Urban costs around the world

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How do urban costs inhibit economic development?

Urban costs: constraints on building and transportation technology

- Limit cities' sizes and absorptive capacity
- Three margins: building up, out, and commuting costs

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Why should we care? Cities are engines of development

- Large rural-urban wage gaps, sizable returns to urban migrants
- Anticipated increases in urbanization due to structural transformation & climate change

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What are the urban costs faced by cities around the world?

What would the gains be if urban costs were reduced?

Answering these questions in a data-poor environment

Answering questions of this scope requires leveraging data that is available globally

- Classical urban theory + global satellite data to analyze urban form

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- Sufficient stat: the urban cost elasticity. 35% larger in dev'ping cities' vs. rich world cities

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- Lowering urban costs to U.S. level raises welfare by 66% in dev'ping nations

Contributions to the literature

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Scope for policy: urban road paving

- Road paving *can be* a cost effective policy, but targeting matters

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In paper: high urban costs hinder climate change adaptation

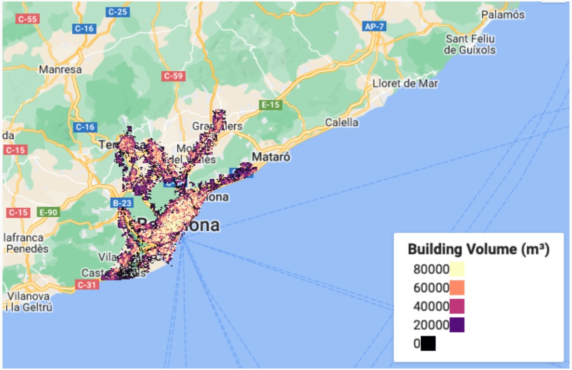
- Simulate climate damages to nations' agricultural sectors
- $2\times$ urban cost elasticity, climate damages $\uparrow$ 8%

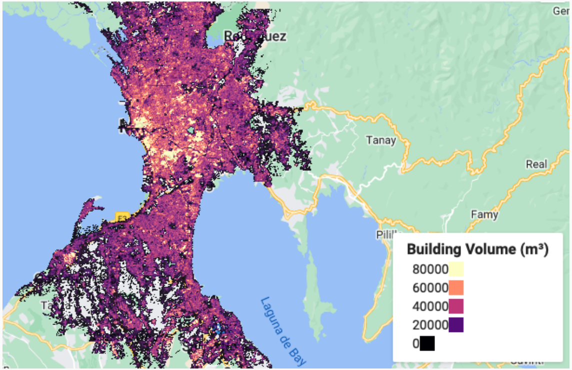
Road map

1. What do we know, and why might we think urban costs vary around the world?
   - Data: Global Human Settlement Layer (GHSL), remote-sensed boundaries for cities of >50K persons
   - Built volume data at 100m $\times$ 100m
2. Quantitative model of an urban system
   - Link urban form to urban costs
   - Fully GE: think carefully about measurement, & capture gains from reallocation in counterfactuals
3. Model estimation with geospatial data
   - Recover components of urban costs with geospatial data and model-consistent regressions
4. How important are urban costs?
   - Counterfactual: measure gains from lowering urban costs to the U.S. level
   - Explore urban road paving as a policy intervention

What do we know about cities around the world?

A tale of two cities: Barcelona, Spain and Manila, Philippines





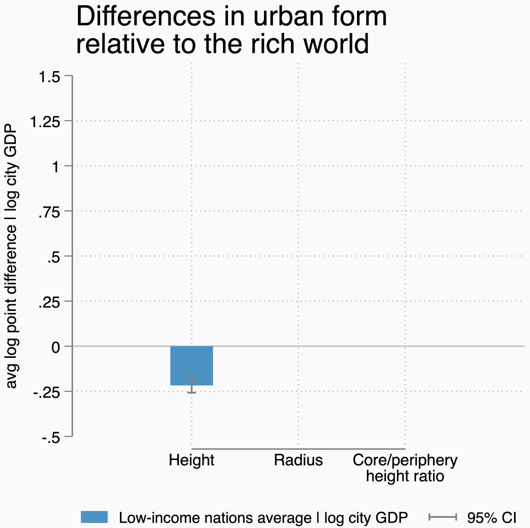
In 2015, GDP of both $\approx$ \$100 billion, GDP/cap Spain: \$25,000, Philippines: \$3,000.

Manila: shorter, wider, but more packed in

What do we know

Conditional on city income, compared rich-world cities, cities in developing nations...

1. are on avg. 22% shorter,



What do we know

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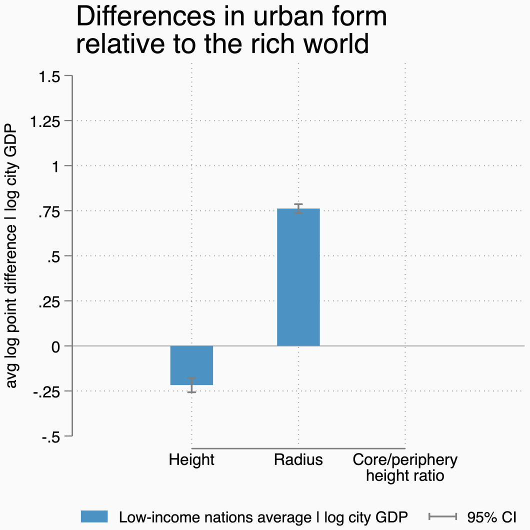
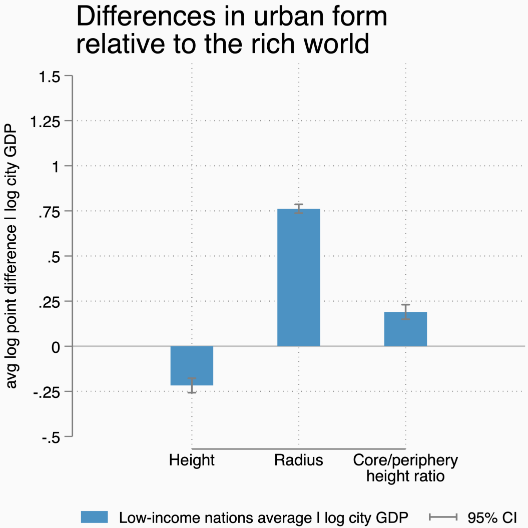
2. but are over 75% wider,



What do we know

Conditional on city income, compared rich-world cities, cities in developing nations...

1. are on avg. 22% shorter,
2. but are over 75% wider,
3. and average height in the core *relative* to the periphery is 19% taller



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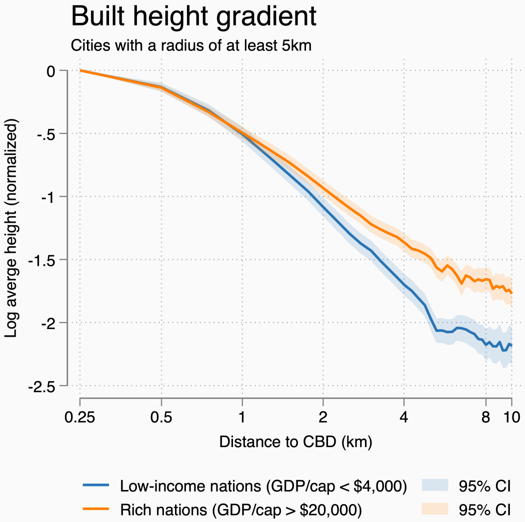
4. and the average city has a skyline that is 33% steeper

Cross-country regressions   Cross-country figures



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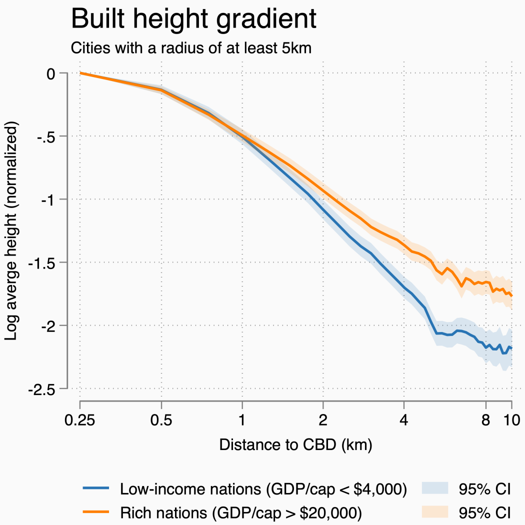
Cross-country regressions Cross-country figures

Developing cities build out, not up, but crowd mass in their downtowns



A quantitative model of cities

A quantitative framework to link cities' internal structure to the macroeconomy

Mass L households choose among cities i (or agricultural sector) to live and work, and where to live (x, ϕ) within cities.

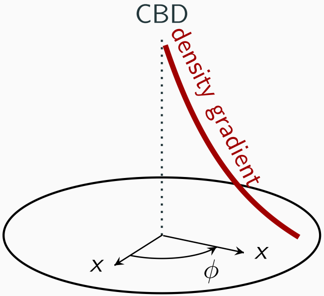
Households earn wage w_i, consume traded goods and floorspace, and pay **commuting costs** in utils

Monocentric cities with endogenous radius X_i.

Will only study symmetric allocations along arcs ϕ

A continuum of identical developers construct **urban land** and **floorspace**.

Cities produce traded urban varieties, agricultural sector produces a freely traded numeraire good.



