relatively large subsequent increases in the share of the city population that was black. The onset of severe riots did not affect the likelihood of employment for black men between 1950 and 1970 but caused a 3 to 4 percentage point decline in the 1970s in the employment rate of black men in cities affected by severe riots.

Several hypotheses may explain the relative declines in income. The riots may have hurt the labor market outcomes of people living in the riot cities during the 1960s and 1970s; relatively high-income individuals may have moved out, leading to a decline in average income; and family units may have disintegrated faster in cities stricken by riots than elsewhere.

The Rise of the Skilled City

Between 1980 and 2000, the population of metropolitan areas where less than 10 percent of adults had college degrees in 1980 grew on average by 13 percent. In areas where more than 25 percent of adults in 1980 had college degrees, average population growth was 45 percent. Similar trends have occurred during the past one hundred years in both Britain and the United States. Edward L. Glaeser and Albert Saiz explore alternative explanations of these trends.

The first question is whether the relationship demonstrates that growth causes increases in skills or that increases in skills cause growth. The authors test for causation using a panel of metropolitan areas and cities during the past three decades. They find generally that increases in skills cause growth but also acknowledge that there is at least some potential for reverse causality.

The second question is whether skills cause growth by raising consumption or production. To examine this question, the authors show that production-led growth raises population and increases wages and house prices, whereas consumption-led growth raises population but reduces real wages. When Glaeser and Saiz return to their panel of metropolitan areas and cities, they find that an increase in the share of the population that is college educated is associated with an increase in housing prices during the following decade. That is, they conclude that the connection between education and growth at the metropolitan level is driven primarily by productivity growth rather than amenity growth.

The third question, then, is why more skills lead to productivity growth. One hypothesis is that higher skills lead to more rapid technological change. The authors reject this hypothesis, however, by showing that variations in patenting activity do not explain the relationship between human capital and growth across cities. They develop an alternative explanation, namely, that more educated cities are better able to respond to changing economic events. To support this view, they show that among cold, Rust Belt manufacturing cities, those with high human capital made greater shifts out of manufacturing during the past several decades than those with lower human capital.

School Funding Equalization and Residential Location for the Young and the Elderly

Christian A. L. Hilber and Christopher J. Mayer investigate the impact of school funding equalization (SFE) policies on the location choices of households. Using census data from 1970 to 2000, the authors show that the concentration of households with children and the elderly has changed little across states, but low-income households have become increasingly concentrated in a few states. Within states, the elderly, nonwhites, and households with children have experienced the most deconcentration. This evidence supports the idea of the weakening importance of Tiebout sorting at the local level.

They find that households with children tend to locate in states with higher spending levels and where local revenues fund a greater percentage of total school spending relative to state sources of revenue. The SFE indicators like maximum inverted tax price and minimum foundation tax rate have little impact on location of households with children across states. For poor households with children, however, a high minimum foundation tax rate—a high floor on spending of local schools—proves attractive to households as they choose where to live.

As the share of elderly households is expected to grow in the United States during the next decades, research suggests spending on local public schools will suffer. This effect is likely to vary depending on the nature of state-level policies. States with local control and little redistribution are attractive to middle- and high-income households but not to low-income households. In states with considerable redistribution, wealthier households with children and elderly households have fewer reasons to avoid low-income places, resulting in less concentration of poor households and less separation of young and elderly population. They conclude that school services play an important role in residential location choices, and Tiebout sorting may partially mitigate the risk that a growing elderly population poses to support for public schools.

The authors find that Tiebout sorting by many household characteristics has been decreasing over time, but local public schools are an important element in residential location decisions. Since many states have passed school finance equalization packages, which seem to lead to reduced concentrations of households with children and poor households with children, school funding may help to explain the apparent reduction in Tiebout sorting in the past few decades.

