

BEHAVIOUR, PREFERENCES AND CITIES: Urban theory and urban resurgence¹

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Abstract

The resurgence of big, old cities and their regions took urban theory by surprise. A great deficiency of much urban theory is that it is static, partial, and backward-looking. As such, it has few tools to understand large-scale, medium-term change in complex systems such as cities. Explaining such changes requires realistic assumptions about the behaviours that make cities. Did resurgence occur because the preferences of firms changed, and thus their locational behaviour did as well? Or was it the preferences of skilled, “creative” workers? Or households? We are unable to tell a theoretically consistent and evidence-based story about why old, cold and dense cities revived and why certain new cities emerged and grew, while others continued to decline. Likewise, the ways that the intra-metropolitan arrangement of work, residence, and transportation have been changed by the forces that gave rise to resurgence and emergence is still poorly understood. Measuring the after-the-fact price and locational adjustments of agents to these forces is not the same as explaining why they occurred and how current restructuring of cities is unfolding. Most importantly, in the absence of credible theories that weave together realistic views of how agents’ preferences form and how supply structures respond to them and hence how they make their choices, urban theory will be condemned to documenting change after the fact, when policy errors in the name of untested theories and ideas will already have been made.

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1. THE RECENT PAST: WHY DIDN'T WE "GET IT?"

For theorists, few things are more unsettling than to be caught looking the wrong way when major processes of change unfold. Yet in urban studies, something very close to that happened in the last decade. In the early 1990s many observers could say with confidence that cities were in trouble, if not obsolete. This was a viewpoint that transcended time and ideology. The 1960s and 1970s had generated theories of urban crisis, while the eighties and nineties added ideas of urban obsolescence. Those on the Left tended to see cities as containers for a permanent underclass, while New Economy capitalists saw them as the jetsam of another age, the artefacts of a time before distance died. Cities were not where people wanted to live, and no longer where they had to work.

And yet a multifaceted process of urban resurgence unfolded in the 1990s. A number of big dense metropolitan areas in colder climates, the very symbols of urban decline, once again started to add jobs, enjoyed high levels of per capita income growth, attracted significant new investment in both central cities and suburbs, and saw steep increases in population and/or housing prices. The presence of these resurgent cities does not reverse the overwhelming growth of less dense urban areas in warmer climates, nor suggest that people have suddenly abandoned the suburbs for a renewed love affair with downtown life. Nevertheless, the revival of American urban areas like Boston, New York and Chicago, and European centres like Paris² and London, belied the idea that old cold places would live only in the doldrums of a new economy. Increases in the population of many central cities similarly contradicted long-held beliefs about their inevitable decline. More to the point, resurgence happened suddenly, and we remain at a loss to explain why.

² Although the powerful support lent to Paris by the French central government makes its revival less spectacular than that of central cities in the USA or Britain.

When we speak of resurgence we are referring to two separate but related processes, on two distinct but related geographic scales. The first, which this article deals with in more depth, is at the regional level: the revival of entire metropolitan areas that had previously lost population and investment. The second is the jurisdictional level: the revival of central cities themselves. The former phenomenon has been more extensive than the latter, although the latter seems to command more attention in the popular press. Both levels are intertwined, however. The resurgence of a metropolitan region is due in part to an external shift in the nation's economic geography, but also in part to shifts within its internal space that make it more appealing. Likewise for the rebirth of a central city is the growth of its surrounding region is necessary (we do not see thriving cities and stagnant suburbs) but not sufficient (for we do see stagnant cities and thriving suburbs). The revitalized central city needs not just a growing region, but also some shift within that region that moves people toward city life.

Urban resurgence was missed in part because our theories are poorly adapted to understanding complex, medium-term, but large-scale processes of urban and regional transformation. Is there any way we can do better? It may well be that we cannot. Predicting human behaviour is a tall order, and there are good arguments that large-scale social changes will always be unanticipated (i.e., Kuran 1997). Any viable theory of urban resurgence needs to have its foundations in human behaviour, and particularly in understanding how the choices made by individuals and firms not only generate new options for how (and how closely to one another) we live, but also how these choices become embedded in the land and the built environment. This is, admittedly, a messy area. A longstanding dilemma of the social sciences has been the difficulty of getting from myriad individual decisions to large-scale outcomes (Schelling 1978). The reasons for this trouble are not hard to discern: even if we all agree that small changes can lead to big transformations, there are many more small changes than big ones, which makes it difficult to know which small changes are worth studying. In the case of

resurgence, what is it that precipitates the turnaround from decline to growth? Growth, as Edward Glaeser and Joseph Gyourkos (2005) tell us, is not decline's mirror. Decline happens in slow painful increments, growth in spurts and explosions. Las Vegas has been growing rapidly for the last fifteen years; Buffalo, Detroit, Valenciennes and Liverpool have been declining slowly for the last fifty. Decline is easy to see and anticipate, and because it is so slow, current decline is, in most instances, a good predictor of future decline. Growth also predicts itself, but not quite so reliably, because it is inconstant and often nonlinear.

Two major obstacles stand between us and a coherent theory of resurgence. First, as we argue in Section 2, we lack convincing explanations for why growth *starts*. Urban studies has done rather well in examining the motors of growth; once the process begins we have reasonable explanations as to why it continues. But we have done less well in explaining growth's ignition. One difficulty is that one of the most interesting generators of change—preference formation—is left outside the scope of urban analysis, making it backward-looking and accounting-oriented rather than forward-looking in a way that would make it useful to urban policy.³ To some extent this is to be expected; cities are primarily economic entities, and urban economics rightly occupies a influential position in urban theory. But economics, as Lionel Robbins once pointed out, is concerned primarily with efficiency based on a set of *given* ends. Traditionally it has had little interest in how preferences *form* (George 1999).⁴ And therein lies the problem, for it is the formation and alteration of preferences that drives large-scale transformations.

A second major obstacle is the physical form of the city itself, which often confounds standard economic analysis. Choices for land and location are not sovereign and autonomous the way that choices for many private goods are. Land preferences suffer from imperfect

³ Thanks to Ian Gordon for this point.

⁴ Recent work in behavioral economics, particularly on loss aversion, endowment effects and preference falsification, has focused on how preferences form and change. Little of this work seems to have been imported

sovereignty for the deceptively simple reason that the preferences often outlast the people who hold them. Growing cities physically expand, but declining cities do not physically contract, or at least do not at the same rate that growing cities get bigger. Houses and highways are durable; the economy is more fluid than the built environment. Cities are accumulations of past preferences, and our choices for housing and density are frequently predicated on the choices made by those before us. Spatial structure is not reinvented to meet every adjustment in the market, but is instead an aggregation of historical patterns of development, which can be changed only marginally—via demolition or new construction—as preferences evolve (Harrison and Kain 1974).

This gap between analyses of the city in its material form and those of the city as economy and society is a much-remarked upon phenomenon. Beauregard and Haila (1997) have referred to it as the city’s “unavoidable incompleteness.” Economists simply call it “durable housing.” Whatever the name, the persistence of the built environment matters because it creates bundles of goods and amenities—the single family house that requires a car, the Manhattan apartment that precludes one—and these bundles obscure the way people rank their desires. Survey evidence suggests that many people in large-lot suburban developments would like to drive less, but their driving lifestyle is bound up in their preference for more space (Meyers and Gearin 2001). This is not terribly surprising, but it suggests that when exogenous shocks (deindustrialization, rising incomes, new technology) cause some preferences to be unbundled—as suburbia becomes more urbane, or cities more suburban—we are likely to see unanticipated changes in behaviour. In the absence of such shocks, however, these underlying preferences are latent rather than manifest, and remain hidden from analysis because they are small and seem insignificant. To be sure, there are some aspects of the city not prone to such a vexing dilemma. Many facets of urban life could be correctly

by urban economics, however. Kuran (1995) and George (1999) offer good discussions of preference formation ; Glaeser (2003a) discusses the role that psychology can play in market models.

priced but are not (i.e., driving), and the failure to price them needlessly deprives us of a better picture of people's preferences.⁵ But some types of amenities resist being priced at all, at least *ex ante*.

The remainder of this paper is divided into two parts. In Section Two we examine the major explanations that have been put forward for urban resurgence, including agglomeration economies; new tastes for amenities; diversity and tolerance; and aesthetic beauty. We focus primarily on resurgent urban areas, but in our discussion of beauty take up the subject of resurgent centre cities as well. In Section Three we discuss why it is that phenomena like resurgence are difficult to anticipate. From there we conclude. But before we begin, a confession is in order: although we find many of the common explanations for resurgence wanting, we do not necessarily offer ideas of our own that are much more persuasive. This article is more an exploration of our field's collective ignorance than it is a suggested path out of the cave.

2. PREFERENCES FOR THE OLD AND COLD: WHY DID URBAN RESURGENCE TAKE PLACE?

One reason the urban resurgence of the 1990s was so surprising was that it undermined not just the strong sentiment that cities would continue to decline, but also an equally strong sentiment that this decline was welcome. Urban studies has always been shot through with a curious blend of pessimism and utopianism. For almost long as we have had modern cities we have had predictions of their decline, for as long as we have had prophecies of their decline we have had grandiose ideas about the systems of living that would rise to replace them. Our experts on cities often did not like cities. Alfred Marshall thought London could not possibly last, and advocated forcibly relocating people to the countryside. Lewis

⁵ For a brisk exposition of this argument see Thompson (1996).

