

Commentary

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The papers by Edward Glaeser and Matthew Kahn and by Edwin Mills are both provocative and deserve close attention. Mills' paper is broad, sweeping, and mostly prescriptive. Income inequality and earnings inequality have increased in the United States over the past twenty years. Should cities do anything about this trend, or in response to it? If so, what? Glaeser and Kahn's paper is somewhat more narrowly focused, and mostly descriptive. What explains the variation we see in the level of redistributive spending across cities? In particular, can we explain why New York City spends so much more than other cities, and why it spends much less today than it did in 1970?

What connects the two papers? One common theme is the problem posed by mobile resources. Cities cannot tax mobile industries or factors, and should not try. If they do, these industries and factors will simply move elsewhere. Drawing on the results from a companion paper (Glaeser, Kahn, and Rappaport 1999), Glaeser and Kahn show that greater resource mobility, variously measured, does in fact sharply reduce the amount of

redistribution. They also find evidence that mobility has increased significantly over the past twenty years. If the trend continues, then cities will be hard-pressed in the future to finance redistributive programs even at the levels they do today. This should please Mills, who argues: "Central cities should do everything they can to increase the supply of and demand for human capital within their borders. The only alternative is to place the emphasis on handouts, which are politically attractive in important respects but result in neither substantial incomes nor self-sufficient residents."

I will now make a few detailed remarks about each paper, and then return to the issue of mobile resources.

Mills argues that the primary long-run policy goal of each city should be to increase the overall human capital of the city's residents. The operational principle to achieve this goal was cited above: increase the supply of and demand for human capital inside the city borders. The strategies should include: (1) a "neutral pro-business policy"—no unneeded regulations, modest taxes, and transparent policies—to attract businesses; (2) a comprehensive school voucher program, to improve the quality of city schooling; (3) the legalization of drugs, to reduce crime (Mills' statement: "It is my belief that illegal drugs should be available at about cost, and in modest quantities, upon convincing an appropriate medical authority of need.");

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(4) the reduction of controls on residential development, to retain high-income residents; and (5) the privatization of urban mass-transit systems. (The federal government should also play a role, by sharply increasing fuel taxes.)

One may quarrel with each of the specific proposals. For example, the few school voucher programs that exist have produced ambiguous results (for example, there are raging academic debates over both the Milwaukee and Cleveland experiments), and the legalization of drugs is such a political nonstarter that it may be better to focus on alternative policies, even if one prefers legalization (only 10 to 15 percent of the U.S. population supports the legalization of all drugs, and only about 25 percent supports the legalization of marijuana). Overall, however, the set of policies seems reasonable.

A more fundamental question is: Why should we want cities to make the maximization of their residents' overall human capital their primary goal? What about other goals? Mills argues in particular that slowing the rate of suburbanization should definitely *not* be a policy goal, at least not explicitly: "Nothing that federal, state, or local governments can or at least should do will reverse the trend of suburbanization. Recent national debate about 'controlling urban sprawl' will further divert resources to unproductive uses and will spawn more unproductive regulations." This conclusion does not seem so obvious once we step back and ask why we want to have cities in the first place. One of the main reasons is to exploit "agglomeration economies." As Mills notes, total factor productivity rises with city size, at least to a point—doubling city size increases total factor productivity by 5 to 15 percent. Conversely, if cities shrink too much, then overall productivity will fall. This suggests that "maintaining city size" ought to be an explicit goal, at least for many small and medium-sized cities. While not identical, the goals of maintaining city size and "slowing the rate of suburbanization" are similar, suggesting that in some cases it might be reasonable for cities to make slowing the rate of suburbanization an explicit goal.

Glaeser and Kahn use the results from an earlier paper (Glaeser, Kahn, and Rappaport 1999) to explain the high level of redistributive spending in New York City

compared with other large cities, and also to explain the sharp decline in this spending that occurred between 1970 and 1990. Their analysis identifies three key factors—home ownership, "altruism," and resource mobility.

In their earlier paper, the authors also found a strong, positive relationship between city *population* and redistributive spending. In the current paper, however, Glaeser and Kahn ignore the effects of population. This is an important omission, since the coefficients they use in their analysis of New York City are from regressions that include population as a regressor, and in which the effect of population is large and robust. Since New York is by far the largest city, population presumably accounts for a noticeable share of the city's high level of redistribution.

Glaeser and Kahn justify ignoring the population with one remark: New York City is "not an outlier once you control for its tremendous population, but that would be close to assuming the conclusion." It is not clear why accounting for population is "close to assuming the conclusion," since the empirical relationship that Glaeser, Kahn, and Rappaport found between population and redistribution is clearly not a tautology. Do they mean that population *alone* can account for the difference between New York City and other large cities? If so, do the combined effects of population and other variables imply that New York City actually does *less* redistribution than predicted? Or, do they mean that population, *together with* the other variables, can account for all of the difference? Does the population effect swamp the effects of other variables? Furthermore, do the changes in population help account for the changes in redistribution levels over time?