Household preferences

Each household ν solves $\max_{i,x,\{c_j\},h} \; U_\nu(\{c_j\}, h, i, x)$,

$$U_\nu(\{c_j\}, h, i, x) = A_i(x) \left(\frac{C}{\alpha}\right)^{\alpha} \left(\frac{\psi^H h}{\beta}\right)^{\beta} \left(\frac{c_0}{1-\alpha-\beta}\right)^{1-\alpha-\beta} \epsilon_i(\nu), \quad C = \left(\sum_{j=1}^{N} c_j^{\frac{\sigma-1}{\sigma}}\right)^{\frac{\sigma}{\sigma-1}}$$

facing a budget constraint, $\sum_{j=1}^{N} p_{ji} c_j + c_0 + q_i(x) h \leq w_i$.

$\epsilon_i(\nu)$ is iid $\sim$ Fréchet$(1, \varepsilon)$. ψ^H - quality adjustment

Tradeoff: Amenities $A_i(x)$ with floorspace prices $q_i(x)$

Urban technology: τ_i, γ_i, ρ_i

Cities' amenities supply function:

$$A_i(x) = \underbrace{\bar{A}_i}_{\substack{\text{citywide}\\ \text{amenity}}} \times \underbrace{(x)^{-\tau_i}}_{\substack{\text{location-specific}\\ \text{commuting costs}}}$$

A continuum of identical developers build urban land and floorspace, generating supply curves,

$$\underbrace{H_i(x) = \frac{Z_i^H}{\psi^H} q_i(x)^{\gamma_i},}_{\substack{\text{floorspace supply}\\ \text{per unit land}}} \quad \underbrace{\pi X_i^2 = \frac{Z_i^X}{\psi^X} r_i(X_i)^{\rho_i}}_{\text{land supply}}$$

τ_i, commuting cost elasticity: transportation infrastructure

γ_i, floorspace supply elasticity: verticial building constraints (bedrock, regulation...)

ρ_i, land supply elasticity: increasing marginal costs to weave land into the urban fabric

Los Angeles: build into the Hollywood Hills; Singapore: land reclamation Microfoundation

ψ^H, ψ^X - quality adjustment terms, assumed constant within a nation

Production

Urban sector

Each city produces a unique urban variety traded with iceberg costs $\delta_{ij} \geq 1$,

$$y_i = Z_i^y L_i, \quad Z_i^y = \underbrace{\bar{Z}_i^y}_{\text{fixed}} \underbrace{\left(\frac{L_i}{\pi X_i^2}\right)^{\zeta}}_{\text{agglomeration}}$$

Note: this is a model in which *density* is endogenous! Average vs. experienced density

Rural sector

The rural sector produces the freely traded numeraire good with rural land and labor,

$$y_0 = \bar{Z}_0^y \left(L_0\right)^{1-\mu} \left(T_0\right)^{\mu}$$

Equilibrium

Primitives,

- Urban development: technology parameters $\{\boldsymbol{\tau}_i, \boldsymbol{\gamma}_i, \boldsymbol{\rho}_i\}$ & fundamentals $\{\bar{A}_i, Z_i^H, Z_i^X, \psi^H, \psi^X\}$
- Urban production: TFP $\{\bar{Z}_i^y\}$, agglomeration strength ζ, & trade costs $\{\delta_{ij}\}$
- Households preference parameters $\{\alpha, \beta, \sigma, \varepsilon\}$
- Agricultural production: land share in production, μ

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An equilibrium is a population distribution across locations $\{L_i\}$, across sites in cities $\{L_i(x)\}$, urban radii $\{X_i\}$, floorspace prices $\{q_i(x)\}$, land rents $\{r_i(x)\}$, goods prices $\{p_i\}$, wages $\{w_i\}$, and common urban utility $\{U_i\}$, such that

1. Households, developers, and firms maximize, taking prices as given,
2. Within each city, all households live somewhere + spatial eq'm holds, $U_i(x) = U_i$,
3. Floorspace and goods markets clear
4. Profits: agricultural workers earn their average product, dev't profits accrue to land

Full definition Existence / uniqueness

The urban cost elasticity combines all elements of the urban technology

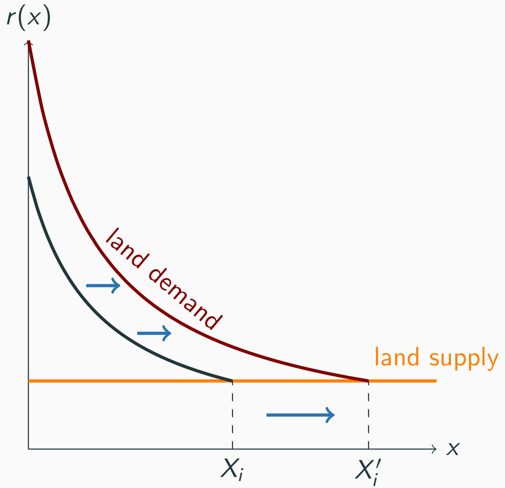
The urban cost elasticity,

$$\kappa_i \equiv \frac{1}{1+\rho_i}\frac{\beta}{1+\gamma_i} + \frac{\rho_i}{1+\rho_i}\frac{\tau_i}{2}$$

Elasticity of city indirect utility to city population, holding wages and traded goods prices fixed.

% increase in consumption utility required to offset the costs from a 1% increase in city population.
(Combes et al., 2019)

$$\underbrace{\rho_i \to \infty}_{\text{land supply is perfectly elastic}} \implies \underbrace{\frac{\tau_i}{2}}_{\text{all congestion from commuting costs}}$$



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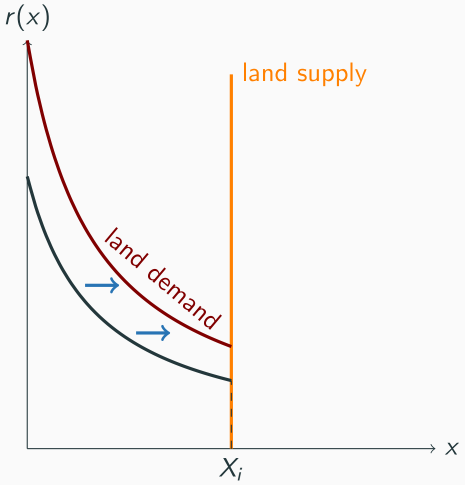
Elasticity of city indirect utility to city population, holding wages and traded goods prices fixed.

% increase in consumption utility required to offset the costs from a 1% increase in city population. (Combes et al., 2019)

$$\underbrace{\rho_i \to 0}_{\text{land supply is perfectly inelastic}} \implies \underbrace{\frac{\beta}{1+\gamma_i}}_{\text{all congestion thru floorspace market}}$$



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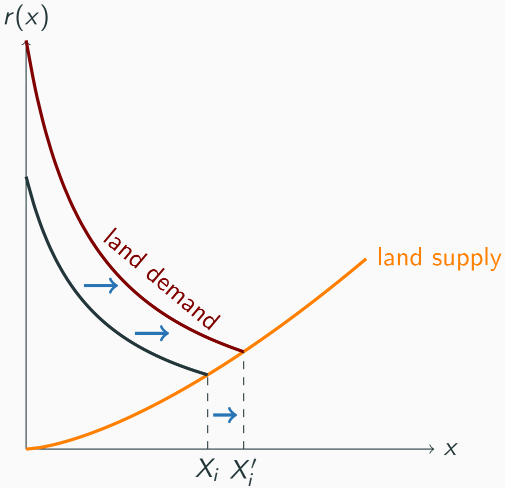
generally, just κ_i



Estimating components of the urban technology

Data

Goal: estimate parameters that govern the urban technology,

$$\underbrace{\tau_i}_{\text{commuting costs distance elasticity}} \qquad \underbrace{\gamma_i}_{\text{floorspace supply elasticity}} \qquad \underbrace{\rho_i}_{\text{land supply elasticity}}$$

Data:

- GHSL remote sensed urban agglomerations i of over 50K persons, globally
- Built volume distribution within cities, and their physical expansion over time
  - $H_i(x)$ – built height (m), πX_i^2 – built area (km^2)
- City centers – Google Maps. (Working on estimating these)
- $w_i L_i$: VIIRS nightlights
- L_i: Gridded population of the world
- geophysical observables (slope, soil, etc)

Data

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Moments:

- Building height gradient $\rightarrow -\tau_i \gamma_i$
- Height-income relationship across cities $\rightarrow \gamma_i$
- Time series on area and income within cities $\rightarrow \rho_i$

Taking the model to data – measuring building height gradients

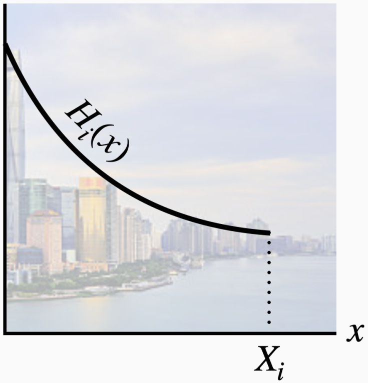
Internal structure,

$$\frac{d \log H_i(x)}{d \log x} = \frac{-\tau_i \gamma_i}{\beta}$$

Skyline gradient depends on:

- Costly for households to build out (τ_i high)
- Cheap for developers to build up (γ_i high)

AMM logic

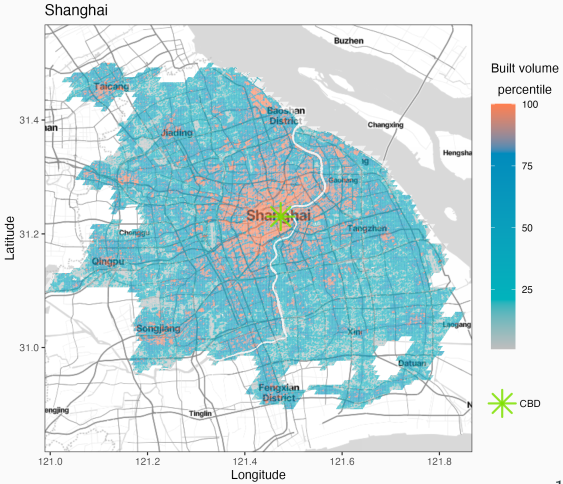


Shanghai's skyline.