Mumford found New York “intolerable” and called for Garden Cities; Frank Lloyd Wright considered the city a “fibrous cancer” and designed his sprawling Broadacre City as its replacement.⁶

The study of cities, then—the honest inquiry into how they work—has always competed with a less than subtle desire to simply make them go away. “The city is doomed,” was Henry Ford’s analysis of urban America. “We shall solve the problems of the city by leaving the city.” In the United States, such sentiments have long been exploited by conservative politicians, who since 1964 have sought to equate liberal ideology with negative images of urban life. Terms like *welfare*, *underclass*, and *ghetto* became touchstones for the fears of America’s non-urban majority (Edsall and Edsall 1991; Beauregard 1993), and these fears were reinforced by the race-fuelled riots of the 1960s. By the 1970s the cities seemed to be the visual and material expression of the stumbling national economy. New York had gone into fiscal crisis and needed a federal bailout, and the flight of manufacturing was most evident in the shuttered factories and unemployment lines of urban America. The 1970s also saw the “rural renaissance”: eight metropolitan areas of over 1 million people lost population, and population gains in rural and small metro areas outstripped those in large cities. Growth took place in the Sunbelt and on the periphery, and the central cities and the Northeast no longer appeared to be sources of energy or vitality. Efforts to reverse this trend—to shore up central cities through urban renewal—had visibly high costs and extremely uncertain benefits. Optimism returned on a national scale with the arrival of the New Economy, but its ebullience did not extend to urban centres. Indeed, one source of the ebullience was the New Economy’s promise that we could finally leave cities behind. Urban decline was therefore a constant: a product of bad economic times as well as good ones. We could be urbanized but not urban:

⁶ See Hall (1988), Broadbent (1990) and Mumford (1926).

New Jersey, with no big cities but no rural counties, was “Tomorrowland” (Garreau, 1992).

The big city would give way to the Edge City.

There were dissenting voices in this gloom. In the 1980s, economic geographers noticed strong agglomeration tendencies in certain industries and began to see them as possible sources of “new industrial spaces”—but it took them longer to apply this thinking to older cities, which they did by the early 1990s in likening the growth of Wall Street or Hollywood to the growth of Silicon Valley (Storper and Scott, 1995). Others saw the decline of mass manufacturing not as the deathstroke of urbanism but rather as a painful yet necessary correction in cities’ economies. Manufacturing’s location in central cities, these scholars claimed, had been an aberration, one that provided a temporary surge of growth at the cost of misallocating valuable land. Historically cities had been centres for the exchange of ideas, and with manufacturing’s exit they could be expected to re-assume this powerful and more durable role (Cheshire, 1995; Drennan, 1996; Frey, 1993; Jensen and Lever, 1994).

Yet even some narratives that took this view did so morosely. Perhaps the best-known account of growth in old cold places is Sassen’s (1991) theory of “global cities.” Sassen described resurgent cities, but her picture was a baleful one. She argued that the growth in London, New York, and Tokyo was limited to financial and producer services, and that the wealth it created was offset by an equally efficient creation of poverty and marginalization, making it ultimately unsustainable. This claim—that the expansion of these sectors only masked a continuing turmoil in other areas of urban life, and that it left people behind rather than picked them up—turns out to be generally untrue. The “global cities” have done much better at generating income growth than manufacturing cities, emergent or older (Drennan, Tobier and Lewis, 1996; Drennan 2002), and their increased inequality comes almost entirely from disproportionate increases in incomes at the top of the income distribution, not the bottom.

The continued revival of the old cold urban regions has shifted some of the scholarly attention away from these areas' potential instability, and directed it more toward explanations for their resurrection. In general researchers have explained resurgence by emphasizing the New Economy, and, as a corollary, a new taste for certain amenities among its high human capital workers. But, as we shall now see, there is little about the origins of resurgence or growth, little on causal sequences, even less about how possible causes interact, and many contradictions in the story. If we are to avoid some of the disastrous policy errors of the past, this is a good time to try and sort out these issues.

2.1 The Preferences of Firms? Agglomeration economies and urban growth

Cities grow where firms congregate together, and firms congregate in places where they can benefit from proximity to other firms, to their markets, or to their labour force. That, in a nutshell, is the logic of agglomeration, and urban resurgence is ultimately based on some mixture of these proximity effects. We remain unsure, however, of what kicks off agglomeration in the first place, and conversely of what weakens it. Much of the early research on agglomeration focused on manufacturing, and in this regard history may have played a trick on us, for we poured our efforts into understanding manufacturing as the basis of urban economies just as manufacturing was ceasing to be the dominant force in cities (Cheshire, 2005). As they have been for most of the history of cities, urban centres are once again oriented to the production of rapidly changing (innovative, “boutique”) goods and advanced, information-based services, not hosts for the production of durable goods. The medium-sized manufacturing cities built around manufacturing in the late 19th and early 20th centuries (Gary, Indiana; Sheffield; Lille) continue to decline, and the old cold dense areas that are recovering are not doing so as a result of their “first nature” or “hard input” advantages. Manhattan's business advantage is no longer a function of its waterways,

Boston's harbour is no longer its prime economic asset. The New Economy's demands for proximity are stimulated by information, which often requires that people work in close quarters with one another.⁷ An information-based agglomeration economy may seem counterintuitive: how can information be so important in an age teeming with it, and why does it require proximity when we can move it at ever increasing speeds? But the proximity advantage lies not in information's quantity but in the ability to mediate it. Distinction and differentiation become important once visual and linguistic information become banal, and it is in cities that information is not just created but sorted—where the “important” information moves to the top of the enormous heap of banality and gets diffused. More importantly, the mediation of this information, because much of it is new and not standardized, often requires face-to-face interaction, which is crucial for learning, building trust, and reducing risk. Face-to-face contact is a “soft” exchange: it allows information to be mutually understood, placed in context, and verified (Storper and Venables, 2004). As such, it creates the human relationships necessary for innovation.

Viewed through end-of-pipe productivity measures, soft-input agglomeration economies are the same as those of the hard-input sort: the positive externalities of proximity lower the average cost of production. But knowledge-based agglomeration economies are qualitatively different, because they don't necessarily lower the unit cost of production (Veltz, 1996; Anas, Arnot and Small 1999). Instead, they allow greater variety, innovation, and constant improvement in goods and services, and they employ lots of high-wage high-skill people.

Traditionally agglomeration has been viewed as a force that pins an industry to a place, as when the massive concentration of car companies in Detroit stuck together because

⁷ See Leamer and Storper, 2001; Storper and Venables, 2004, Seabright, 2004. And yet, as Feldstein (2003) points out, a lot of the productivity growth from information technology came from discount retail, a creature of the suburban « old economy ». Advances in telecommunications (Wal-Mart owns its own satellite) and logistics

all benefited from having their input suppliers and labour force close at hand. Agglomeration still has this effect, but knowledge-based agglomeration also has a dynamic aspect that may be more relevant to urban resurgence. First articulated by Jane Jacobs (1969) the idea behind dynamic agglomeration economies is that cities decline not because industries leave but because new industries do not spring up in their place. Agglomerative forces in this interpretation use the transmission of knowledge to replenish the well of entrepreneurship and innovation, not just to lock firms in a single location. At this point a debate begins: some argue that unlike hard-input agglomerations, which tend to be found in medium-sized manufacturing cities with specialized economies, soft-input economies are found more in big cities with diverse economies—precisely the sorts of places we see resurging. In such places it is the diversity of the economy that both sustains and is sustained by the easy movement of knowledge. Information spills from one industry to another, create agglomerations in new branches of the economy; the talent and knowledge from Hollywood, for example, have flowed out and helped sustain LA’s fashion, design and advertising industries (Molotch, 1996).

A diverse economy, however, does not mean that the economy fails to specialize. Drennan (2002) has shown that the lack of any specialization is correlated with decline. Most healthy urban economies specialize in at least one sector, and then surround that sector with others that help it absorb negative shocks. The important question may not be specialization versus diversity, but whether a city has specialized in the right thing at the right time. Unfortunately, with agglomeration economies becoming detached from obvious “pull” forces like ports and rivers, we have lost some of our ability explain why these specializations arise where they do. We are also without some of the ready answers that explained the postwar rise

have allowed for just-in-time delivery, better inventory control, and inefficiency gains from big box stores. So the New Economy has both centripetal and centrifugal aspects : it centralises and decentralises.

of the Sunbelt: it's hard to explain the rise of Silicon Valley by the advent of air conditioning or Pentagon contracts.

In other words, for both resurgent urban areas and some emergent urban areas, we are better at explaining the “how” than the “where.” Although we know something about why financial industries or high technology are spatially very concentrated, but we do not have good theories for why Wall Street is specifically in New York and The City in London, and high technology is in an emergent city such as San José. History and path dependency are partial explanations: older industries in older places, newer industries in new ones. But a story like that is riddled with exceptions. Why is high tech in Helsinki, Paris or Cambridge? Why are financial services in San Francisco?

Placing agglomeration economies at the heart of urban resurgence requires that we explain why the activity of firms has shifted back toward cold, dense, once-declining urban centres. Absent an exogenous shift as apparent as manufacturing's decline or air conditioning's invention, many researchers focusing on resurgence turn to other factors. Chief among these are the preferences of the high human capital workers who make the information economy run.