Another interpretation of the claim that accounting for population is close to assuming the conclusion is that there does not appear to be a reasonable way to interpret the finding that population affects redistribution. Glaeser and Kahn do not know of a plausible mechanism by which population per se will positively affect the level of redistribution, or a variable for which a plausible mechanism exists and for which population is a good proxy. They therefore suspect that the relationship between population and redistribution is spurious. If that relationship is spurious, however, then it is also hazardous to place too

much confidence in the estimated coefficients of the *other* variables in their regressions. Moreover, the correct interpretation of variables such as “land area”—which plays such a huge role in explaining the change in New York City’s redistribution between 1970 and 1990—seems nearly as nebulous as that for population. To compound the difficulties, land area and population are highly correlated—data from the U.S. Census Bureau’s 1994 *County and City Data Book* reveal that the correlation between the logs of the two variables is more than 67. All of this suggests that a large measure of caution is warranted before accepting Glaeser and Kahn’s estimates. (Confidence intervals around their point estimates would be especially useful.)

One possible explanation for the positive relationship between population and redistribution is that cities face an “implicit” matching rate for intergovernmental transfers. There may be an “effective” matching rate, even for project grants with no explicit matching requirement, as cities that exert more of their own effort are better able to justify the need for assistance from higher levels of government. Data from the 1994 *County and City Data Book* reveal a strong, positive association between the level of per-capita intergovernmental transfers to a city and the per-capita revenue raised by the city itself. This holds even after controlling for a variety of other variables, such as income, home ownership rates, racial and ethnic composition, age of the housing stock, and state fixed-effects. This suggests the existence of an implicit matching rate.

Why might the implicit matching rate be smaller for larger cities? A few reasons come to mind. First, there is some evidence that a city’s skill and capacity in grantsmanship are important determinants of which cities receive federal grants (for example, see Rich [1989]). Larger cities have larger bureaucracies and are engaged in a greater number and variety of public projects; therefore, they have greater capacity and possibly greater skill. Second, larger cities might be favored by Democratic presidential, senatorial, and gubernatorial candidates, and also by a disproportionate number of Democratic representatives in the U.S. House of Representatives and the state houses, because big-city votes are crucial for these candidates’ electoral success. Since the Democratic Party was in the

majority nationally and in a great majority of states until quite recently, the winning Democratic candidates would have been in a good position to deliver on their promises to cities. Finally, the “matching” might be driven by a variation in the ideological dispositions of local officials—liberal mayors and city councils will want to spend more of the locally available resources on government, and they will also be more vigorous at seeking intergovernmental transfers. Local ideology appears to matter considerably in determining the allocation of federal aid (for example, see Saltzstein [1977]), and larger cities tend to have more liberal leaders than smaller cities do.

Glaeser and Kahn conclude that “cities have lost the power to redistribute” because taxable resources have become more mobile. Which are the most mobile and least mobile resources and sectors? Have there been any changes in relative factor mobility over time? These are important questions for the (remaining) city officials who want to engage in what (little) redistribution they can.

Manufacturing seems to pose a puzzle here. On the one hand, Glaeser and Kahn argue that manufacturing is one of the less mobile sectors, since it involves large amounts of fixed capital—at least, manufacturing is not as mobile as many service industries. The estimates in Glaeser, Kahn, and Rappaport (1999) are consistent with this hypothesis—cities with a larger percentage of workers in manufacturing have higher levels of redistribution. On the other hand, Mills notes that manufacturing industries were often among the first to leave the cities for the suburbs: “Manufacturing is the leading example of an important business sector that has suburbanized (and exurbanized) in advance of residents. . . . Business services have suburbanized less than most business sectors.” This suggests that manufacturing is actually highly mobile. Other evidence supports this view. For example, in her study of public school expenditures, Ladd (1975) found that the effective tax rate on commercial property is greater than that on manufacturing property, suggesting that the manufacturing sector is more mobile than the commercial sector.

Is manufacturing a relatively immobile or relatively mobile sector? One possibility for reconciling these diverse findings is to consider manufacturing assets as part of

the “nonvoting tax base.” Voters will want to tax the nonvoting base heavily if they can, and cities do in fact tax commercial and manufacturing property at higher rates than owner-occupied housing. If the total taxable property associated with each manufacturing job is much greater than that associated with each nonmanufacturing job, then the total effective nonvoting tax base might be increasing in the percentage employed in manufacturing. This will be true even if manufacturing is more mobile than other sectors and manufacturing property must be taxed at a lower rate than other property, provided that the taxable property associated with manufacturing jobs is large enough relative to the property associated with other jobs.

Finally, New York City and other major cities must be concerned about the relative mobility of the banking, financial, insurance, and business services sec-

tors. These are especially important industries in New York City, accounting for about 15 percent of all jobs and 27 percent of all wages in 1993 (the securities industry alone accounted for about 14 percent of all wages). Being service industries that employ a relatively low amount of fixed capital, one might imagine that they are quite mobile. However, it may be that these are among the *least* mobile sectors. As an empirical matter, Mills notes that “business services have suburbanized less than most business sectors.” As a theoretical matter, these sectors might be relatively immobile because they might be among the sectors that benefit the most from the “agglomeration economies” and “knowledge spillovers” that cities are supposed to produce.

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