Taking the model to data – measuring building height gradients

Data: Global Human Settlement Layer (GHSL)

- $\approx$10,000 cities i of $\geq$50K people
- $H_i(x, \phi)$ (avg height $\times$ built surface) at 100m$\times$100m pixels
- x: distance to Google Maps' downtown
- $\geq$300 million observations



Taking the model to data – measuring building height gradients

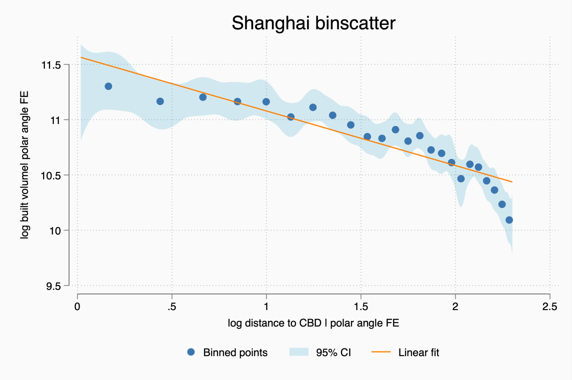
Poisson estimator $-\tau_i\gamma_i/\beta$ for each city,

$$\log H_i(x,\phi) = -\frac{\tau_i\gamma_i}{\beta}\log x + \xi_{i,\phi} + t_i(x)$$

Adjustments,

- reweight to undo rise in observations as $x\uparrow$
- Shrink to country mean (no $\widehat{-\tau_i\gamma_i/\beta} > 0$)

Empirical Bayes' estimator

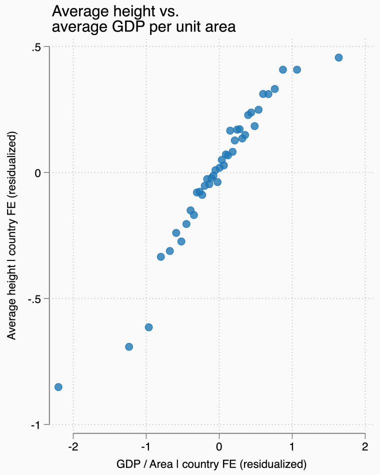


'Binsreg' of log built volume against log x, conditional on polar angle fixed effects, weighted

Measuring the floorspace supply elasticity (γ_i) in the cross-section

Model implied estimating equation,

$$\underbrace{\log \overbrace{\bar{H}_i}^{\text{total built volume}} \Big/ \pi X_i^2}_{\text{average height}} = \frac{\gamma_i}{1+\gamma_i}\left(\log w_i + \log \frac{L_i}{\pi X_i^2}\right) + \varsigma_i$$



'Binsreg' conditional on country fixed effects, in logs

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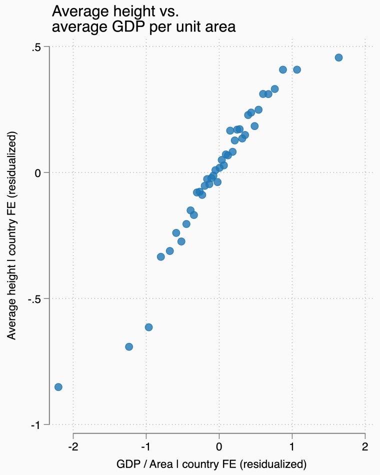
ς_i contains Z_i^H. $\rightarrow$ Productivity instrument for w_i, $\bar{Z}_i^y$.

- Control for density, country FE, geophysical controls
- IV generated through model inversion Instrument construction



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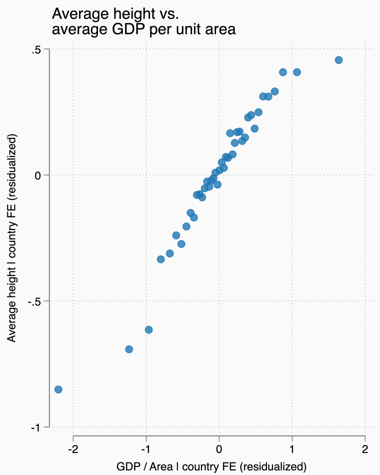
Model $\frac{\gamma_i}{1+\gamma_i} = G_i'\Gamma$.

- G_i: Slope, elevation, soil density, clay, sand, water, WB regulatory measure



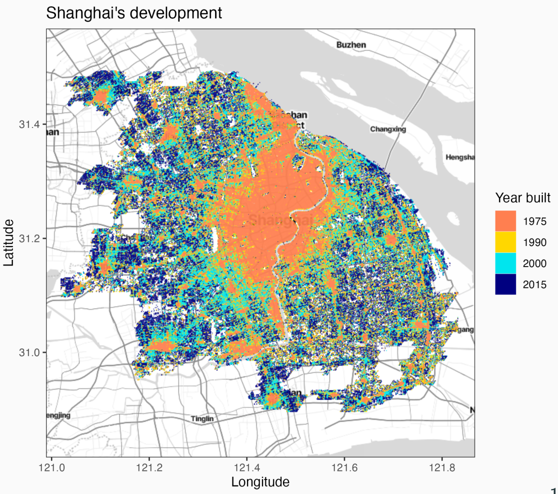
'Binsreg' conditional on country fixed effects, in logs

Measuring the land supply elasticity (ρ_i) using the time series on urban growth

Model implies,

$$\log \pi X_i^2 = \frac{\rho_i}{1+\rho_i} \log w_i L_i + \xi_i$$

where ξ_i contains urban land construction TFP, Z_i^X.



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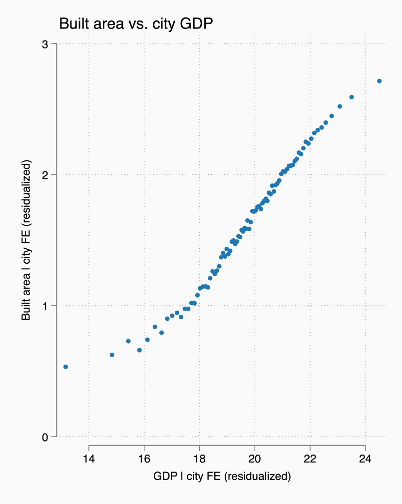
Identification using the time series:

$$\log \text{area}_{it} = \frac{\rho_i}{1+\rho_i} \log w_{it} L_{it} + \underbrace{\xi_i}_{\substack{\text{city} \\ \text{FE}}} + \underbrace{\xi_{rt}}_{\substack{\text{region-year} \\ \text{FE}}} + e_{it}$$

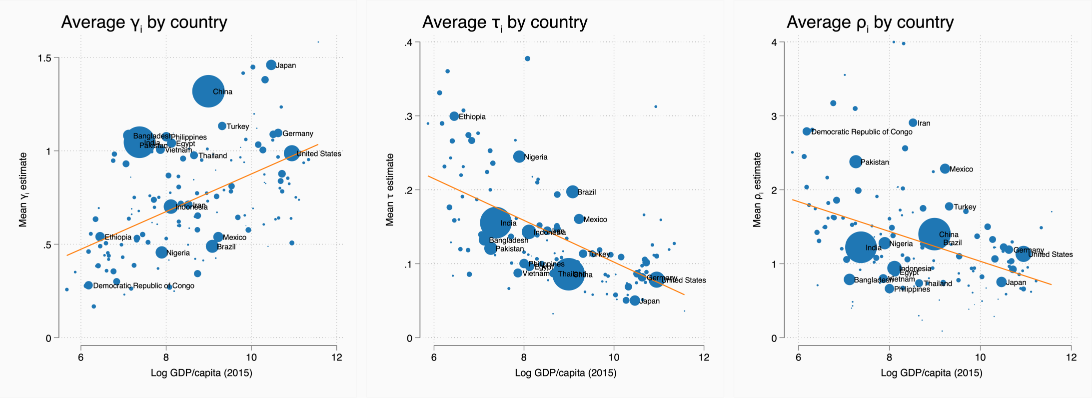
Adjustments,

- GDP time series measured with error – instrument with DMSP-OLS nightlights.
- Parameterize $\frac{\rho_i}{1+\rho_i} = G_i' \Omega$.