2. 2 The Amenity City: The Preferences of Skilled Workers

Edward Glaeser best summarized the prevailing wisdom about postwar urban growth in the United States when he said its recipe was “sun, skills and sprawl” (Shea 2004). Cities that could offer warmth in January and easy auto access grew rapidly; places that were cold and dense for the most part did not. (Density for Glaeser (2003a) is synonymous with a built form hostile to cars. “It is possible to drive in Paris,” he observed, “but it is not pleasant”).⁸

⁸ « Sprawl » is a notoriously ambiguous term, so much so that in discussions of land use policy it is probably no longer of any use. In this paper we follow Glaeser and generally use sprawl as shorthand for regions without strong central cities, and where automobile use is more prevalent than public transportation. We do not intend

The first and last factors of Glaeser's formula, sun and sprawl, are for the most part beyond the power of local governments to provide. Sun is clearly an exogenously determined variable; we will return to sprawl shortly, but it is enough for now to say that an entire development pattern cannot be created overnight.

If we accept Glaeser's formula and then look at places like London, New York and Paris, which do not have sprawled central cities (although they do have sprawled suburbs), and which assuredly do not have sun, it is tempting to conclude that their resurgence must have a skills-based explanation. And indeed, a number of resurgent areas have higher levels of college educated residents than the population as a whole (Drennan 2002). Boston's economy has collapsed three times in the twentieth century and recovered three times as well, and the common thread in its recoveries seems to be its supply of skilled workers (Glaeser 2003a). What, in turn, could account for the presence of high-skilled people in these cities? One candidate, as we noted above, is agglomeration economies: high-skilled people follow the firms that will hire them. Another candidate, however, comes from the supply-side: the amenity-based explanation. Some places have a cultural, aesthetic or consumerism advantage over others, which helps them attract individuals with high levels of human capital. Richard Florida (2002) has famously labelled such people the "creative class," and argued that particular packages of amenities, including cafes, galleries, music and a generally bohemian, tolerant atmosphere (which he measures via the numbers of gay people), are strongly correlated with the presence of knowledge workers and growth.

But correlation is not causation, and while Florida is doubtless aware of the difference it seems at least some of the policymakers who read his book are not. The mayors of a number of declining American cities are building economic development programs around luring gay 25-year olds to their cities (Swope, 2003; Shea 2004). The Governor of

the term pejoratively. For more precise discussions of sprawl see Fulton et al (1999); Galster et al (2001) ; and Downs (1999).

Michigan, after reading *The Rise of the Creative Class*, urged her state's mayors to form "Cool Cities" advisory boards to help them lose their Dullsville image; Detroit's mayor responded by proclaiming himself "hip-hop". In Europe, the mayor of Berlin has touted his city as "poor but sexy." Richard Florida alone is not responsible for such strategies—New Labour politicians had never heard of him when they rolled out their "Cool Britannia" initiative years ago—but his book has unquestionably led to a spike in cities marketing themselves for "coolness" (Shea, 2004; Kotkin 2005).

This is bandwagon economic development. Now, if one believes politicians are incurably attracted to bandwagons (and there is certainly evidence to support such a belief), then a strategy promoting tolerance and openness is probably better, all else equal, than a strategy promoting, say, subsidies for professional sports stadiums. But both strategies are unproven, and there is no guarantee that money poured into either will not be money wasted. The difficulty of making a city "cool" is representative of the larger difficulty of developing its "amenities". "Amenity" can mean many things, including good weather, a shoreline, ethnic diversity (or its absence), options for dining and entertainment, cultural offerings, and aesthetically beautiful architecture. One person's amenity is often the next person's inconvenience. Some consider the bustle of a downtown an external benefit of city living; others find it intolerable and suffocating. From one perspective shopping should not be considered an amenity, or at least not one that offers any particular place an advantage, because internet commerce has made it possible for us to buy almost anything from almost anywhere. What now can we get in Manhattan that we can't have delivered to Boise? From another perspective, however, it is the *act* of shopping, and not necessarily the goods purchased (if any goods are purchased at all), that generate an amenity effect. Sharon Zukin (2004) has suggested that one function of flashy city shopping is the acquisition of "cultural capital." Proximity to Niketown and Prada is a way to gain information about how to look and

perform in certain social and economic roles. Urban shopping is enjoyable but also instructive, for it is in the city where information about consumption patterns is distilled and distributed, and individuals use it in signalling to other people that they belong to a certain milieu, or possess certain kinds of social attributes, which in turn may have pecuniary or psychological benefits to them (Twitchell 1999; Frank 1999).

One reason that consumer-based amenity explanations are appealing is that they require few logical leaps; in essence they just extrapolate some generally agreed upon microeconomic principles. The benefits of innovation in consumer goods and services accrue most to those individuals who have high elasticities of substitution, low aversions to risk, and high levels of disposable income. A high elasticity of substitution, in turn, implies substantial willingness to search, because the discovery of new goods and services is impossible without searching. And a willingness to search generally requires long time horizons. The individuals who meet these criteria are young, educated, upwardly mobile and still developing their tastes for a wide variety of goods. They look, in short, a lot like Florida's creative class (Cowen and Tabarrok 1998).

One disadvantage with such an explanation is that, again, consumer amenities don't vary a whole lot between metropolitan areas. So while consumption can explain why the young would live in urban area rather than rural ones, it has a harder time explaining a decision to live in one metropolitan area over another. Part of the answer might be found, again, in the psychological aspects of shopping (people spend copious amounts of money at Disney World on merchandise that is available in the Disney store at their local mall) but even this line of thought has its limits. How much more meaningful is it to dine on ethnic cuisine in New York than in Los Angeles?

A larger problem is weighing the relative importance of consumption goods in locational decisions. Even if we grant that the young and well-educated benefit more from

consumption goods than do other groups, we still have no reason to think that consumption is the pivotal factor in their decisions about where to live. The chicken and the egg come back to haunt us; high incomes, after all, are not usually exogenously determined, which suggests that the young and well-educated need first to live somewhere where they will be well-paid, and only then can they satisfy their consumer tastes.

Metropolitan areas *do* vary quite a bit in terms of some other amenities (climate and geography, ethnic diversity, and the urban design of central cities) but it is difficult to sort out just which of these amenities would lure high human capital individuals. For instance, Richard Florida includes not just San Francisco and New York, but also Austin and Orlando, in his list of creative cities, because all have a high proportion of “creative” workers. But aside from the presence of these individuals, the commonality between such cities is hard to find. The mixing of people in Orlando doesn’t happen in the same manner as it does on the streets of London or New York; Orlando lacks the same tradition of bohemian tolerance (as well as the same pattern of narrow streets and short blocks) that characterize the bigger, older cities. Nor is Orlando known as a place where people move to have café culture and spontaneous interaction, to fix up charming old houses, to have loft parties, or to hang around Prada stores. On the other hand, it has a lively arts scene, as do many cities like it (Markusen and King, 2004). Lest this be considered an exclusively American story, there are parallels in Europe, though less stark. One can think of Munich, Lyon, or Copenhagen in this vein (with apologies for the comparison to Orlando). Yet it is really stretching the story to hold that these places have anything resembling “bohemia,” close ethnic mixing like one finds in New York or London, or a lot of unplanned “streetwise” contact in daily trajectories through their urban space. At the very least, something has been underspecified.

One possibility is that the definition of “creative” (or “high human capital” or “skilled”) is just too broad. Many sun-belt cities that are sprawling and warm, including

Orlando (but not Silicon Valley or Austin) have much lower proportions of patented innovations than older places like New York or Boston (Feldmann, 199*). They also, on average, have lower proportions of college graduates than cold and old places, and also lower per capita income growth—although again there are exceptions, among them Austin and Silicon Valley and Orange County and San Diego. So the criteria for defining “creative” workers probably need to be more finely tuned and restrictive.

Even if the criteria are tightened, however, they will include both cold and old and sunny and sprawled places, not one or the other. Creative workers can be found in Jane Jacobs-style cities where there is lots of serendipity and diversity; in some homogeneous, neighbourly, traditional, and confidence-based enclaves that are defined by Putnam as having “high social capital”; and in some “leave me alone” anonymous suburban communities. Notice that we have just lost any theory of urban growth that discriminates between resurgent and emergent places. It is telling that the categories above not only describe both Phoenix and Boston, they also aptly describe Boston by itself, where a dense central city is surrounded by a sprawl that puts Phoenix’s suburbs to shame.⁹

Jacobs, Florida and Glaeser are all onto something in claiming that skills, tolerance and amenities go together, but they may have gotten their causality reversed: it’s the fact that these skilled workers are congregated in certain places that leads to the presence of amenities, and in some cases makes the places tolerant and bohemian as well. In other words, the locational preferences of these workers do not account for why resurgent and “high end” emergent places have grown. This is strongly suggested by the story of Silicon Valley: after all, the Valley possessed no pre-existing workforce in high tech. In the years before its explosive growth there were not even departments of electrical engineering at Berkeley and Stanford—the subject didn’t even exist as a formal domain of research. The workforce was

⁹ The density of the urbanized area outside Phoenix’s central city is about 3,200 people per square mile. The urbanized area outside Boston’s central city is about 2,000 people per square mile.

an endogenous product of the agglomeration of high tech in Silicon Valley in the 1970s (Scott and Storper, 1987), as was the financial sector workforce in London and New York at the time those industries arose in those places, as was the skilled labor of the motion picture industry, which developed in situ with the growth of Hollywood in the 1910s and 1920s. Any other explanation simply puts the cart before the horse. People generally locate where they can maximize their access to jobs. Research on “power couples”—couples where both individuals hold highly-skilled jobs in the New Economy—shows that many choose to live in large metropolitan areas because doing so maximizes their joint access to jobs, and allows them to adjust, at relatively low cost and risk, to changes in or losses of employment (Costa and Kahn, 2000). Power couples derive tremendous benefits from the consumption amenities of large metro areas, but their amenity preferences are not the prime determinants of their locational choice.

