

How the Geography of Jobs Affects Unemployment

Why job accessibility is limited for some groups and what it means for anti-poverty policies BY FRANK MURACA

In postwar America, many families moved away from urban centers into the rapidly developing suburbs. Culturally, these new communities were associated with economic opportunity, signifying middle-class values and upward mobility.

The path to economic mobility is no longer a highway leading from downtown to the suburbs. For example, the number of suburban residents in poverty may now exceed the number of urban-dwellers in poverty. According to the Brookings Institution, suburban poverty rose from 10 million in 2000 to 16.5 million in 2012, compared to an increase in urban poverty from 10.4 million to 13.5 million over the same period (see chart).

This geographic picture of opportunity and wealth adds complexity to questions about whether unfortunate circumstances, such as poverty, might be determined in part by where someone lives. To be sure, where one chooses to live is about more than job opportunities, which are weighed against housing options, commuting costs, lifestyle choice, social networks, and more. In equilibrium, housing prices and wages should make households indifferent among locations. In other words, some people might choose to live far away from jobs, possibly accepting a costlier commute, because they are “compensated” by factors such as lower housing costs.

But the places where people are distributed by market forces seem to lead, in some cases, to worse labor market outcomes. An explanation of those outcomes was first identified in 1968 as an account of how black unemployment rates were elevated by discriminatory housing policies. That explanation, commonly known as the “spatial mismatch hypothesis,” posits constraints on where people are able to live.

The scope of spatial mismatch research has broadened beyond discrimination. Researchers seek to understand the constraints that certain households face when deciding where to live, helping to explain phenomena like prolonged unemployment, lower wages, longer commutes, and geographically concentrated poverty. This research may shed some light on how anti-poverty programs could take geography into account to be more effective.

Why Geography Matters

During the 2000s and 2010s, jobs have been moving out of the city center. A Brookings Institution report in 2009 by Elizabeth Kneebone found that, between 1998 and 2006, 95 out of 98 metro areas saw a decrease in the share of jobs

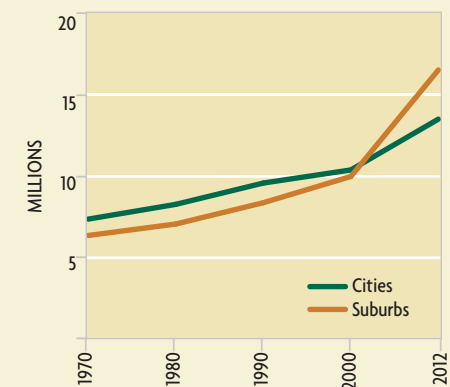
located within three miles of downtown. As of 2006, 45.1 percent of employees in the largest 98 metro areas worked more than 10 miles away from the urban center, compared with only 21.3 percent who worked within three miles of downtown. Kneebone concluded that there has been a trend of job decentralization regardless of whether a community has seen economic growth or stagnation.

“Job decentralization trends do not move in lock-step with the economic cycle; jobs continued to shift towards the fringe in almost every major metro area, regardless of overarching economic circumstances between 1998 and 2006,” wrote Kneebone. “Therefore, though the current downturn [in 2009] may slow the long-term trend, it is unlikely on its own to reverse the patterns documented here.”

A separate 2010 Brookings report by Steven Raphael, a public policy professor at the University of California, Berkeley, and Michael Stoll, a public policy professor at the University of California, Los Angeles, concluded that population and employment decentralization go hand in hand: People and jobs tend to follow each other. The degree to which this relationship holds is different for each demographic group, however. The tie between population and employment decentralization appears to be weakest for minority groups, with poor blacks being the least likely to follow jobs out into the suburbs. Additionally, poor minorities who do move out to the suburbs are more likely to live away from job-rich areas. Raphael and Stoll found that 72 percent of suburban whites lived in job-rich communities, while only 63 percent of blacks and 54 percent of Hispanics lived in such areas.

The magnitude of these correlations across demographic groups is far from certain, especially when considering the effect that the 2007-2009 recession has had on residential choices.