'Binsreg' conditional on city fixed effects, in logs

Estimation results – average $\hat{\gamma}_i, \hat{\tau}_i, \hat{\rho}_i$ vs. nat'l GDP/cap

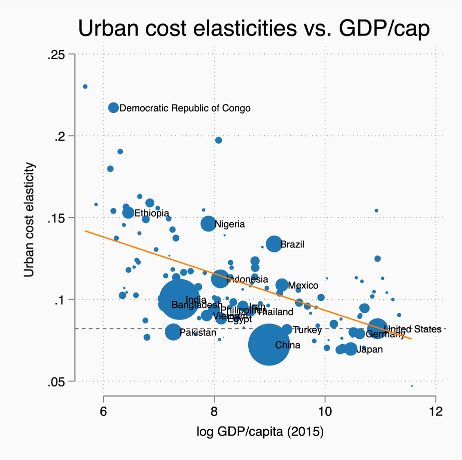


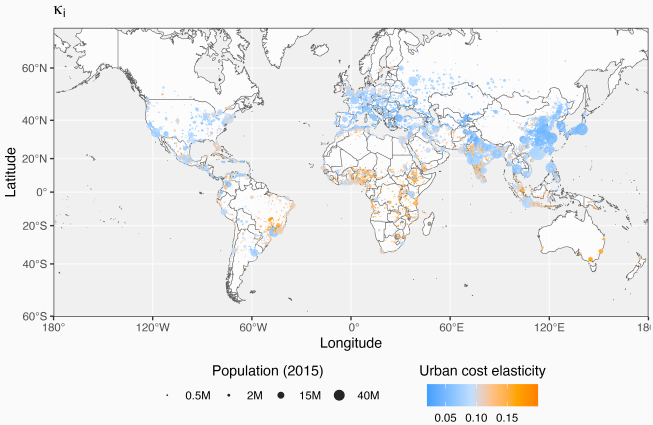
γ_i coefficient estimates | ρ_i coefficient estimates

USA comparison: Saiz (2010) / Baum-Snow & Han (2024) | Akbar et al. (2023/2024) comparison

γ_i map | ρ_i map | τ_i map

Urban cost elasticities





Levels of urban costs | Table: regional breakdown | Table: κ_i vs. city size

Counterfactual analysis: How do urban costs matter for economic development?

How important are urban costs?

1. What are the gains associated with lowering urban costs to the U.S. level?
   - Lower the urban cost elasticity (κ_i) to the U.S. level

Calibrated parameters Climate change counterfactuals

How important are urban costs?

1. What are the gains associated with lowering urban costs to the U.S. level?
   - Lower the urban cost elasticity (κ_i) to the U.S. level
2. Is urban road paving cost effective policy to lower urban costs?
   - Lower commuting cost elasticity (τ_i), after projecting it onto measures of transportation infrastructure

Calibrated parameters Climate change counterfactuals

How important are urban costs?

1. What are the gains associated with lowering urban costs to the U.S. level?
   - Lower the urban cost elasticity (κ_i) to the U.S. level

2. Is urban road paving cost effective policy to lower urban costs?
   - Lower commuting cost elasticity (τ_i), after projecting it onto measures of transportation infrastructure

3. In paper: Do high urban costs hinder climate change adaptation through urbanization?
   - Shock agricultural amenities and productivities based on anticipated climate impacts

Calibrated parameters Climate change counterfactuals

Lowering the urban cost elasticity (κ_i) to the U.S. level

Experiment: lower κ_i so that on average, it is the same as in the U.S.

Goal: assess the stakes, illustrate model mechanisms

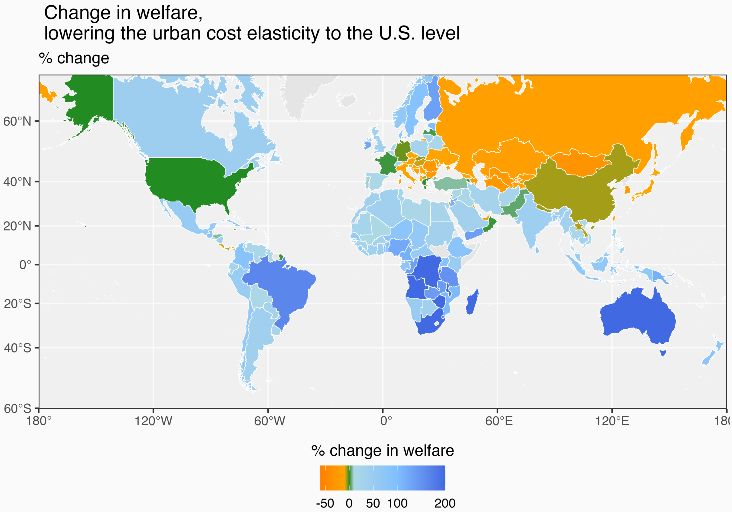
Outcome of interest: Welfare (expected utility) in country n, $\mathcal{W}_n = \left(\sum_i \left(\tilde{A}_i \frac{w_i}{P_i^\alpha}(w_i L_i)^{-\kappa_i}\right)^\varepsilon\right)^{1/\varepsilon}$.

$$\frac{d\mathcal{W}_n}{\mathcal{W}_n} = \text{direct effect} + \text{indirect effect}$$

$$\text{direct effect} = \underbrace{-\sum_i \left(\frac{L_i}{L_n}\right) \kappa_i \log(w_i L_i) \frac{d\kappa_i}{\kappa_i}}_{\text{rotating the `urban cost curve'}}$$

$$\text{indirect effect} = \underbrace{\sum_i \left(\frac{L_i}{L_n}\right) \left(\frac{d(w_i/P_i^\alpha)}{(w_i/P_i^\alpha)} - \kappa_i \frac{d(w_i L_i)}{w_i L_i}\right)}_{\substack{\text{price changes capitalize gains} \\ \text{from spatial reallocation}}}$$

Lowering the urban cost elasticity (κ_i) to the U.S. level – overall welfare effect

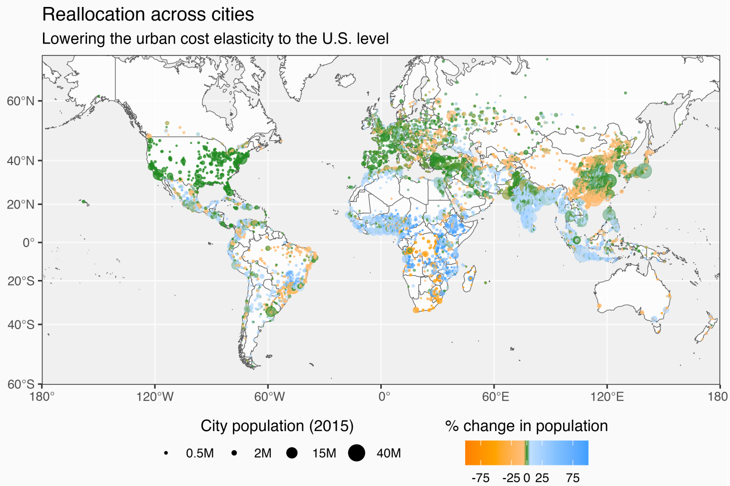


Average welfare gain in developing nations: 66%, 8.8pp increase in urbanization

Scatter: welf, urb

κ_i elements

Lowering the urban cost elasticity (κ_i) to the U.S. level – overall welfare effect

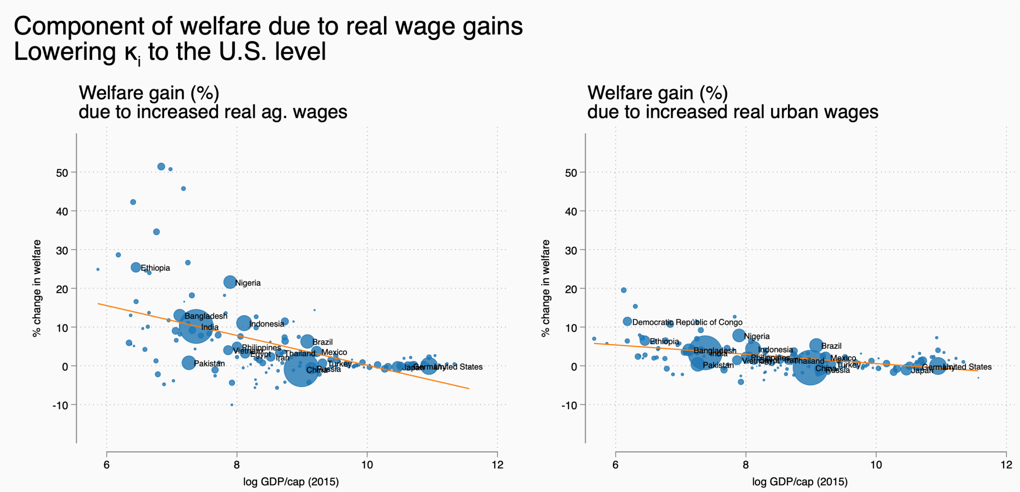


Average welfare gain in developing nations: 66%, 8.8pp increase in urbanization

Scatter: welf, urb

κ_i elements

Lowering the urban cost elasticity (κ_i) to the U.S. level – decomposing the gains



In developing nations: real wage gain in ag. on avg. 18%; real wage gain in urban 4% Lower the level

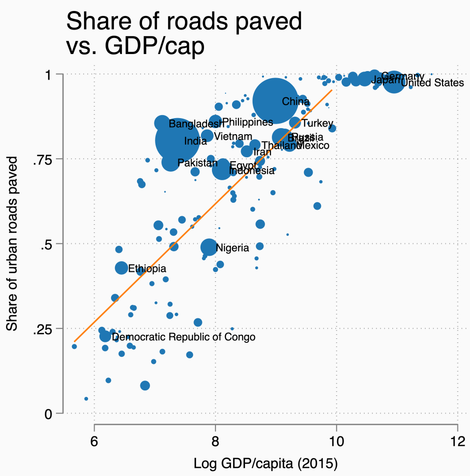
Can urban road paving lower τ_i cost-effectively?

