

NEW YORK IS TOO SMALL! New evidence that the world's most productive cities should be even bigger

The NIMBY-ism ('not in my backyard') of local politics leads to a bias against large cities that constrains national productivity growth. That is the central conclusion of a study by **Frederic Robert-Nicoud, Nathan Seegert** and colleagues, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015. These researchers find that the world's most productive cities – such as New York City and San Francisco – may be vastly undersized and that society may be better off with inhabitants crowding into half as many cities as they currently do.

Cities become more productive by clustering skills and resources together. But all kinds of problems can build up as cities become larger (such as traffic jams), leading to the widespread belief that big cities are often 'too big'. This study looks at the productivity of cities as they grow and finds that instead of being constrained, the most productive cities should become even larger so that everyone can benefit from living in them.

While individual cities have plenty of reasons to keep themselves smaller than they could be – with strict land regulation like green belts and other types of NIMBY-ism - this means that potential residents end up moving to places where their overall wellbeing is much lower. From society's point of view, it is often better to 'overcrowd' (from the local perspective) the most productive cities rather than establish too many new cities that are less productive. The authors conclude:

'Our conclusions for the United States seem to hold for most developed countries with national tax systems and local authorities with the right to impose NIMBYism. For developing countries, we find greater merit in the argument that cities are oversized, although the problem of over-urbanisation is less severe than is previously believed.'

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The conventional wisdom is that market forces drive cities to become too large and that public policy should limit city sizes. Policy-makers in many countries seem to agree. Chinese policy once restricted rural-urban migration through its Hukou system, and encouraged the building of new urban centres, many of which have remained uninhabited 'ghost cities'. The official policy in many European countries is de facto – when not de jure – one of urban containment.

But are cities always too large? This study finds that the NIMBY-ism ('not in my backyard') of local authorities and federal income taxes inefficiently bias many urban systems against large cities. Specifically, the researchers find that the most productive cities, such as New York City and San Francisco, may be vastly undersized and that society may be better off with inhabitants crowding into half as many cities as they do currently.

Cities cluster resources and improve expertise in a way that enhances productivity, as has long ago been recognised by British economist Alfred Marshall and American urban sociologist Jane Jacobs. In rich countries, doubling city size increases labour productivity by several percentage points, particularly for highly skilled workers.

But greater agglomeration also comes at ever-higher urban costs, as anyone who has driven in a major city during rush hour can attest. Together these forces imply that increasing population initially increases the net urban benefit to individuals but eventually decreases it.

Taking a city in isolation, as Mayor De Blasio does in his efforts to maximise the wellbeing of New York's current residents, the optimal population stops before urban benefits decrease. All cities have this incentive to limit population, but not all cities are equally suited to have large populations due to the different advantages they offer. For example, NYC with its magnificent harbour is better suited to a large population than Omaha, Nebraska.

But the NIMBY-ism actions of local authorities that restrict the size of their cities (either directly as in Portland, Oregon or indirectly using stringent land use regulations, as in New York City) do not maximise the wellbeing of an entire population.

Specifically, these restrictions cause potential residents of NYC to move to cities where the net benefits are considerably lower. The excessive decentralisation of population towards inferior sites can considerably decrease the benefits of urbanisation, and even cause too many workers to stay in rural areas.

This study finds that, from the point of view of society as a whole, it is often better to 'overcrowd' (from the local perspective) the most productive cities rather than establish too many new cities that are less productive.

Central governments also discourage workers from living in more productive cities simply by collecting more in taxes from workers who live in places where wages are high. This practice de facto discourages the wage-enhancing process of urban agglomeration and encourages households to move out of the most productive cities.

The study formalises these ideas in an economic model that is then taken to data. The researchers find that the current US urban system is inefficient and biased against large cities.

These conclusions seem to hold for most developed countries with national tax systems and local authorities with the right to impose NIMBYism. For developing countries, there is greater merit in the argument that cities are oversized, although the problem of over-urbanisation is less severe than is previously believed.

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Are Cities Too Large?

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