

# Does City Structure Affect Job Search and Welfare?<sup>1</sup>

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We develop a model in which workers' search efficiency is negatively affected by access to jobs. Workers' location in a city is endogenous and reflects a trade-off between commuting costs and the surplus associated with search. Different configurations emerge in equilibrium; notably, the unemployed workers may reside far away (segregated city) or close to jobs (integrated city). We prove that there exists a unique and stable market equilibrium in which both land and labor markets are solved for simultaneously. We find that, despite inefficient search in the segregated city equilibrium, the welfare difference between the two equilibria is not so large due to differences in commuting costs. We also show how a social planner can manipulate wages by subsidizing/taxing the transport costs and can accordingly restore the efficiency. © 2002 Elsevier Science (USA)

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## 1. INTRODUCTION

The urban economics literature has often focused on the existence of areas of high poverty and high criminality, namely the ghettos. The geographic position of these areas within cities coincides in general with high unemployment and, more precisely, with the absence of jobs in the areas surrounding the ghettos. The labor market is thus a very important channel of the transmission and persistence of poverty across city tracts. In the United States, there has been an

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important empirical debate revolving around this issue. The spatial mismatch hypothesis, first developed by Kain [16], stipulates that the increasing distance between residential location and workplace is very harmful to black workers and, with labor discrimination, constitutes one of the main explanation of their adverse labor market outcomes.

Since the study of Kain, dozens of empirical studies have been carried out trying to test this hypothesis (surveyed by Holzer [9], Kain [17], and Ihlanfeldt and Sjoquist [13]). The usual approach is to relate a measure of labor-market outcomes, based on either individual or aggregate data, to another measure of job access, typically some index that captures the distance from residences to centers of employment. The weight of the evidence suggests that bad job access indeed worsens labor-market outcomes, confirming the spatial mismatch hypothesis. The economic mechanism behind this hypothesis is, however, unclear. Some tend to argue that black workers refuse to take jobs involving excessively long commuting trips (Zax and Kain [32]). Others think that firms do not recruit workers who live too far away from them because their productivity is lower than those residing closer (see, e.g., Zenou [34]). In the present paper, we propose an alternative approach to explain the spatial mismatch hypothesis: we develop a model based on job search in which distance to jobs is harmful because it negatively affects workers' search efficiency. It is indeed our contention that search activities are less intense for those living further away from jobs because the quality of information decreases with the distance to jobs. On the contrary, individuals who reside close to jobs have good access to information about these jobs and are in general more successful in their job search activities.

This view is consistent with empirical studies. Indeed, Barron and Gilley [1] and Chirinko [4] have shown that there are diminishing returns to search when people live far away from jobs whereas Van Ommeren *et al.* [28] have found that people who expect to receive more job offers will generally not have to accept a long commute. Rogers [22] have also demonstrated that access to employment is a significant variable in explaining the probability of leaving unemployment. Finally, Seater [24] have shown that workers searching further away from their residences are less productive in their search activities than those who search closer to where they live.

Our first task is thus to analyze the interaction between job search and the location of workers vis-à-vis the job centers, in a framework where two urban configurations can emerge: a "segregated city" equilibrium in which the unemployed workers reside far away from jobs and an "integrated city" equilibrium in which the unemployed workers are close to jobs. The predominance of one equilibrium over the other strongly depends on the differential in commuting costs between the employed and the unemployed, and on the expected return of being more efficient in search. We show that there exists, for each urban

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