Poor Populations in Cities and Suburbs, 1970-2012



NOTE: Covers 95 large metro areas
SOURCE: Brookings Institution analysis of Decennial Census and American Community Survey data

But they are curious in light of the fact that unemployment rates also tend to be higher for these seemingly less mobile groups. Some minority groups have long had higher unemployment rates than whites — a pattern that continues today — with 4.8 percent of white workers unemployed as of December 2014 compared with roughly 6.5 percent of Hispanics and 10.4 percent of blacks.

The Spatial Mismatch Hypothesis

In 1968, John Kain, then an economist at Harvard University, was one of the first economists to draw a relationship between the geography of jobs and unemployment. Prior to his research, some economists had tried to measure the effect of discrimination on unemployment for blacks while others wanted to know the extent of racial discrimination in the housing market. Kain published an article in the *Quarterly Journal of Economics* titled “Housing Segregation, Negro Employment, and Metropolitan Decentralization,” in which he was one of the first to suggest that there could be a relationship between the two issues. “Possible interactions between housing segregation and nonwhite employment and unemployment have been all but ignored,” he wrote. Kain hypothesized that black unemployment may be affected by the high cost of reaching jobs outside residential areas, lower quality information networks, housing discrimination, and possible discrimination by employers outside black neighborhoods.

Spatial mismatch received more attention through the latter half of the 20th century with the rising social and economic problems of urban cores, and it has received renewed emphasis recently as jobs have migrated across the urban-suburban spectrum.

Measuring spatial mismatch, however, is not an easy task. Kain and other economists who have looked into this question have pointed to a number of challenges in trying to measure how geography plays into unemployment when there are many other non-geographical factors that go into hiring an employee. For example, residents of a community that is distant from a job-rich area might also have less education or job skills. Where does the impact of education stop and distance begin?

Moreover, we don’t necessarily know where a given person’s potential jobs are located. “One challenge in teasing out the relationship between job geography and individual labor market outcomes is that it is intrinsically difficult to characterize the relevant spatial distribution of job opportunities of an individual,” says Fredrik Andersson, an economist in the U.S. Treasury Department’s Office of the Comptroller of the Currency who has studied the issue.

Andersson is a co-author of a 2014 paper that attempts to control for many of these underlying variables by using recently released data on mass layoffs in certain communities. The conclusion of that research was that even while controlling for several different characteristics, including job search characteristics, residential choice, and commute times, prospective employees who live far from flourishing job markets have a much harder time finding work when

compared to those who are in close proximity to those job markets. Black workers were found to be 71 percent more sensitive to the distance of jobs than whites, and 35 percent more sensitive in finding a job that paid 90 percent of the earnings from their previous job. Though the extent to which certain groups are unable to follow jobs out into the suburbs is uncertain, enough evidence exists to ask why minorities, on average, do not relocate to job-rich communities to the extent whites have.

What Drives Spatial Mismatch?

While economists like Andersson have provided more evidence for the existence of spatial mismatch, other researchers have tried to understand the specific barriers that restrict certain groups, particularly ethnic minorities, from relocating to job-rich communities.

One barrier is information. Economists have considered whether living in certain geographic locations can reduce one’s information about possible job opportunities. Yves Zenou, an economist at Stockholm University, studied social networks in black communities that were geographically distant from job centers. Building on earlier research that studied networks and employment outcomes, Zenou concluded that minority communities have far less access to the kinds of relationships that lead to employment. Zenou found that ethnic communities relied more heavily on strong ties with those who are also more likely to be unemployed, and “it is therefore the separation in both the social and physical space that prevents ethnic minorities from finding a job.”

Another barrier is access to credit. Richmond Fed economist Santiago Pinto, in a 2002 article, studied how financial constraints might limit mobility for those who wish to move to job-rich areas. His research showed that restrictions on borrowing were an important factor in how households decided to move, and that those barriers were blocking labor from following jobs into suburban communities.

“It is commonly thought that individuals have only limited opportunities to borrow against future labor income,” Pinto says. “These constraints have consequences for moving decisions. This means that people who cannot borrow will be restricted in terms of their capability of changing residence location.”

