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Intra-metropolitan shifts in labor demand and the adjustment of local markets

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Abstract

I offer new evidence on the adjustment of local labor markets to geographic shifts in labor demand within US metropolitan areas using a unique data set in which metropolitan subregions are geographically matched across the 1970–1980 and 1980–1990 decades. The evidence uncovered paints the following picture. Workers, especially those with less education, make incomplete adjustments within metropolitan areas in response to intra-metropolitan demand shifts. Although blacks may not make especially limited adjustments, they have disproportionately suffered deleterious effects from job movements because the demand shifts have tended to be away from their places of residence.

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1. Introduction

According to Kain's [19] spatial mismatch hypothesis, the decentralization of employment in US cities has caused relative declines in the employment and earnings of inner-city blacks, whose ability to make complete residential adjustments is constrained. Yet, the extensive line of empirical studies testing this hypothesis has focused primarily on cross-sectional comparisons, leaving changes in labor market outcomes largely unexamined. In this paper, I provide new evidence on the relationship between intra-metropolitan job movements and changes in labor market outcomes. Using Decennial Census of Population Data matched by geography over the 1970s and 1980s for a sub-

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set of metropolitan areas, I examine the effects of changing job locations on the employment and earnings of metropolitan area residents. In addition to estimating separate effects among blacks, I also measure the effects separately for several different demographic subgroups. Further, I implement an instrumental variables strategy using geographic variation in industry compositions to isolate the effects of intra-metropolitan demand shifts.

Two different strands of literature provide relevant theoretical models. The spatial mismatch literature offers some depictions of how job movements can affect residentially constrained workers in an urban setting. In Brueckner and Zenou [8], blacks are at first residentially concentrated in the central city (due to a lower land consumption and a consequently steep bid-rent curve). When jobs exogenously decentralize, housing discrimination in the suburbs prevents blacks from following these job movements. The resulting mismatch causes central-city blacks to undergo diminished wages and, under an efficiency wages regime, increased unemployment. Arnott [2] establishes a general equilibrium framework in which discrimination forces blacks to live in the central city, from which commuting to the suburbs is costly. He suggests but does not fully explore comparative statics experiments in which exogenous factors such as changes in the technology of transportation cause exogenous increases in the demand for labor in the suburbs relative to the central city. Gobillon et al. [10] offer a review of several other recent papers describing how job decentralization may adversely affect labor market outcomes among residentially constrained workers.

A second strand of the literature has modeled the effects of movements of labor demand between less proximate local labor markets, such as those native to different states or metropolitan areas. Topel [33] describes the spatial equilibrium occurring between locales and shows that geographic labor demand shocks affect equilibrium wages, especially among less mobile populations. Blanchard and Katz [4] model the dynamics of local employment, population, unemployment and wages. In their model, wages and unemployment rates respond to shocks in the short run but are unaffected in the long run. Bound and Holzer [6] also differentiate between the short- and long-runs, but emphasize that demand shocks will have different impacts on differently mobile groups of workers; they also explicitly describe a means by which nationwide shocks to different industries can generate such local labor demand shocks.

The literature studying demand shifts between distant labor markets has provided various empirical estimates of the shifts' effects on labor market outcomes of different workers [3,4,6,33]. But this literature has not explored the dramatic spatial variation in job growth *within* metropolitan areas. Meanwhile, empirical studies of spatial mismatch have most frequently related wage or employment levels at a single point in time to measures of proximity to jobs, job growth, or the city's center (Ellwood [9], Ihlanfeldt and Sjoquist [16,17], Ihlanfeldt [15], Raphael [28], Weinberg [34,35]).

These cross-sectional estimates of spatial mismatch may not very well approximate changes over time in job location and their effects. The employment and earnings *levels* among residents of the central-city or a particular neighborhood may reflect long-standing characteristics of the area or its population. In measuring the recent *changes* in labor market outcomes, levels estimates will confound such long-standing characteristics with the object of interest. More specifically, the literature on inter-urban

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