The notion that skills have driven growth, and that skilled workers locate according to some set of exogenously determined preferences and therefore determine the growth’s geography, is less convincing than a theory that the preferences of firms—i.e., agglomeration economies—give rise to growth. As cities decline as centres of durable goods production, the most promising approach to analysing them is not as centers of consumption (although they are) but as, in Veltz’s (2004) phrase, “Schumpeterian hubs”: giant matrices for recombining resources in order to generate innovations. The advantage of refocusing the “skilled city” explanation away from preferences of the skilled and back toward the demand for labour is that it encompasses both the resurgent old, cold and dense cities and, in a discriminant way, some of the new, warm, and sprawled cities. Power couples can certainly do just as well in places like Silicon Valley, Orange County, and Los Angeles, with their sprawled residential patterns and automobile-dominated transport system as they can in London or New York.

The disadvantage of emphasizing agglomeration economies is the great weakness we discussed before: the inability to explain the *where* question, and therefore the inability to draw policy relevant conclusions. The firms may attract (or create) the labour, and a virtuous circle may begin from there, but why do the firms end up where they do? It's possible that certain types of institutional environments facilitate the entrepreneurship that in turn leads to agglomeration of firms in activities that require highly-skilled labour, and in turn this attracts and retains that labour, and creates virtuous circles of interaction among these people that generate more innovations, more activity, and more labour demand. But this observation is far from giving us a rigorous theory of the origins of economic agglomerations to back it up.

2.4 Preferences for the way amenities are accessed: sprawl versus density

The discussion above is not meant to imply that amenities fail to influence a region's fortunes, only to highlight the difficulty of drawing distinctions between regions based on the amenities they offer. Aside from the "skyline versus sunshine" split—old urban form and cold weather versus new urban design and warmer climes—there seems little in the way of amenity packages that separates the resurgent cities from newer growth centres. A more promising approach might be to focus less on the amenities themselves and more on how they are obtained. What does differ across metropolitan areas (and to some extent within them, between cities and suburbs) is the manner in which amenities are spatially packaged, and the modes of transport used to access them.¹⁰ Consider Orlando and Manhattan. Manhattan's density might be exciting in and of itself—i.e. for some people the density may *be* an amenity—but it also provides *access* to a large number of amenities in a small geographical area. Orlando is not dense, but its absence of density facilitates a very similar access to

¹⁰ Our concept of access is similar to Glaeser, Kolko and Saiz's (2001) idea of « speed ». It is also drawn on, to some extent, from the concept in transport modeling of a the "mode specific constant." The constant assumes that once income, time value, speed of travel and other variables have been controlled for, differences in mode

amenities (so long as one owns a car), because the ease of automobile travel allows individuals to cover a much larger amount of ground in the same amount of time. A half-hour walk or subway ride in New York might take you only from Lower Manhattan to midtown; a half-hour of driving from downtown Orlando could bring you to its urban periphery. And the quantity of amenities available from each trip is roughly comparable, even if the composition may be different. A more powerful comparison is between New York, London or Paris on one hand and Los Angeles on the other: a half hour trip in the centre of the first three, on foot or by public transportation, will give you access to the same amenity package (movies, museums, galleries, concert halls, architecture) as a half-hour car trip in a comparable area of Los Angeles.

Thus, the story of skyline versus sunshine is less powerful than that of access, which in turn might get us closer to a micro-level explanation of urban resurgence. Individual preferences will always vary, and rising incomes, falling prices and technological advances might accelerate the rate at which our preferences change. Increased exposure to foreign cultures—via trade, travel and immigration—can alter our conceptions of beauty, change our aesthetic preferences, and broaden the array of goods and services we want at hand (Postrel 2002). Resurgence, then, may have less to do with any particular bundle of amenities (cafés, sunshine, old buildings, new architecture), which in any event will be unstable, and more to do with the ability of certain places to provide access to whatever preferences we may have in an age when preferences are rapidly changing. If we prefer to gain access through density, or if we consider density an amenity in itself, then places like New York are desirable. If instead we consider a smooth-flowing road system an amenity we might like Orlando, or prefer to access amenities by car, then we might like Los Angeles (or New York's suburbs). In any case, since amenities come in many different mixes and many different packages, they are a

choice can be explained by the qualitative differences in transport mode. The constant often varies from one geographic area to another.

necessary but far from sufficient explanation of urban resurgence. The causality question remains shrouded. We cannot say whether highly-skilled workers cause resurgence or whether agglomeration causes the concentration of highly-skilled workers, and we likewise are uncertain about whether amenities are growth's symptom or its source. Paris and London may have a wealth of amenities because of the way they have resurged, rather than the other way around.

2.5 Is a growing preference for diversity responsible for resurgence?

One of the more remarked upon aspects of Richard Florida's creative cities thesis is its emphasis on diversity and tolerance (some of its notoriety, as we mentioned above, is a result of star-crossed policies to attract gay people to declining centres). Florida suggests that tolerance is a sign of openness, which in turn signals an environment conducive to entrepreneurship and new ideas. History suggests that open societies prosper more than closed ones; the classic defence of the cosmopolitan life rests on the value of integration. But for cities the role that tolerance and diversity play (as well as their relationship to one another) is more difficult to determine. There can be little doubt that increases in immigration (which is usually diversity's source) have contributed to urban resurgence. If nothing else, immigration increases the supply of capable people, and can tighten a slack housing market.¹¹

Florida argues that creative, high human capital people thrive in places of diversity and tolerance. Leaving aside for a moment the difference between the two terms, we can speculate as to why a diverse urban area might fare well in the information economy. Ottaviano and Peri (2005) contend that ethnic diversity can increase the human capital of the native born, as a result of mutual learning. Glaeser, Kolko and Saiz (2001) note that one of the

¹¹ Such simple demographics probably play some role in explaining resurgence. As Richard Easterlin pointed out in *Birth and Fortune*, the generation that came of age during the midcentury urban decline was inordinately

values of diversity is its ability to increase the array of available consumer goods—certainly the Mexican markets, Korean restaurants and Chinese language newspapers of Los Angeles lend the city some attributes that other places lack. A corollary to the ethnic diversity/consumption hypothesis is the relationship between “lifestyle diversity” (i.e. the presence of gays) and urban consumerism. Because gays are generally childless, they have more disposable income to spend on consumer goods (Molotch 2002), and are unburdened by concerns about the quality of poor urban schools, meaning they could have an increased willingness to live in central cities.

Diversity can also be approached in the same manner as density: by viewing it as both an amenity in itself and a vehicle for accessing other amenities. It may be that people welcome (or tolerate) ethnic diversity because of the consumer benefits it offers, or it may also be that diversity, in the form of immigration, provides cheap labour, which effectively increases the spending power of affluent residents. Those with high incomes and high values of time can use a low-wage service class to emancipate themselves from tasks they would rather not do, and instead devote time and money to activities they enjoy. Diversity therefore may increase the productivity of high-human capital people by letting them outsource the mundane aspects of everyday life. So-called “world cities”, which are centres of immigration, are better positioned to offer this advantage than are suburbs or smaller metropolises. Some empirical research is consistent with this view: Alesina, Bakir and Easterly (1999) show that in the United States the level of ethnic fragmentation in a city varies inversely with its spending on public goods, suggesting that white majorities might like the returns they gain from diverse populations (an increased array of private goods), but do not want their tax dollars spent on amenities for people different from themselves.

small. Decline also coincided with a period of highly restricted immigration. More recent native-born cohorts have been much bigger, and immigration levels are the highest they have been in decades.

Evidence of this sort suggests that tolerance, which is the extent to which the majority embraces diversity, will be dependent on the majority's ability to manage diversity's benefits and costs. A further implication is that tolerance could be a function of segregation.¹² Regions or cities that are statistically diverse are often quite segregated at smaller scales, be it the neighbourhood or even the block level. Affluent residents of Los Angeles are able to isolate themselves from people of other cultures via the buildings they live in, the schools they send their children to, and their use of private automobiles rather than public transportation. Indeed, the level of immigrant segregation in American cities correlates highly with the availability of public transportation, since immigrants often organize their lives around public transport while native-born residents organize theirs around the car (Cutler, Glaeser and Vigdor 2005). For these elites the costs of diversity are low and the benefits high, which could explain why tolerance is a value often associated with people of high human (and financial) capital. For less wealthy members of the majority the opposite is the case; they can afford fewer of goods and services made available by diversity, and have a higher risk that mixed residence means problems, at home, at school and in leisure. So they may choose to segregate themselves via suburbia because it helps them manage the potential costs of diversity by increasing the spatial distances of interaction. All of this may have little to do with the overall level of diversity desired by each group.