The Anatomy of Rent Burdens: Immigration, Growth, and Rental Housing

Since 1970, immigration has accounted for roughly one-quarter of U.S. population growth in the United States, and the foreign-born population rose from 5 percent of the resident population then to more than 10 percent in 2000. During the same period, median rent burdens rose in the United States, especially among the lowest-income households. Erica Greulich, John M. Quigley, and Steven Raphael examine the relation between these trends.

Several factors suggest that immigrants may put pressure on low-income rental housing markets. Immigrants are disproportionately concentrated in a small number of states and a handful of metropolitan areas, they tend to have less education and lower income than natives, and are more likely to reside in rental housing.

Despite all of these factors, the authors find little evidence that immigration raises rent burdens. This conclusion is drawn from a series of tests that examine changes in immigration and rental burdens within metropolitan statistical areas, across metropolitan areas, and over time. The somewhat surprising finding may be caused by factors such as declining poverty rates and increasing incomes for the poor during the 1990s. It may also be a result of the ability of native households to move in response to housing price changes or to the fact that immigrant populations tend to move from renter to homeowner status fairly quickly.

The Effect of Prison Releases on Regional Crime Rates

Between 1980 and 2000, the U.S. prison population increased from 300,000 to more than 1.2 million. During the same period, the number of exoffenders residing in the community increased from 1.8 to 4.3 million. Annually, there are large flows into and out of the state and federal prison systems. For example, in 1999 approximately 550,000 inmates were released from prison, 75 percent being conditionally released into state parole systems. Steven Raphael and Michael A. Stoll examine how the presence of parolees affects the incidence of violent and property felony crime.

They find increases in crime associated with increases in the parole population. The net increase in the population of exoffenders caused by prison releases during the previous year accounts for approximately 14 percent of murders and 7 percent of robberies in 1994, and about 2 percent of property crime in a typical year during the 1990s.

They also find that postrelease criminal behavior of paroled offenders is likely to be affected by the correction policies of individual states. For both violent and property crime rates, the marginal effect of an increase in parole rates is higher in states with weak or no parole boards than in those in which parole boards have power over parole decisions.

The analysis indicates that higher prison incarcerations reduce violent offenses. In comparing new prison admits and prison releases, the authors find that the groups have similar educational, gender, and racial characteristics, commit comparable offenses, and have similar sentence length distributions. But they also find that having a felony record and acculturating to the prison environment are likely to increase criminality after prison, while participation in prison programs and the aging of inmates are likely to reduce criminality.

Who Benefits Whom in Local Television Markets?

When production carries substantial fixed costs, the larger local markets afforded by urban areas can support more, more varied, and higher-quality products, which increases consumer welfare. Joel Waldfogel examines these issues in the context of the market for television programming, which is a mixed local and national medium.

The author draws from the Scarborough Prime Next dataset of product consumption patterns for 180,000 individuals surveyed in the second half of 1999 and second half of 2000 in sixty-six large U.S. markets. Viewers in all markets face the same prime-time national programming options and the same national cable options, but within each market, viewers face a range of locally controlled programs.

The data appear to show that preferences in media products divide sharply along racial lines and that local television programming is an equilibrating force. Local markets have large numbers of shows with overwhelmingly minority audiences compared with prime-time shows that attract national audiences that are, at most, a third black. Thus the local data seem to indicate the distance between black and white preferences and that local programming, far more than national programming, caters to those preferences. Waldfogel concludes that areas with higher shares of black or Hispanic populations have substantially more black- and Hispanic-targeted programming outside of prime time.

These results have implications for the welfare of urban consumers. When preferences differ across audience groups, the welfare of local media consumers depends on the size of the group in the local population. Waldfogel concludes overall that different racial groups prefer different television programming; that markets with a higher percentage of minorities have larger amounts of minority-targeted programming; minorities have a greater tendency to watch, and presumably derive more satisfaction from, television in markets with more minority-targeted programming. His conclusion is that increasing the minority share of a local population will raise the welfare of local minorities.