47% of the variation in κ_i is explained by τ_i

partial R^2s

Dev't world: many unpaved urban roads

Data: OpenStreetMap



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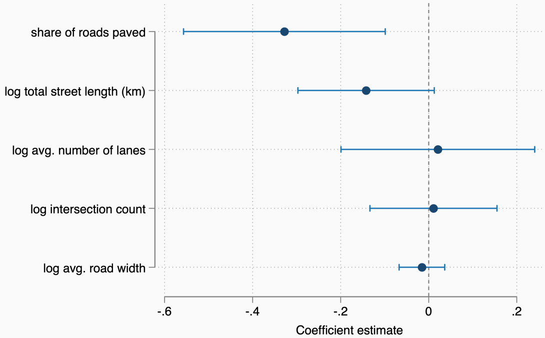
$\log \tau_i$ correlates with road char'cs (OSRM)

- conditional on city GDP, country FE

Correlations between log τ_i and infrastructure



incl. country fixed effects, city size & primacy controls

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Dev't world: many unpaved urban roads

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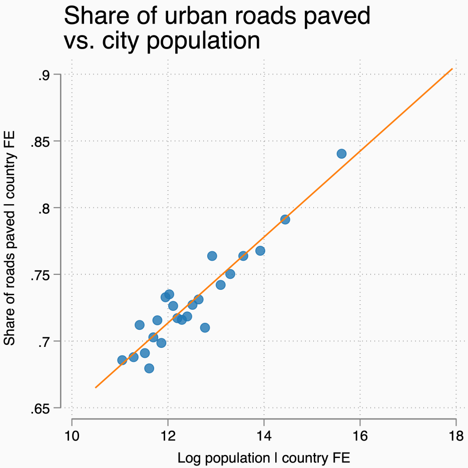
$\log \tau_i$ correlates with road char'cs (OSRM)

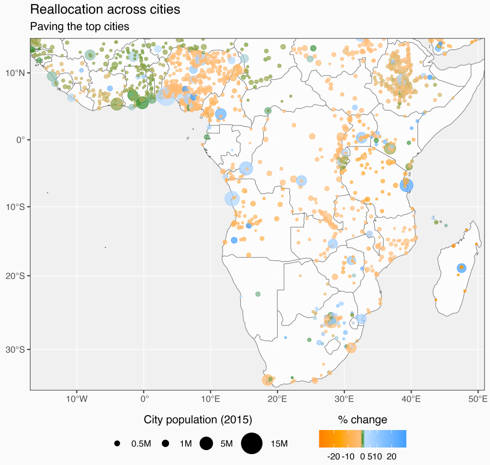
- conditional on city GDP, country FE

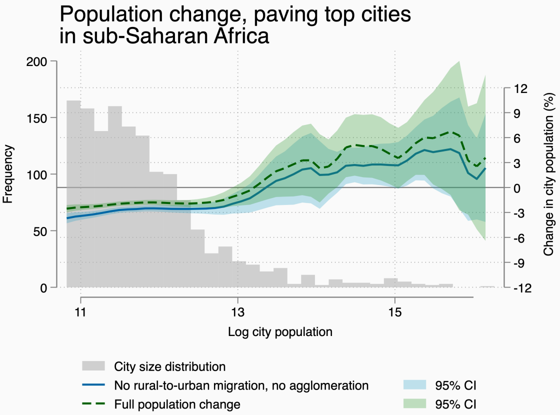
Policy: Pave roads in biggest cities to the U.S. level

- Road paving $\implies \downarrow \kappa_i$
- Fix budget to at most 1% of GDP
- Start with biggest city, work down
- Af. Dev. Bank: \$227,800/km



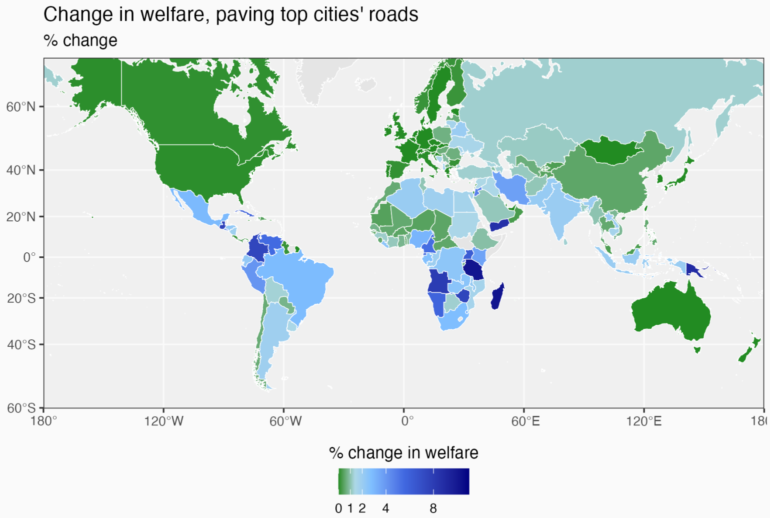
Road paving: reallocates population to larger cities, increases urbanization





Larger cities grow at the expensive of smaller ones, average change in urbanization: 0.5pp Targeted cities

Road paving: net gains are concentrated in low-/middle-income countries



Conclusion: Urban costs matter for development

What have we learned?

- Developing nations' cities face large urban costs, as measured by the urban cost elasticity
- Reducing urban costs would yield large welfare gains, especially in the developing world
- Urban road paving is an available cost effective policy to lower urban costs
- High urban costs amplify welfare losses from climate change

In short, when it comes to improving cities, the stakes are large!

Thanks!

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Contributions to the literature

Differences in cities around the world

Mills and Tan (1980), Lall et al. (2021), Jedwab et al. (2021), Ahlfeldt et al. (2023), Akbar et al. (2023)

$\rightarrow$ framework to link city characteristics to structural parameters that govern a city's size

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Role of cities and spatial distribution of economic activity determining aggregate productivity

Au and Henderson (2006), Desmet and Rossi-Hansberg (2013), Bryan and Morten (2019)

→ focus on the role of urban costs in determining the size of cities and the urban sector

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→ evaluating the aggregate impact of improving urban infrastructure in many cities

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→ evaluating the aggregate impact of improving urban infrastructure in many cities

Climate change driving urbanization

Barrios et al. (2006), Henderson et al. (2017), Nawrotzki et al. (2017)

→ global perspective on climate change and urbanization using a quantitative spatial model

Back

Floorspace development microfoundations

To incorporate marginal land into the city, developers must pay a fixed cost $F_i(x)$ that is rising in x,

$$F_i(x) = \tilde{Z}_i^X (x)^{2/\rho_i}$$

before they can build vertically using,

$$\underbrace{H_i(x, \phi)}_{\text{floorspace}} = \tilde{Z}_i^H C_0^{\frac{\gamma_i}{1+\gamma_i}}$$

i.e., land is a fixed factor with income share $\frac{1}{1+\gamma_i}$.

Isomorphic to a representative developer that can build *up* and *out*, and faces increasing marginal costs to weave land into the urban fabric

Los Angeles: build into the Hollywood Hills; Singapore: land reclamation

Back

Average vs. experienced density

Much of the literature estimates the returns to average density (ζ) (Ahlfeldt and Pietrostefani, 2019)

'Experienced density' may be more appropriate (Duranton and Puga, 2020)

In the model, experienced density can be computed in closed form,

$$2\pi \int_0^{X_i} x \frac{L_i(x)}{L_i} L_i(x) dx = \left(1 - \tau_i \frac{1+\gamma_i}{\beta}\right) X_i^{-\tau_i \frac{1+\gamma_i}{\beta}} \cdot \left(\frac{L_i}{\pi X_i^2}\right)$$

Note this implies,

1. Direct effect of transportation on productivity
2. Larger gap between effects of density vs. city size (L_i)

Back

General equilibrium

Given urban and rural fundamentals, $\{\bar{A}_i, Z_i^H, Z_i^X, \bar{Z}_i^y\}$, urban technology parameters $\{\tau_i, \gamma_i, \rho_i\}$, preference parameters $\{\alpha, \beta, \sigma\}$, production parameters $\{\zeta, \mu\}$ and trade costs $\{\delta_{ij}\}$, an equilibrium is a population distribution across locations $\{L_i\}$, across sites in cities $\{L_i(x)\}$, urban radii $\{X_i\}$, floorspace prices $\{q_i(x)\}$, goods prices $\{p_i\}$, wages $\{w_i\}$, such that,

1. Households, taking wages and prices as given, optimally choose i, x (if choosing a city), alongside floorspace and goods demands;
2. Developers, taking floorspace prices as given optimally choose $H_i(x)$ and X_i;
3. all urban households are housed somewhere, $2\pi \int_0^{X_i} x L_i(x) dx = L_i$;
4. a spatial equilibrium holds within each city, so that utility is equalized across all $x \in (0, X_i]$;
5. The floorspace market clears at each (x, ϕ) in every city;
6. Production firms, taking wages and prices as given, optimally choose labor demand;
7. The goods market clears for the agricultural good and all urban varieties;
8. Developers use their profit to consume the numeraire good, and land rents are rebated back to workers in the agricultural sector. Back

Equilibrium characterization

Proposition An equilibrium in which each city is populated on measurable land exists and is unique if,

$$\frac{\beta}{1+\gamma_i} > \frac{\tau_i}{2}$$

and, ζ is not too large relative to $\min_i \kappa_i$

$$\kappa_i \equiv \frac{1}{1+\rho_i}\frac{\beta}{1+\gamma_i} + \frac{\rho_i}{1+\rho_i}\frac{\tau_i}{2}$$

The first condition restricts the effect of *land* on city-level outcomes.

Two effects of increasing land:

1. lowers floorspace prices everywhere,
2. but increases commuting costs of agents on the periphery.