The precise relationship between diversity, tolerance and economic growth is hard to determine, but it seems that tolerance and diversity perpetuate existing growth more than they start it. That is, tolerance and diversity can probably feed a virtuous circle once it begins, but are outgrowths of economic development rather than keys to it. In the case of diversity, some evidence indicates that immigration is correlated with growth, because immigrants move to

¹² In one way Florida's use of gays as a proxy for tolerance is problematic. Although gays certainly face discrimination, they are much more likely than many other minorities (Latino immigrants, for example) to have a similar appearance and socioeconomic status as the majority. Discrimination against gays can thus be more difficult than against other minorities, because it requires more information.

places with strong economies (Singer 2004). On the other hand, urban decline can attract people of low human capital, including immigrants, because declining areas provide low-cost housing. In the former instance diversity would feed existing processes of growth or resurgence; in the latter it is unlikely to reverse decline, absent the presence of high human capital people.

Tolerance, too, is more likely to grow out of economic development than it is to ignite it. This is true at both the institutional and individual levels. At the institutional level, a certain level of economic integration is often a necessary precondition for the passage of laws designed to protect minorities. As regional economies become less self-sufficient, business and government leaders become increasingly unable to ignore the opprobrium of other regions. Lynchings in the South declined rapidly when the Southern economy became more dependent on investment from other places, and thus more sensitive to the “frown of the world” (Fischel 2002). Similarly, corporations in Cincinnati have crusaded to overturn the city’s ordinance barring equal protection for gays and lesbians, on grounds that such retrograde laws inhibit the recruiting of top-flight personnel (Swope 2003).

On an individual level, psychologists and behavioural economists view tolerance as a benign reaction to human cognitive limitations. Human beings have an inherent desire to influence those behaviours of other people that impact their own happiness. As a population becomes larger and more diverse, however, the sheer number of these behaviours outstrips the capacity of the human mind to monitor and interfere in them. Tolerance is a value that develops to suppress the unattainable desire to meddle (Kuran 1997).

Such a view of tolerance explains why cities are more tolerant than small towns. It also explains why tolerance, while often valued in the abstract, often breaks down in the case of an individual’s most deeply held convictions. With these convictions the desire to interfere

is least easy to suppress. The man who values tolerance but is also fiercely patriotic will support free speech but condemn the activist who burns a flag.

Tolerance, like diversity, is a necessary but not sufficient condition for urban growth. It is unlikely to generate resurgence, although its absence—by dissuading people of high human capital—may well prevent it. And tolerance can, like consumption amenities, certainly explain the desire of high human capital people to live in large urban areas rather than small or rural ones. It cannot explain why growth begins, but it could explain why it stops. A growing urban area will likely become more diverse, and to continue growing it will need to become more tolerant. But as explanations for the resurgence of NY, Boston, and London, diversity and tolerance are partial at best.

2.5 Household Preferences for Residential Amenities: Beautiful Cities, Sprawling Cities

A final major explanation put forth for urban resurgence is that the unique amenities of old, cold and dense cities are increasingly favoured by households and individuals because they are beautiful. This theory applies more to centre cities (and their first ring suburbs) than to entire regions, largely because beauty is more a residential than a business amenity. Firms are unlikely to choose an urban area based on its aesthetic qualities. Silicon Valley overflows with business but is no one's idea of an architectural treasure; Savannah, Georgia, is a preservationist's dream with a lagging economy. Individuals who locate in an urban area for other reasons, however, (i.e., access to jobs) can choose from a number of jurisdictions within that area to live, and the aesthetic appeal of the centre city—combined with a desire to walk or use public transportation may be a powerful intra-regional locational determinant. A common theme in the narrative of urban resurgence involves middle and upper-middle class

individuals who have been seduced anew by the beauty and urbanity of the center city, and who are fuelling the revitalization of once moribund downtowns.

The central city renaissance story comes laden with an important caveat. Most quantitative examinations of urban-suburban migration patterns show that city living isn't really back, or at least not nearly to the extent that some popular accounts might have it (Kasarda et al 1997; Downs 1997; Glaeser and Shapiro 2003). Although some old cold central cities gained population in the 1990s, the dominant trend of residential movement remains toward the suburbs, even among subgroups such as immigrants who have traditionally located centre cities. Overall, many more people leave centre cities than enter them. Media accounts of urban revitalization may be stimulated in part because affluent in-migrants tend to be more visible than out-migrants. The in-migrants tend to concentrate in a few neighbourhoods, such as loft districts, near well-publicized redevelopment projects. Out-migrants, by contrast, tend to depart from neighbourhoods throughout the city, and to arrive at equally scattered destinations throughout the region (Kasarda et al 1997).

Nevertheless, while it is important not to overstate the rebirth of centre cities, it is equally important not to trivialize it. Some old cold cities have, in the last twenty years, gotten an undeniable demographic boost. Almost two-thirds of the households moving to centre city San Francisco between 1985 and 1990 were in the top two income quintiles, as were over 40 percent of Boston's in-migrating households and one third of Chicago's in the same period. In the United States, only some Rust Belt cities, like Cleveland and Detroit, failed to attract significant numbers of high-income in-migrants in the 1980s (Kasarda et al 1997). In the 1990s a decades-long trend was reversed when a majority of American cities over 500,000 population grew, and the share of the overall population living in central cities finally grew as well (Glaeser and Shapiro 2003).

One suspects that some part of the *cachet* of resurgent cities lies in their beauty; the urbane lifestyle is built in no small part around the architecture and urban design of the central city, and the beauty of dense cities can offset the numerous difficulties of living in them. But the concept of beauty is elusive and subjective. In practice, “beauty” often seems to mean “oldness.”

It is a common lament that urban architecture and urban form have declined in the last fifty years, and that old design is more pleasing to the eye than new. Accepting the qualifier that beauty is a rather ambiguous term, the aesthetic advantage of old areas probably has multiple explanations. The first is simply “survivorship bias”: in general the worst of the past gets destroyed and the best preserved. Shakespeare had no shortage of contemporary playwrights, but his work alone persists. The same mechanism is at work with buildings. Some wonderful old buildings get demolished, but few ugly old buildings get saved. At any given moment a city will be comprised of old buildings that have withstood the selectivity of the wrecking ball, new buildings that are charming but which have yet to face time’s judgment, and new buildings that are devoid of charm and equally untested. The old will thus look good relative to the new, and the bigger the proportion of old buildings, the more aesthetically pleasing an area is likely to be. Other explanations include the rise of property taxes—which create incentives to improve the interior, rather than the exterior, of buildings—and advances in building technology. New technology enables some stunning architecture (the graceful, computer-designed curves of LA’s Disney Hall, for instance) but it also enables function without form. There was a time when a wall, in order to be sturdy, needed to be made of brick; its arresting appearance was part of its utility. This is no longer the case. A final factor in the decline of urban architecture may be the rise of business regulation. In the days before insurance and sophisticated contract law, the aesthetic grandeur of a building was often used as a signal of trustworthiness and stability—particularly for banks, which had to

convince citizens to deposit their money. With the advent of federal deposit insurance, however (and other laws protecting customers) stability became more of a given, and aesthetic signals became less important. Certainly American bank design has plummeted in quality since the FDIC was established; it isn't hard to spot a handsome old bank building, but contemporary banks are nondescript boxes.¹³

All of this begs a further question, though: if beauty is oldness, why has oldness recently become so much more valuable? The most immediate answer is that oldness is scarce. Good oldness cannot be imitated (even by Las Vegas), so it is supply-inelastic and hence earns rents. But scarcity alone cannot account for people's increased willingness to live in, and pay for, old environments. Oldness has not always earned rents, after all—for a long time the old neighbourhoods of many cities languished unwanted. Frieden and Sagalyn (1989) in their study of downtown redevelopment, point out that the 1976 American bicentennial, and the resulting attention it gave to history, boosted interest in preservation and old buildings and ultimately laid the groundwork for a surge in public-private central city revitalization. Doubtless there is some truth to this argument. But it may be more important that the bicentennial also coincided with a particularly acute wave of deindustrialization, and the final gasps of heavy manufacturing in central cities. The disappearance of manufacturing untethered oldness from one of its great costs—dirt and pollution. The effect of unbundling old neighbourhoods from dirt is nowhere more evident than in the redevelopment of urban waterways. For much of the twentieth century urban architecture in dense cities turned its back to rivers and lakes, because the waterways were unsightly industrial landscapes. Cleveland's Cuyahoga River, once so polluted that it caught fire, is only the most infamous example. The Cuyahoga today is much cleaner, and residential properties look out over it. The

¹³ Many of these observations came from, or were inspired by, an online conversation on the decline of urban architecture begun by Tyler Cowen on the Marginal Revolution web log. See http://www.marginalrevolution.com/marginalrevolution/2004/08/has_urban_archi.html.

departure of heavy industry allowed waterways to become an aesthetic amenity rather than an aesthetic liability.

In the United States oldness was unbundled from a further disadvantage in the early 1990s, when urban crime rates fell dramatically (Glaeser 1998; Levitt 2004). Cities will always provide more opportunities for criminals than will suburbs—crime, like most forms entrepreneurship, benefits from increasing returns to scale—but the sharp downturn in crime weakened the association between city life and criminality. The decline, like urban resurgence, arrived with little warning and came amidst predictions that things would get worse before they got better. It also had the biggest impact in the Northeast and in cities of over 250,000 people.¹⁴ The falling crime rates were accompanied (although it seems not caused) by the rise of “incivility” laws, whose purpose was to remove or suppress many of the aspects of urban life—such as homelessness, vagrancy and begging—that affluent residents find fearful or repellent.¹⁵ Once old architecture and urban design was no longer viewed as a container for criminality, its appeal and value increased. And the increase took place in time for the arrival of the New Economy, meaning it provided not just opportunities for a new round of urban living, but also a built environment suited to a surge of entrepreneurship. It was at the apogee of American urban decline when Jane Jacobs (1961) argued that cities required new ideas, and new ideas required old buildings—that entrepreneurs could not afford the high rents of new construction, but that successful entrepreneurship could restore high rents to old structures. The 1990s saw her argument at least partially validated.

