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COVID-19 and the Cities

As a graduate student, your blogger once went to a seminar by George Sternleib. The topic had something to do with urban renewal, but the quote could apply to anything. "If you want a prediction for the future" said Prof. Sternleib, "listen to fortune tellers. They do a better job than we do." So with that in mind, we talk about COVID-19 and the cities.

Economic analysis has shown that densely packed cities are more productive than suburbs or rural areas. Company profits are higher in cities, and they are willing to pay higher land rents and higher wages. In a "system of many cities", however, rents and wages reach an equilibrium through the demand for land and the supply of labor. San Francisco is more desirable than Detroit, which leads to much higher land rents. Because people (at least until recently) wanted to work there, they supplied more labor, lowering the general wage level relative to what it might have been. Roughly speaking within a system of cities, the rent:wage ratio in San Francisco adjusts such that workers in similar jobs and similar industries would be indifferent between being there and in Detroit. Ignoring the last several weeks, your blogger had been hearing that some of Detroit's lost younger generation (young adults in their 20s and 30s who had left the area) were finding it too expensive to live on either the East Coast (New York, Boston, Washington) or the West Coast (Seattle, San Francisco, Silicon Valley), and were moving back. The exact numbers are hard to verify in real time, but they seemed plausible.

What will happen now? The COVID-19 outbreak has had two major impacts in the land and labor markets. First, there has been a massive loss of wealth, the type of wealth that leads people to bid up the price of land and housing. This happened in 2007-2009, and it took housing markets years to recover. Some (Rust Belt cities such as Detroit, Cleveland, and Buffalo) have never really recovered. It is hard to know how the housing impacts will be distributed, but one would also expect for the bubbles in California, Washington, and the East Coast to be deflated. This will lead to lower housing market density and lower rents.

In terms of the labor market, it is clear that the gains to density in productivity will be offset by the disease impact over overly dense contact, in offices, places of entertainment, or sporting events. We have learned to live and be productive at lower densities in the past month. Until we have a vaccine, lower density will be the way to go. Even then, the work-arounds (working from home, getting delivery from restaurants) may turn out to be more permanent.

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So, the future. It looks like lower densities in the places that have been enjoying the fruits of high density. Somewhat lower rents for housing and land everywhere. Wages could go either way, because there will be a decrease in labor demand, but also a decrease in labor supply. Places with lower density will become more attractive to live in and work.

The long term? Many scholars of the 1918-1919 Spanish Flu epidemic feel that the impacts lasted for several years. Looking at their own country, and its serious bout with COVID-19 Italian social scientist Arnstein Aassve and colleagues write:

> analyses suggest that experiencing the Spanish flu and the associated condition of social disruption and generalised mistrust had <u>permanent consequences</u> [emphasis added] on individual behaviour in terms of lower social trust. This loss in social trust constrained economic growth for many decades to follow. These findings have important implications for our understanding of the economic consequences of different approaches to managing the COVID-19 crisis. https://voxeu.org/article/pandemics-and-social-capital

Careful researchers, they warn that it is difficult to make predictions in the midst of an epidemic, but it is wise for social scientists and policy-makers to heed their findings.

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