On net, the price effect must dominate! Back

Equilibrium characterization

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$$\kappa_i \equiv \frac{1}{1+\rho_i}\frac{\beta}{1+\gamma_i} + \frac{\rho_i}{1+\rho_i}\frac{\tau_i}{2}$$

The second condition is that congestion $>$ agglomeration. Uniqueness condition Back

Agglomeration vs. congestion: no black holes

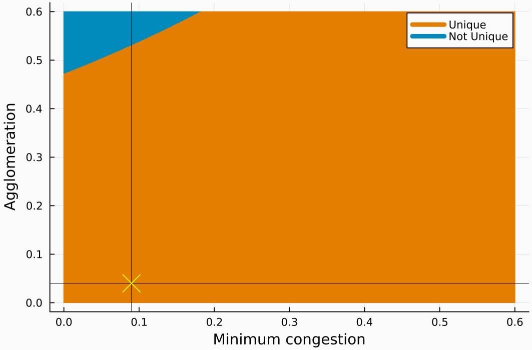
Proposition An equilibrium in which each city is populated on measurable land exists and is unique if,

$$\frac{\beta}{1+\gamma_i} > \frac{\tau_i}{2}$$

and, ζ is not too large relative to $\min_i \kappa_i$.

Existence/uniqueness via Allen et al. (2024)

Congestion forces (housing and commuting) must dominate agglomeration forces. Back



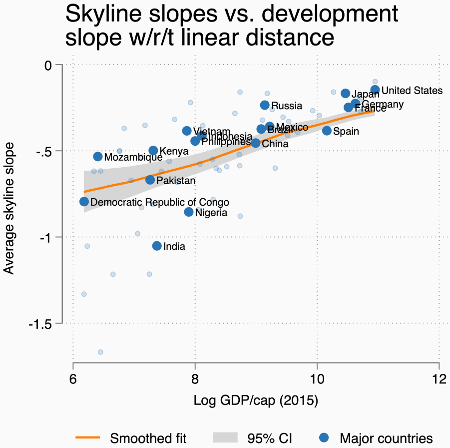
Existence / uniqueness characterization for the calibrated model

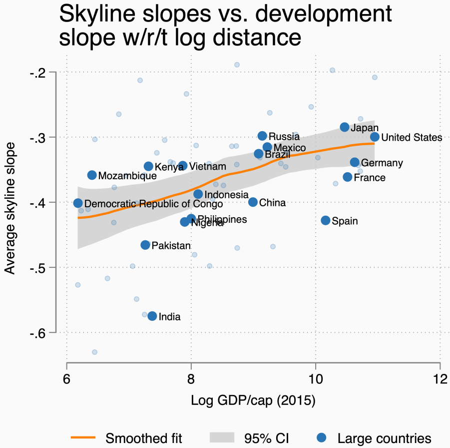
Skyline-slope cross country regression

	log Skyline slope			
	(1)	(2)	(3)	(4)
Log country GDP/cap	-0.039	-0.050	-0.083	-0.071
	(0.019)	(0.020)	(0.024)	(0.024)
Log country population				-0.156
				(0.093)
Log N cities				0.225
				(0.093)
Share urbanized				-0.342
				(0.266)
Observations	10,174	9,539	9,038	9,038
R-squared	0.01	0.01	0.03	0.05
Weighted	✓	✓	✓	✓
No communist		✓	✓	✓
At least 20 cities			✓	✓

Cities' skyline slopes vs. nations country of development. Observations weighted by the inverse number of cities in a country. Standard errors clustered at the country level in parentheses Back

Skyline-slope cross country regression





Average city skyline slopes vs. log GDP/cap Back

What can we learn from city skylines?

Monocentric city model of Alonso/Muth/Mills: circular cities, locations in polar coordinates (x, ϕ)

- x: distance to the central business district

Identical households earn wage w, choose consumption + location; β = expenditure share on housing

- Trade off: amenities $A(x, \phi)$ and housing prices $q(x, \phi)$.

Housing developers build housing $H(x, \phi)$, supply elasticity γ.

In equilibrium, no spatial arbitrage: $\underbrace{\bar{A}x^{-\tau}}_{\text{amenities}} \underbrace{u(q(x, \phi), w)}_{\text{indirect consumption utility}} = \underbrace{\bar{u}}_{\text{common utility level}}$

Differentiation w/r/t x + Roy's identity,

$$\underbrace{\frac{d \log h(x, \phi)}{d \log x}}_{\text{skyline slopes}} = -\frac{\tau \gamma}{\beta}$$

Skylines are steep if it is easy to build 'up' (γ high) or costly to build 'out' (τ high) Back

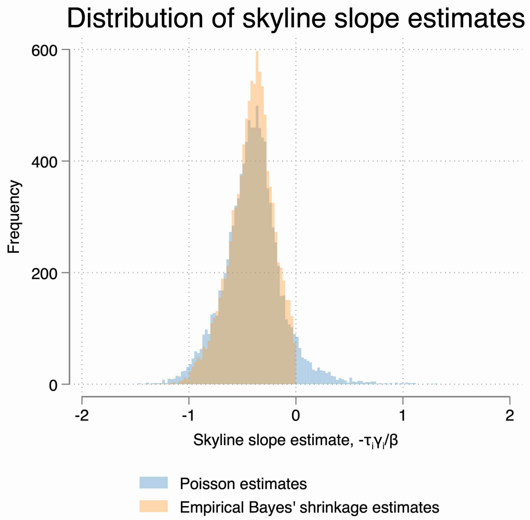
Empirical Bayes' estimator

Letting $\hat{\theta}_i^{PPML} = -\widehat{\tau_i \gamma_i / \beta}$, I assume the hierarchical model,

$$\begin{aligned} \hat{\theta}_i^{PPML} \mid \theta_i &\sim N(\theta_i, \sigma_i) \\ \theta_i &\sim \underbrace{N_{(-\infty,0)}(\theta_n, \sigma_n)}_{\text{truncated normal}} \end{aligned} \tag{1}$$

The empirical Bayes' estimates are $\hat{\theta}_i^{EB} = \mathbb{E}[\theta_i \mid \hat{\theta}_i^{PPML}]$, given the model (1).

Key: a truncated normal prior is conjugate with a normal likelihood.
Can estimate parameters of the posterior following Morris (1983) Back



Productivity instrument construction

$\bar{Z}_i^y$ solve the system,

$$w_i L_i = \alpha \sum_j \left(\frac{\delta_{ji}(w_i/Z_i^y)}{P_j} \right)^{1-\sigma} w_j L_j, \quad P_j = \left(\sum_j \left(\delta_{ji}(w_j/Z_j^y)\right)^{1-\sigma} \right)^{\frac{1}{1-\sigma}}$$

where $Z_i^y = \bar{Z}_i^y (L_i/\pi X_i^2)^\zeta$. Note,

- w_i, L_i are data,
- δ_{ij}: constructed with intercity road distances & gravity parameters estimated in the U.S. CFS,
- and σ, ζ, α are known ($\sigma = 4$, α matches nat'l accounts, $\zeta = 0.04$).

Therefore city productivity is identified without knowledge of γ_i.

For IV, need $\bar{Z}_i^y \perp Z_i^H$ | country FE, geophysical controls.

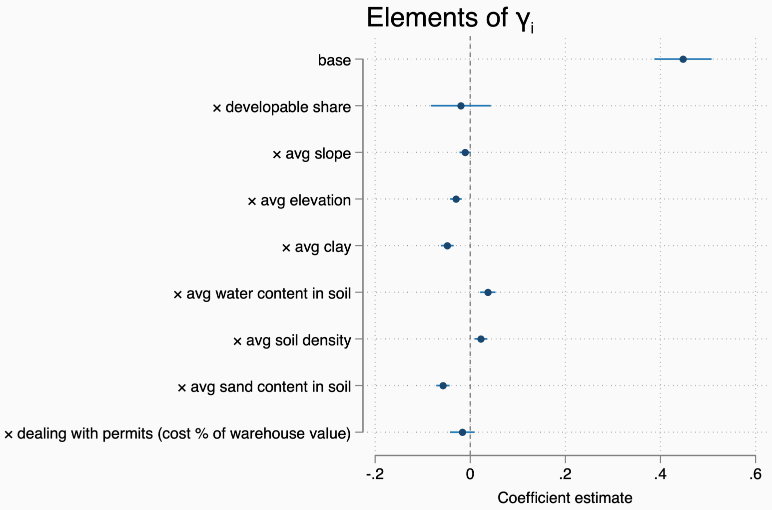
Los Angeles' filmmaking productivity due to its landscape/climate, not seismic activity & deep bedrock