¹⁴ From 1991-2001 homicide rates fell 50 percent in the Northeast and 49 percent in big cities. In the South, which saw the next-largest drop, homicide rates fell 45 percent, and in cities of 50,000-250,000 people they fell 41 percent. Similar differences exist for declines in violent crime and property crime. See Levitt (2004).

¹⁵ For an overview of anti-vagrancy and « broken window » laws, see Mitchell (2001). For a powerful critique of them with regard to homelessness see Waldron (1991). Harcourt (2001) refutes the idea that anti-vagrancy laws contributed meaningfully to falling crime rates, citing instead increased staffing of police forces and the collapse of the crack cocaine market. Levitt (2004) adds the rise of incarceration rates to the list of causal factors, and also includes his controversial work with Donohue (2001), which advanced the idea that legalized abortion lowered urban crime.

Lastly, in the 1980s and 1990s old central cities began to overcome some of their technical obsolescence. The great aesthetic appeal of dense city neighbourhoods had also been their great functional weakness: designed in pedestrian eras, they were deeply unpleasant places to drive and utterly horrible places to park. City living was thus bundled together with car-free life, and car-free life was something that few people wanted and fewer still could afford. Eventually old cities took steps, however—some desirable and some less so—to remedy this functional obsolescence of their designs, and make a car/urbanity bundle possible.¹⁶ Neighbourhoods like Boston's Beacon Hill sold curb parking spaces at market rates. More commonly—and more regrettably—cities invested in, or required developers to provide, off-street parking spaces. Off-street parking surmounts the technical obsolescence of the urban core, but it also provides incentives to drive, undermines density, and debases the city's aesthetically advantageous urban form (Shoup 2005). Most recently, and to the delight of transportation economists worldwide, London introduced cordon tolls for vehicles entering its central business district. Congestion is often a product of density, and the use of market-clearing prices on the roads makes old areas more amenable to driving while preserving their pedestrian-orientation and the visual appeal of their built environments. Just as the new functional obsolescence of urban waterways and manufacturing districts has allowed them to become beautiful, the proper pricing of beautiful urban streets has once again allowed them to be become functional.

The steps taken by central cities to become more car-friendly, combined with well-publicized redevelopment and crime-fighting efforts, highlight a larger point about both central city rebirth and region-level urban resurgence: resurgence is, in many ways, convergence. Central cities are becoming more like their suburbs (and vice-versa) and old cold resurgent urban areas now look more like the emergent warm growth centres they

¹⁶ See Downs (1997) for a discussion of technical obsolescence.

originally lost population to. There can be little question that urban life has now adopted some of suburbia's trappings, and that suburban life has become more urbane. Suburban-style malls and supermarkets now proliferate in central cities. Target and Wal-Mart have begun building multi-story urban discount centers; Wal-Mart wants to open a store in Manhattan. Many inner city redevelopment projects, despite assertions to the contrary, are designed to imitate the experience of suburban malls. Walking around Times Square in New York today, one cannot help but thinking that it has been provincialised, all snobbery aside. Cleaned up and returned to corporate America, it looks like a denser version of the culture one can find in any suburban mall, while New York's Upper West Side has basically the same stores as the "bobo" suburbs everywhere. And at the same time, mega-malls like South Coast Plaza in Orange County, or even Noisy-le-Grand in suburban Paris, offer a lot of what you can find in centre city neighbourhoods, albeit in a less historically-distinctive container.

The convergence is also reflected in immigration. Although some urban areas still receive many more immigrants than others, the distribution of immigrants within those areas is not nearly as stark as it once was. No longer are immigrants automatically bound for the central city. By 2000 slightly over half of the immigrants in US metro areas lived in suburbs, and their growth rates in suburbs exceed those in the central cities (Singer 2004).

The blurring of city and suburban life casts the utility of old labels into doubt. Even the idea of a resurgent city is open to question—can we call a city "resurgent" if it is essentially remaking itself in the image of its suburbs? The same question can be posed at an interregional level. "Sprawl" may be a key ingredient for regional growth, but it is also a term whose meaning is fast disappearing. Traditionally urbanists have held up the southwest as an archetype of sprawl, and pointed to the old cold northeast as a model of dense living. By 2000, however, something closer to the opposite was true. The Northeastern cities have compensated for their high density centres by developing some of the most sprawling suburbs

in the nation, while the Southwest's absence of strong urban cores is now counterbalanced by its extremely dense suburbs. The monotonous density of the Los Angeles urbanized area (the *densest* in the United States), which gives the lie to most efforts to call it sprawl, is caused largely by its suburbs, which at 6,431 persons per square mile have fully 74 percent of the density of their central city. The suburbs of New York, by contrast, are—at 3,211 persons per square mile—only 12 percent that of their central city. New York's suburbanites occupy, on average, 155 percent more land than LA's (Manville and Shoup, forthcoming). The old Northeast is now more diverse internally, but its evolution has made urban regions less diverse. The suburban New York of today resembles the suburban Southern California of years ago. It is cold, and some of it is old, but little of it is dense. The Southern California of today, meanwhile, with its car-oriented density, is moving in some ways toward the old Northeast, but in others ways looks like nothing urbanity has ever seen.

3. SATISFYING PREFERENCES: CHOICE BEHAVIOURS AND URBAN TRANSFORMATIONS

In this section we discuss why large-scale urban changes are difficult to predict. We build our discussion on the idea of amenity bundles introduced above. We first discuss why amenity bundles occur in cities, and why their presence can obscure people's preferences. We then discuss why obscured preferences, in turn, make distort perceptions of the potential for change. The short answer, which we elaborate on in the following pages, is that bundles occur because land's limited supply gives it monopolistic attributes. The situation is made more complicated by the durability of the built environment; which responds poorly to both changes in preference and changes in what preference packages are possible. The slowness of the built environment can prevent latent dissatisfaction from manifesting as actual change, and thus create an illusion of stability. Thus when change *does* occur, it takes us by surprise.

Bundling is not unique to land or cities, and common examples of it can be found in many other areas of the economy. Many people who like to watch sports on television buy cable TV packages that have hundreds of channels they don't want, in order to get the one or two sports channels they do want. Likewise most people who use Microsoft's Windows operating system end up with Internet Explorer, its internet browser, as well. Largely because Explorer is tied directly into Windows, it controls over 90 percent of the market for internet browsers. On its face, this statistic suggests that an overwhelming majority of people prefer Internet Explorer to all other options. But Internet Explorer has well-documented problems and vulnerabilities, and we would get an accurate idea of people's browser preferences only if Explorer was not integrated into the operating system of so many PCs (a natural experiment pursued with limited success by the US Department of Justice).

Bundling, then, is often a product of monopolistic or quasi-monopolistic conditions. Most cable companies have monopoly control over their service areas, and it is Microsoft's dominance of the market for computer operating systems that lets it disseminate Internet Explorer. Urban economics has long recognised that land has features that make markets in it different from standard markets, and one of these is that land has some inherently monopolistic attributes. Land exists in a more or less fixed supply. For the most part it can be neither created nor moved. It is the only major asset most people have, and it is largely indivisible. The standard approach to dealing with bundled goods, which has much to commend it, is to argue that preferences for them, like those for many private goods, are "revealed"—that in the end we know what people want by observing what they have done. If a majority of people buy single family homes on large lots and drive a lot as a result, then we can conclude large-lot, auto-dependent life represents the majority preference for transportation and land use. Approaches of this sort are outcome based, analysing results of *ex post* adjustments.

But these results, though important, are not likely to be complete indicators of what happens in the future, because revelation depends on the array of choices available at the time. The person in the large suburban house may like the space she has but dislike the amount of driving she has to do because of it. If she likes the space more than she dislikes the driving she will choose to live in the house: for her the package of amenities, even with its drawbacks, is better than the available alternatives. However, if some external shock alters the available alternatives (if the amenities become unbundled from each other and it becomes possible to have lots of space without driving) her *revealed* preferences could change, even if her latent preferences do not. On the other hand, it might take some time for the revelation to occur. If the external shock impacts her house specifically (if a commuter rail line opens nearby that can take her to work and leisure), her behaviour might change right away. If, however, the market just creates more spacious central city apartments, the process of change will be much slower. She has already purchased her house, and people do not upgrade homes the way they do cars or notebook computers. So she stays put longer than she might prefer, because she has sunk costs in her property. And when she does move out, her house doesn't disappear; it remains, for the next occupant, a house with a lot of space and a lot of driving, regardless of the tastes of that occupant. Lastly, our suburbanite may not move at all, but someone else, in the future, who has similar preferences may move to the spacious apartments in the centre city. All of this adds up to a subtle and slow-moving process of change. Policies that have mild but widespread individual effects, as many urban policies do, do not just alter the future of the present population. They also *create* new future populations.¹⁷ The time lag between the policy and the new population, and the built environment's adjustment to both, makes change hard to foresee.

¹⁷ For instance, cities that pursued urban renewal programs often removed those populations who would object to them, and created populations who benefited from them. Doubtless this gave renewal a temporary veneer of stability.