Not all economists are convinced that geography is central to the story of minority unemployment. In 2008, David Neumark, an economics professor at the University of California, Irvine, University of Maryland economics professor Judith Hellerstein, and Melissa McInerney, now a professor at the College of William & Mary, offered an alternative to the spatial mismatch hypothesis: “The problem is not a lack of jobs, per se, where blacks live, but a lack of jobs into which blacks are hired.” They tested this hypothesis using data that compared the education levels needed for surrounding jobs and the education levels of workers in the local labor market. They found that black male employment was much more strongly associated with the density of jobs in which minorities had traditionally been employed than it was for whites.

The spatial mismatch hypothesis would predict the lower employment of blacks is attributed to the distance between available jobs and where blacks live. These researchers found that lower employment could be better explained by a lack of jobs that had historically been open to them. “Pure spatial mismatch is not an important component of lower black employment rates,” they wrote. “Instead the spatial distribution of jobs available to blacks — or racial mismatch — appears to be much more important.”

Of course, jobs are not the only drivers of residential choice. Andersson notes that the benefits of living closer to job-rich communities are dependent on the characteristics of the communities and individuals. “For instance, the boost in income from a low-paying job may not be sufficiently large for an unemployed worker if the job requires relocation to a more expensive community,” Andersson says.

Policy Implications

In the years after the spatial mismatch hypothesis was proposed, most economists studying the issue have found a robust relationship between job location and labor market outcomes and economic well-being. The magnitude of that relationship is still widely contested, but economists generally agree that spatial mismatch exists and is driven by a number of factors, including differences in job prospect networks, access to loans, and transaction costs.

Researchers who have studied spatial mismatch have prescribed a number of policy solutions to improving employment outcomes for disadvantaged communities. The question for policymakers is how to weigh such programs against their costs.

For example, it may be desirable to attack some sources of spatial mismatch for social reasons. In part, that’s what anti-discrimination laws do. Other causes of spatial mismatch may be cheap to reduce. For example, it may be relatively easy to improve the flow of information between communities, strengthening the network for employment knowledge.

Other proposed policies are more costly, making their net benefit less clear. Kneebone and Alan Berube of the Brookings Institution, in their 2013 book *Confronting Suburban Poverty in America*, argued that regional communities, both urban and suburban, should collaborate to develop ways of connecting high unemployment areas with high job density areas. Again, improving information could be a cheap way of doing so. More costly measures might include

expanding public transportation networks to connect certain populations with jobs.

Since credit constraints have been a concern, some states have piloted voucher programs to help people relocate to neighborhoods with greater job prospects. Maryland’s Live Near Your Work Program, launched in 1998, offered workers \$3,000, funded equally by the state, the city, and the employer, toward the purchase of a house located within five miles of the person’s workplace and within one of Maryland’s targeted residential development zones. Surveys from participants showed shorter commute times and a switch to less costly commuting habits, such as walking to work. The program’s funding ran out in 2002, but it survives in Baltimore, where as many as 200 people per year receive grants across nearly 85 participating employers. While the program benefited recipients, and may even have improved their labor prospects, it did so at a cost.

The tension of many programs countering spatial mismatch is that the costs of the effort are borne broadly but the benefits are enjoyed only by recipients. In that sense, spatial mismatch is largely a distributional consideration that policymakers have to evaluate like any other.

No matter the cost, what works for one area may not work for another. “From a theoretical standpoint, some local policies may serve as a coordination device that induces firms and individuals to locate in a specific area,” Pinto says. “The literature is, however, inconclusive about which specific policies are effective and can achieve the desired objectives. The literature on downtown revitalization programs has faced similar issues. While some policies seem to work in attracting households back to downtown areas in some specific locations, the same policies have been unsuccessful elsewhere.”

While it has been 46 years since Kain first highlighted the relationship between the geography of jobs and unemployment, many economists continue to debate the degree to which they are related, especially when considering specific demographic groups. Although there may be differences of opinion as to its magnitude, economists generally agree that spatial mismatch exists and is driven by a number of factors, including differences in job-related networks, access to loans, and transaction costs. Understanding the impact that residential location has on job availability may help policymakers find ways of limiting the barriers between affected communities and employment opportunities. **EF**

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