Back

Floorspace supply elasticity estimates – predictors of γ_i

TSLS estimates of γ_i:

geophysical and regulatory predictors of the floorspace supply elasticity Back

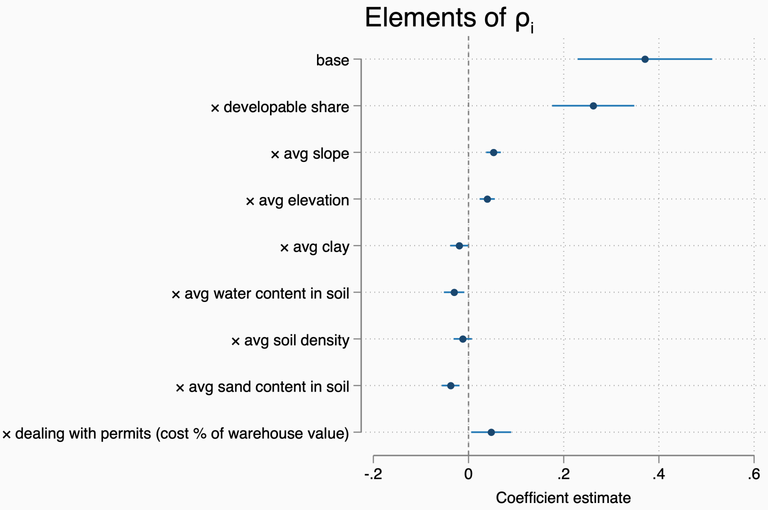


Land supply elasticity estimates – predictors of ρ_i

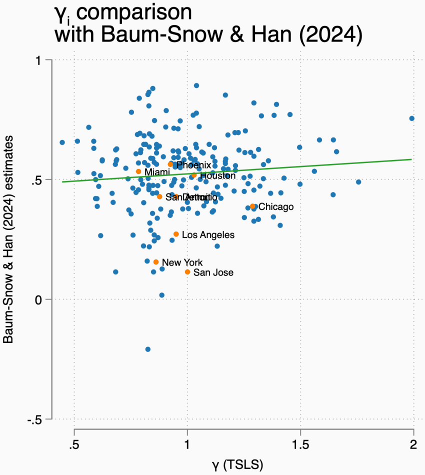
TSLS estimates of ρ_i:

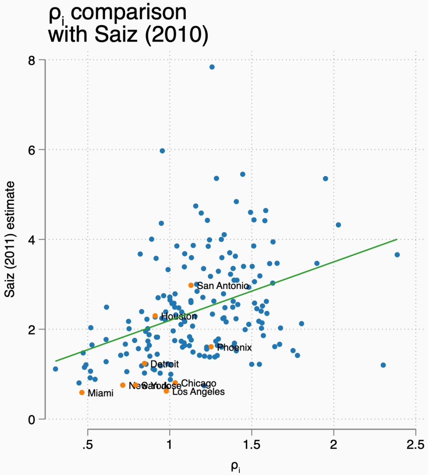
geophysical and regulatory predictors of the land supply elasticity

Back



Comparison of γ_i and ρ_i estimates in the U.S.





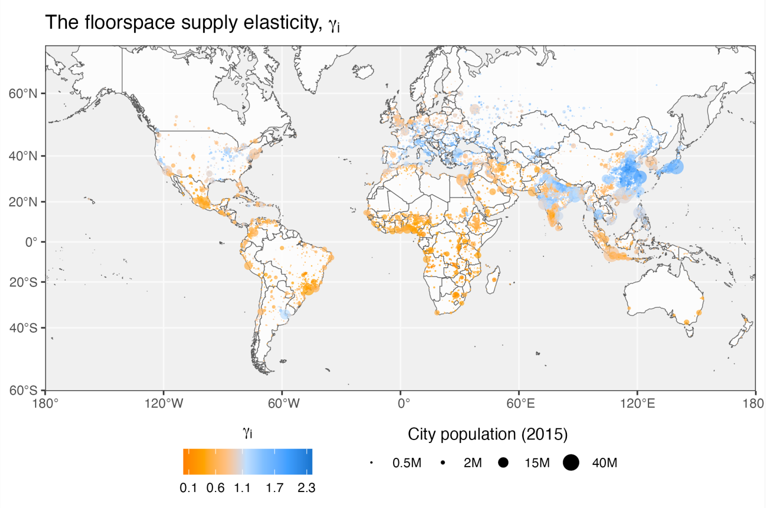
Back

Comparison of τ_i to Akbar et al. (2023, 2024) estimates

	Speed near city center				Speed indices			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
log dowtown speed (midnight)	-1.064	-0.374	-1.899	-1.222				
	(0.277)	(0.340)	(0.391)	(0.476)				
log dowtown speed (midday)	0.917	0.239	1.478	0.660				
	(0.238)	(0.307)	(0.278)	(0.417)				
Uncongested speed index					-1.610	-0.219	-3.103	-1.726
					(0.459)	(0.524)	(0.769)	(0.906)
Speed index					1.679	0.185	2.919	1.210
					(0.463)	(0.535)	(0.623)	(0.811)
log pop		-0.090		-0.053		-0.099		-0.067
		(0.038)		(0.044)		(0.036)		(0.043)
log population/km2		0.002		-0.162		0.016		-0.162
		(0.052)		(0.085)		(0.051)		(0.087)
1(primate city)		-0.152		-0.161		-0.155		-0.160
		(0.117)		(0.159)		(0.120)		(0.163)
Observations	856	856	856	856	856	856	856	856
R-squared	0.02	0.04	0.26	0.27	0.02	0.04	0.25	0.27
Country FE			✓	✓			✓	✓

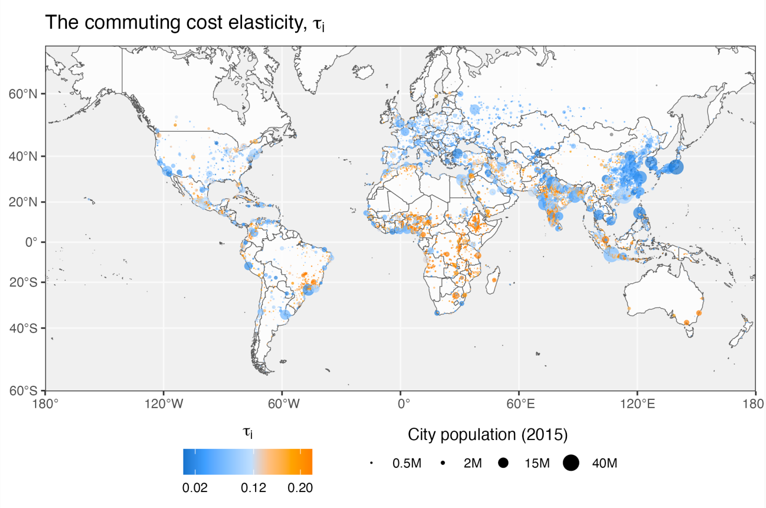
Correlation of log τ_i with city speed variables from Akbar et al. (2023, 2024) Back

Map of γ_i, the floorspace supply elasticity



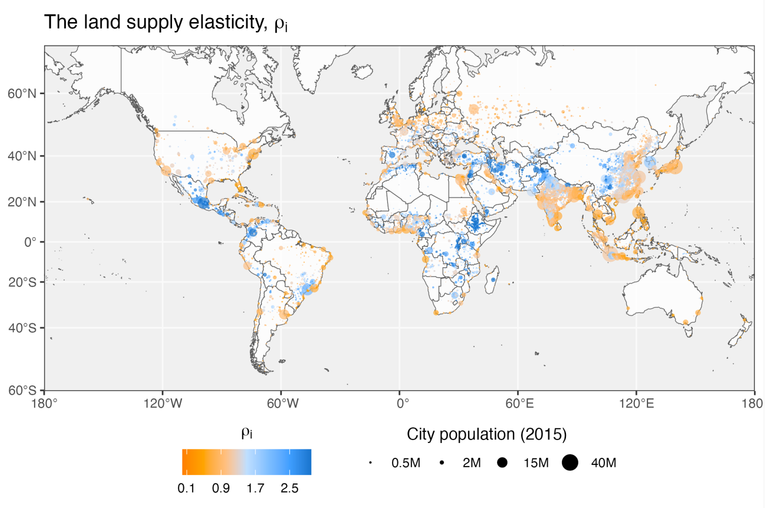
Back

Map of τ_i, the commuting cost elasticity



Back

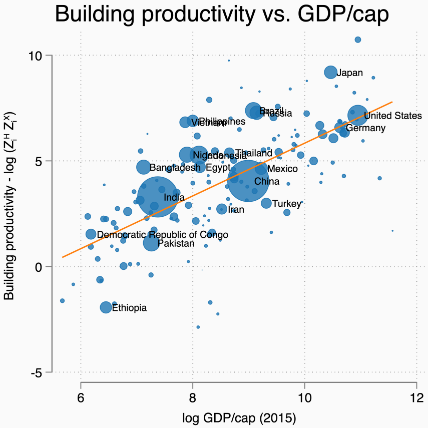
Map of ρ_i, the land supply elasticity

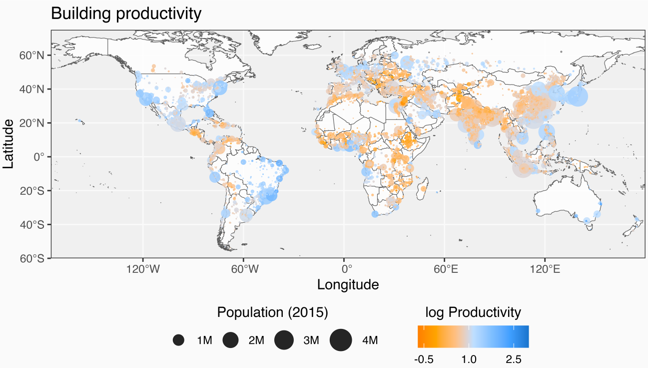


Back

Building productivity – combining Z_i^H and Z_i^X

Welfare relevant parameter: $(Z_i^H)^{\beta}(Z_i^X)^{\frac{\beta}{1+\gamma_i}-\frac{\tau_i}{2}}$





Netting out ψ^H, ψ^X Back

Regional breakdown of cities urban cost elasticities (κ_i)