3.1 What do people want: are urban preferences substitutable and can we fully rank them?

There are, of course, a number of hypotheticals in the example we give above, although the basic tension—between the desire for space and the desire to drive less—has been reported in more than one survey of American homeowners. The standard view of preferences is that they are fully substitutable and there are elasticities between them. The substitutability of preferences should enable each of us to rank them, and enable the market to sort out the real, effective demand for urban space and infrastructure, so that one-best pareto-rankable solutions will emerge. In the short-run, this may indeed be what people do, choosing a flat in Covent Garden rather than a small house in Islington or a larger house in Crouch End or a detached house in Suffolk.¹⁸

Economic theory generally has little patience for the idea that people's internal preferences might conflict, or that preferences can't be perfectly ranked. Recent work in behavioural economics, however, has begun to lend such ideas more credence. David George (1999) complicates the revelation picture by introducing the idea of "second order preferences" which he defines as those things we would "prefer to prefer." Our second order preferences can differ from our revealed preferences both because the second order preference is subordinate to a conflicting preference for another good (as happens with bundling) or because other external incentives are aligned against it. Humans sometimes have anticipatory problems, and if a second-order preference has distant benefits and immediate costs, while a competing option has immediate benefits and distant costs, then the competing option is likely to prevail. George's example is his tendency to eat fast food when he is hungry—he would prefer that he did not, but the extra increment of immediate satisfaction he gets from McDonalds shifts the balance in favour of it. His revealed preference may not be stable, however, because it is accompanied by dissatisfaction. Or, to be more precise, the satisfaction

he gets, though immediate, also decays faster, while the foregone option—eating healthier— involves delayed but longer-lasting gratification (Frank 1999).

Latent dissatisfaction makes an unpreferred preference prone to change, even in spite of an outward appearance of firmness. If the external incentives shift, what seemed like a stable equilibrium can quickly unravel. In a standard goods market, when this happens, output can adjust relatively quickly and within a short time the market is stable again. But this doesn't happen in the built environment because, again, the adjustments are slow.

How do these changes manifest themselves? In the narrowest sense, people living within fixed budgets who demand both space and access have to cut back on other items of consumption: they make a lifestyle shift. Or the increased demand for space and access could encourage innovation in how they are supplied, breaking down and transforming the old links with density and accessibility as traditionally defined, in the process possibly giving rise to some new negative or positive externalities.¹⁹ The upending of traditional trade-offs between space and access could come in the form of government intervention: the zoning laws that require off-street parking spaces for every new development. Preferences emerge against a dynamic backdrop not just of what has historically been supplied, but in light of emerging new lifestyles, expectations, income levels and technologies. They emerge institutionally from “outside” the urban environment as much as from within it, but they have to find a concrete material expression within it. So the demands from imperfect substitutability create situations that are contradictory, in that they can have long-term price and quantity effects that are far from what standard theory tries to understand. Thus, housing and transportation choices can be motivated by relaxed income constraints or new income tradeoffs outside the housing/transportation budget, but the consequent effects on transport use and pricing, or on

¹⁸ We owe this example to Paul Cheshire.

¹⁹ Thanks to Ian Gordon for clarifying our reasoning on this latter point.

house prices, can be enormous and unanticipated. These effects can lead to externalities, and the externalities can in turn provoke further unanticipated reactions.

3.2 Are supplies of urban-ness convex?

Let's complicate our example of the suburban woman trading space for more driving. If this woman lives in the United States, it is entirely possible that she wants neither as much space nor as much transport as she has. What she may want instead is a good public education for her children. If the local schools are funded by the property tax, then exclusive communities will likely have better schools. Exclusive communities are generally exclusive because they practice fiscal zoning, usually in the form of large minimum lot sizes. One "buys" one's way into the community by being able to afford a large house, which is made valuable not just by its size but by the fact that the quality of local schools get capitalized into the home value. In essence, then, our hypothetical resident buys more house *and* more transport than she wants, in order to get the schooling she covets (Fischel 2002).

Land, complicated as it is, is not the sum-total of the supply side in cities. The supply side also involves public goods, like education, and the public goods are often bound up in what *occupies* the land (sometimes referred to as "place"). Almost no one can create land, but the making of places is a joint project of architects, developers, engineers, regulators and others. Although prices probably do a better job of coordinating these disparate sectors than any other system would, the coordination is highly imperfect, and a tremendous amount of information is still lost.

In addition, the fragmentation before the fact then suffers from interdependence after it. All of the creations of these separate communities (labour, housing and transport and government) come together and rub up against each other. Because the *ex ante* information on the qualitative and price effects of one another's actions is incomplete, the price

mechanism works better “after the fact,” and gives rise to more unintended consequences. In other words, the urban services and structure that are actually supplied can be very difficult to understand up front, when the choices are made, and they are – for the same reasons – inherently and probably unavoidably subject to all sorts of surprises. For example, our suburban woman might be enticed to move not by spacious city apartments (built with required parking) but by an increased number of in urban private and parochial city schools, which allow city living but suburban quality education. Or it could manifest as school vouchers, which detach school quality from residential location, but also sever its connection to property values. Here we have unintended consequences. Vouchers, intended to increase educational quality, could actually diminish it, if they remove the incentive for childless homeowners to fund schools (Fischel 2002).

Public goods suffer from their own revelation problem, in that people’s taxes depend on their demand for public goods, which creates an incentive for people to falsify their preferences and free ride. If a majority of people free ride, of course, the public goods will be underprovided, and revelation will provide an imperfect reflection of the public goods package that is actually desired (Stiglitz 1976).

The classic solution to the revelation problem for public goods was offered by Charles Tiebout (1957). The Tiebout hypothesis argues that competition between local governments will create a market in public goods, and let people reveal their preferences for public goods by moving to those communities that offer the package they like. Politicians, like the producers of private goods, will have an incentive to provide the goods demanded because the value of public investments gets capitalised into residents’ homes. For most homeowners the house is their single and indivisible asset, so residents have an incentive to closely monitor city hall and turn out those politicians who fail to deliver the proper package of public goods.

The Tiebout hypothesis has never lacked for criticism (Stiglitz 1976, Rose-Ackerman 1976, Donahue 1997), some of it valid and much of it spurious.²⁰ For our purposes a valid criticism of the Tiebout model is that it responds only somewhat effectively to the inertia of the built environment. People make their choices, but they are still choosing from a limited number of bundles, and the bundled choice sets are typically of very limited convexity. People cannot in general consume half a house in central London and then another half out in the suburbs.²¹ Yes, a few wealthy childless people – the *pied-à-terre* brigade – might buy a flat in the Barbican and a substantial house in Gloucestershire or Somerset, and a few very wealthy might buy a substantial apartment in the VII^{ième} arrondissement and a country house in Normandy or the Luberon. But these are not typical behaviours. And, as always, the hobgoblin of distorted prices rears its head. When the costs of one sector are externalised onto another one—if by choosing, say, a house with a lot of transport, some of the housing costs end up being dumped onto the transportation system, and some of the price of a home is reflected not in its mortgage but in the congestion at the end of the street—our understanding of preferences gets distorted.

Even with Tiebout, the aggregation of individual choices about land and public goods doesn't necessarily give us a city full of what we would "prefer to prefer." People often don't recognize that they have conflicting preferences, and often do not link their individual preferences, first or second order, to the social outcomes that result (if they do make this link, they generally try to reconcile the conflict). Although the options are generated through decisions made in separate institutional spheres (housing, transport, work, firm location), they come together in bundles. The tourists who are dragging their kids around beautiful historic neighbourhoods in European cities often cannot help but yield to the temptation to feed them at McDonalds, and the property market obliges. It is not clear that this outcome—the Piazza

²⁰ Many of Tiebout's critics respond only to his seminal article, and not to the subsequent improvements to it made by Oates (1969) and Hamilton (1976).

Navona decorated with the Golden Arches—is desired, either by the tourists, the residents, or perhaps even by the landlords. Once interdependency, context and non-convexity are taken into account, then it becomes clear that the revealed demands for urban-ness are likely to hide within them strong intransitivities with respect to individual elements of the bundles. In larger cities, where there are more institutions and communities of practice mixing together, the problem is likely to be more acute. Only if we simplify by extracting individual options from their contexts (built environment, long latency periods, locations fixed in the medium-run) can we find that an individual fully “prefers A to B and B to C, and hence A to C.”

Where there are intransitivities there can be unresolved tensions, points of less-than-full satisfaction. These can express themselves as “untapped markets” and lead to innovations in architecture, in transportation, in location, in lifestyles. These innovations can have strong effects on the urban environment. Where such types of individual “voice” are not possible, however, they may lead to exit, searching for better ways to live; or where neither is possible, they may lead to collective voice, i.e. politics to influence the environment.

3.3 A few more thoughts on instability and revelation

A longstanding tenet of political science, going as far back as the eighteenth century research of the Marquis de Condorcet, is that in instances of cyclical preferences (that is, where A is preferred to B, and B to C, but C to A) it is impossible to generate a single “winning” option; rather there will be conflicting majorities, and the electoral winner will be determined by who sets the agenda (because the difference would lie in which options were voted on first). But the winning option may not endure, because there will always be a latent majority capable of overturning the decision.

²¹ Thanks to Gilles Duranton for pointing this out.

This phenomenon is at work in cities in two ways, but in both it is complicated by durable housing, which makes the initial result harder to overturn. The first way, which we have already alluded to, is simply history, and the durability of past preferences. Even without considerations of political power, the range of current preferences is limited by past choices. The built environment constructed by one generation remains the built environment for the next. The density of central city Boston is both its status quo and a function of its past; most new construction in the Boston area after World War II has been at a very low density. Individual preferences do aggregate to social outcomes, but those social outcomes in turn constrain future preferences. New preferences can only be revealed on the margins, in the form of new construction, and of course new construction today will further constrain preferences tomorrow. Were cities wiped clean with each new market adjustment, this of course would not be a problem. But one reason urban areas expand outward rather than upward, preferences for density aside, is that it is almost always cheaper to build on vacant land than it is to tear down an existing structure and rebuild another one (Downs 1997).

Moreover, the built environment is not just an aggregation of past preferences; an argument can be made that it is an aggregation of past *minority* preferences. The amount of new construction in any given year is generally a very small portion of overall housing availability. In California, for example, only one percent of housing is constructed new each year; the 1999 American Housing Survey shows that only two percent of homeowners and less than one percent of renters live in dwellings constructed the year before. If the people who choose new construction have significantly different preferences than those who find housing on the resale market (and there is some evidence that they do) then the development industry will be catering to a minority, and this minority will in turn have a disproportionate influence over not just the development industry, but also over the options available for future

homebuyers (Myers and Gearin 2001). The physical results of past preferences for housing last longer than people themselves do.

Similar dynamics are at work in the political arena. Just as past individual preferences inhibit current and future choices, so too do past government interventions. Most theories of urban politics see the city government as an instrument for manipulating the externalities of growth, seeking to capture elevated land values and repel problems like traffic and homelessness (Peterson 1981; Swanstrom 1983; Logan and Molotch 1987). Tiebout effectively cleans away many of the problems associated with this calculus, but as we mentioned above, Tiebout's logic is derailed in the case of large cities. In large cities (over 100,000 or 150,000 people) homeowners have a harder time monitoring city hall, and there are fewer homeowners and more renters (who suffer from the "renter's illusion" that they pay no property taxes). Larger cities also have larger pots of intergovernmental money at stake, increasing the incentive of special interests to meddle in public policy. Tiebout's genius was to posit a situation where public goods could be supplied without politics. But in big cities the politics is still likely to emerge.

To the extent that politically-supplied public goods are produced in the interests of a powerful minority (i.e., large landowners with a disproportionate influence over city government -- especially in big parcel, low homeowner areas -- or politicians who see reputational benefits from overseeing spectacular building projects, bureaucrats who desire expanded power) the built environment reflects a combination of aggregated individual preferences and the material remainders of a vision imposed by people who were able to control the agenda of city building.

We see this best with the construction of geographically-immobile resources, such as infrastructure, which like many public goods are often conceived in a context of misaligned costs and benefits, and hence distorted incentives. Urban highways were oversupplied in the

United States (and many other countries) in the post-war period because the cities that built them did not pay for them; the federal taxpayers who did pay for them did so at very small individual burden to themselves, and the contractors who built them did so at massive gain. The oversupply of highways contributed to driving, which was itself underpriced, and the highway oversupply soon became a peak period undersupply, as congestion resulted. Congestion, because it disproportionately impacted the city centre, in turn led to the devaluing of downtown real estate, and probably also to an excessive dedication of downtown land to auto infrastructure (Small, Arnot and Anas, 1999). Congestion also fuels the migration of people outward, because dispersal lowers commute times for some. Yet rather than take steps to correct the price mechanism through congestion charges, many cities have turned to rail systems, which are themselves public choice problems (paid for by federal taxpayers and supported by construction unions), and parking requirements, which are de facto fees on developers that subsidize automobility (Shoup 2005). Thus we have urban transport systems with an excess demand on some auto infrastructure (roads and highways), an excess supply of others (parking spaces) and a supply of public transit that wildly outstrips its demand.

The problem of misallocated transportation infrastructure most readily evokes images of Los Angeles and cities like it, but this is not a dilemma unique to young cities of the Sunbelt. Consider the construction of Interstate 93 in Boston. A federally funded highway, it demolished a neighbourhood and sliced the city apart. It is now being taken down through another federally funded highway project (the Big Dig), which in turn will release huge swathes of land for developers to work on (Altshuler and Luberoff 2002). Neither the highway nor its demolition have much to do with the standard adjustments in markets, nor with the aggregated preferences of individuals. But they have defined Boston's urban form, and the subsequent choices of many individuals who live there, for almost half a century. Examples similar to this one are legion.

In the Paris region, abundant but radial-style public transport so increases the value of the centre city and near-western suburbs that it has historically devalued the rest of the suburbs, because they are relatively poorly served and have levels of amenities so low compared to the privileged areas. This leads both to the extreme peak time congestion of public transport and roads, and to under-investment in potentially attractive suburban locations. There is a vicious circle of spatial sorting of elites into the centre, followed by more investment in it (and a better tax base), more gap with the lesser areas, and so on. As a consequence, it has proven almost impossible to break the value of centrality, in practice and in perceptions. Though high housing costs have induced some movement outward, mostly what has happened is readjustment of budgets on the part of those who want the good central and near-western locations. This is quite different, of course, from what has happened in London, New York, or Los Angeles, where the distribution of amenities is more even and land values are much more polycentric.

Robert Dahl, in his classic study of city governance (1961), noted that an election reveals only the first preference of a majority of voters with regard to those preferences they can choose from. Knowing who won an election is thus quite different from knowing what people want. Candidates are also bundles—assemblages of positions and issues that cannot be disaggregated—and for this reason that many votes are reluctant. It is also for this reason that electoral politics are prone to sudden reversals. In much the same way, understanding contemporary urban spatial structure does not necessarily give insight into the preferences of the individuals in the city.

Nor, in the city, can the reversals be as smooth. In electoral mathematics, the problem of decisive influences tipping political decisions is offset by the fundamental instability among conflicting majorities: political decisions often “tip back” to something close to the optimum. The volatility of preferences leads to a volatility in governing coalitions, and

prevents any one vision from dominating. It is difficult to see how this works in urban space, however, because the winning decision is often written in asphalt and steel. Support for programs may ebb and flow, but taking down a highway is not as easy as rolling off a log.

4. SHOULD WE BOTHER TO IMPROVE URBAN ECONOMIC THEORY?

Thinkers who attempt to deal with cities and their transformation have tended to respond to urban complexity in two very different ways. On the one hand, the methodological individualists (mostly economists) have generally gone back to basics and tried to cut through the empirical outcomes by arguing that they emerge from a set of simple behaviours. To do so, they subject preferences, supplies and demands for urban-ness to the competitive market model; but as we have seen above, some of the standard results about the existence and efficiency of competitive equilibria are not applicable and, more importantly, even when they are, there can be complex real-world effects of getting to them that transform cities. Others have dealt with the overall causes of resurgence, emergence and decline by trying to determine which major, “exogenous” forces have driven the geography of urban growth, from technology to skilled worker preferences, to the quest for amenities.

Other, radically different, traditions emphasise the social and political dimensions of the city over individual preferences and choices. Political scientists stress the ways that urbanism is an outcome of politics and interests, which leaves urban political structures open to manipulation by powerful elites. Sociologists also emphasise the city as a shaper of norms, attitudes and behaviour, a material container for socialisation and integration. These insights are valuable, but if taken too far, they suffer from a “disaggregation” problem of major proportions. It’s not as if the collective level eliminates all the conflict and differences between individuals – within and between business lobbying groups, neighbourhood political organizations, or any other collective entity. This is what has been aptly criticized for being an

“oversocialised” conception of individuals, essentially eliminating them (and most of the complexity of the city) from the picture.

These two positions correspond to the standard debate between those who believe in the market and those who believe in planning. And to do them justice, in the real world, few economists believe that no urban planning is necessary, and few structuralists believe that the city can be entirely planned from above. As was noted earlier, public choice theory responds in its own way to these dilemmas, arguing that the inexorably inelastic and interdependent nature of supplies, combined with governmental intervention, leaves us no choice but ex post solutions to urban problems, via markets in governmental services and decisions and, by extension, in the private goods that are supplied. So, planning and politics fail, but markets are also flawed. We must allow markets to resolve the problems, after the fact, as people move around and jurisdictions compete for their money and preferences. A corollary of this point of view is that we would not need theories to understand urban development ex ante, because it gets worked out after-the-fact. But as we also noted, there are strong reasons to believe that these solutions make only a limited contribution to the development and transformation of cities and regions. Improving cities requires does ex ante knowledge of how they evolve; it’s just that this knowledge doesn’t automatically mean that we want to try and plan everything. Our emphasis on the complexity of preference formation, demand, and supply of urban-ness certainly points toward the need to rethink how planning in an urban context affects complex sequences of preference formation, choice, and behaviours, not just how it builds stadiums, roads, housing and bricked sidewalks. It’s the long-term and sometimes not-very-apparent sequences of reaction and change that are more important than the direct effects of planning.

Thus, in this more realistic approach to urban dynamics, the focus is on identifying real points of contact between preferences/demands and possible supplies, and hence how people behave in creating cities. In so doing, it would enable us to identify points where

innovations (new technologies, new types of development) in supplying demands for urban-ness might alter the substitutability of preferences, creating genuinely better choice sets with more overall utility and welfare, and less collateral damage.

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