Region	κ_i	τ_i	γ_i	ρ_i
China	0.071	0.084	1.346	1.402
Former Soviet / DPRK	0.071	0.070	1.272	1.206
South Asia	0.097	0.149	1.060	1.317
Latin America and the Caribbean	0.115	0.161	0.620	1.505
North America and Europe	0.082	0.086	1.062	1.136
Southeastern/Eastern Asia and Oceania	0.097	0.107	0.946	0.872
Sub-Saharan Africa	0.149	0.254	0.454	2.087
Western/Central Asia and Northern Africa	0.092	0.123	0.879	1.849

Mean κ_i and its components by region Back

Urban cost elasticities (κ_i) vs. city size

	κ_i		$\log \kappa$	
	(1)	(2)	(3)	(4)
log GDP/cap (country)	-0.013		-0.081	
	(0.002)		(0.013)	
log GDP/cap (city)		-0.006		-0.036
		(0.001)		(0.003)
log population (city)		-0.006		-0.036
		(0.000)		(0.003)
Observations	127	9,358	127	9,358
R-squared	0.25	0.39	0.25	0.39
R-squared (within)		0.04		0.03
Country FE		✓		✓

Regressions of κ_i against city size variables Back

Calibrated parameters

Parameter	Value	Description	Source
ζ	0.04	Elasticity of urban productivity with respect to density	Combes et al. (2010) and Ahlfeldt and Pietrostefani (2019)
σ	4	intercity trade elasticity	Bajzik et al. (2020)
β	0.25	share of income spent on housing	Average across countries where observed (World Bank 2017 ICP)
$1-\alpha_n-\beta$	–	Share of income spent on agricultural goods	Calibrated to match World Bank Development Indicators in 2015 on the share of agricultural value-added in national income
μ	0.7	share of land in agricultural goods production	Chari et al. (2021)
ε	1.17	migration elasticity	Suárez Serrato and Zidar (2016) and Sahai and Bailey (2022)

Back

Gravity in the U.S. CFS

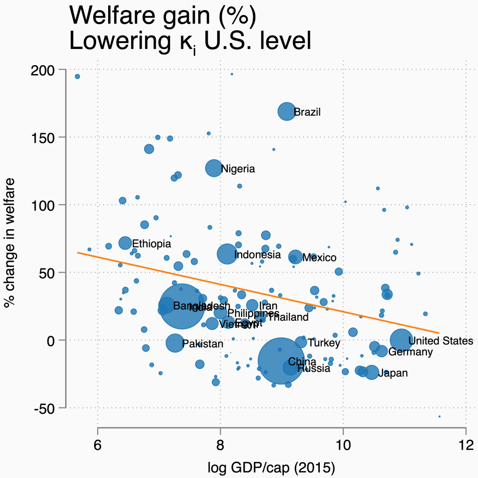
Intercity road shipment values + distance from U.S. Commodity Flows Survey.

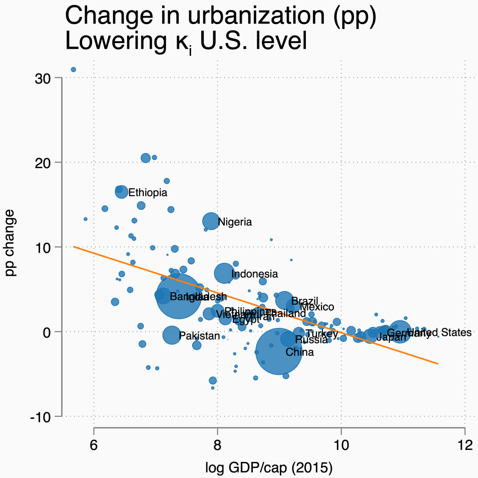
Back

	(1) Shipment value
Log dist	-0.923
	(0.022)
N	4,817

Gravity regression in the CFS

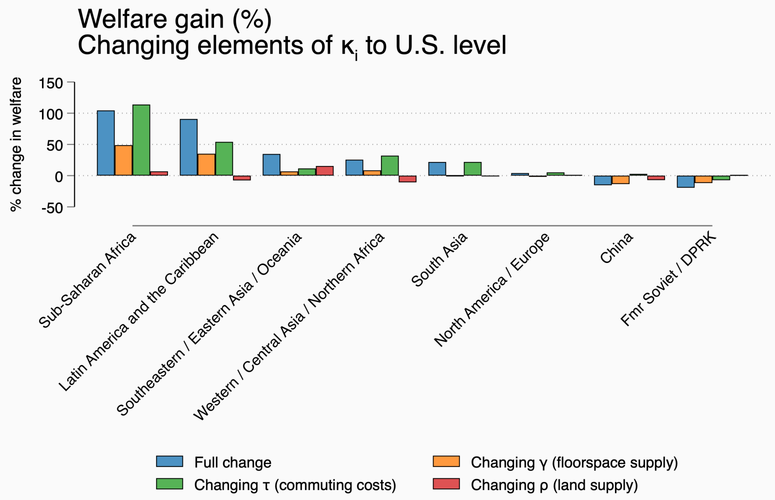
Lowering the urban cost elasticity (κ_i) to the U.S. level – overall welfare effect





Back

Lowering the urban cost elasticity (κ_i) to the U.S. level – elements of κ_i



Back

Decomposing κ_i

	τ_i	γ_i	ρ_i
Coefficient	0.321	-0.034	-0.003
	(0.003)	(0.001)	(0.000)
Partial R-squared	0.473	0.242	0.022

Table 1: Coefficients and partial R^2 statistics from a regression of κ_i against its components

Back

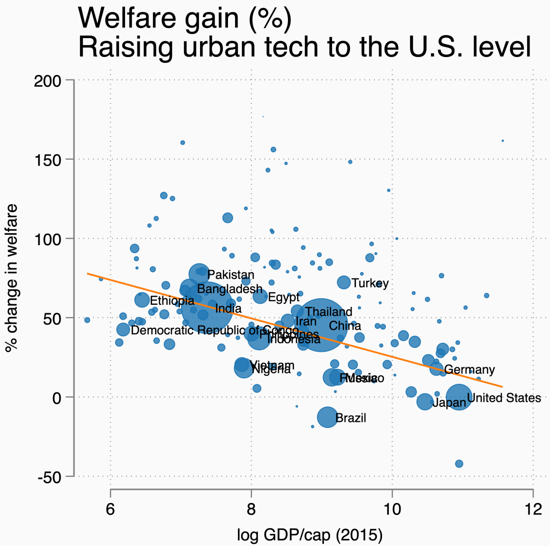
Raising building technology $(Z_i^H)^\beta (Z_i^X)^{\frac{\beta}{1+\gamma_i} - \frac{\tau_i}{2}}$ to the U.S. level

Average (pop-weighted) welfare increases:

Low-income nations: (GDP/cap $<$ \$4,000 USD)	56%
Middle-income nations:	41%
Low-income nations: (GDP/cap $>$ \$20,000 USD)	14%

Global Gini for PPP-adjusted GDP/cap $\downarrow$ 11%

Back



Raising building technology $(Z_i^H)^\beta (Z_i^X)^{\frac{\beta}{1+\gamma_i} - \frac{\tau_i}{2}}$ to the U.S. level

Welfare in nation n,

$$\mathcal{W}_n = \mathbb{E}[v_i \epsilon_i \mid v_i \epsilon_i \geq \max_j v_j \epsilon_j]$$

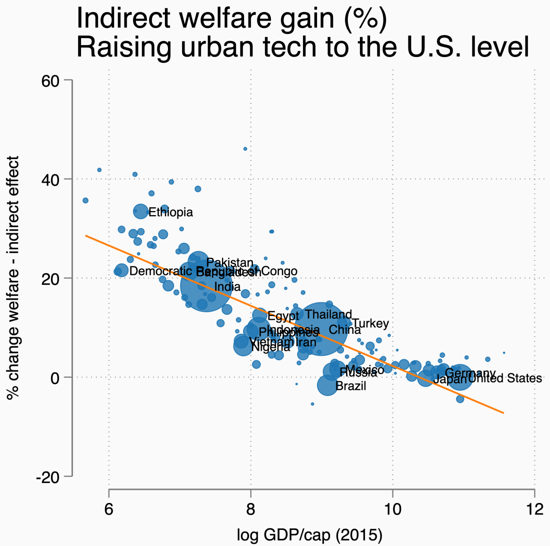
$$\propto \left(\sum_i \left(\tilde{A}_i \frac{w_i}{P_i^\alpha} (w_i L_i)^{-\kappa_i} \right)^\varepsilon \right)^{1/\varepsilon}$$

Can decompose the effect,

$$\frac{d\mathcal{W}_n}{\mathcal{W}_n} = \text{direct effect} + \text{indirect effect}$$

$$\text{direct} = \sum_i \left(\frac{L_i}{L_n} \right) \frac{d\tilde{A}_i}{\tilde{A}_i}$$

$$\text{indirect} = \sum_i \left(\frac{L_i}{L_n} \right) \left(\frac{d(w_i / P_i^\alpha)}{(w_i / P_i^\alpha)} - \kappa_i \frac{d(w_i L_i)}{w_i L_i} \right)$$



Netting out ψ^H, ψ^X

Only physical quantity of floorspace observed, H_i, need to adjust for quality differences across space.

Model:

$$\psi_n^H q_n \sum_i H_i = \beta \sum_i w_i L_i, \quad \psi_n^X q_n \sum_i \pi X_i^2 = \beta \sum_i \frac{w_i L_i}{1+\gamma_i}$$

q_n: average floorspace price.

Liotta et al. (2022, RSUE) – floorspace prices per m^2 in some cities in 49 countries in local currency.

PPP adjust to USD. For other nations: Random Forest to predict q_n using country-level covariates (size, income, PPP deflator).

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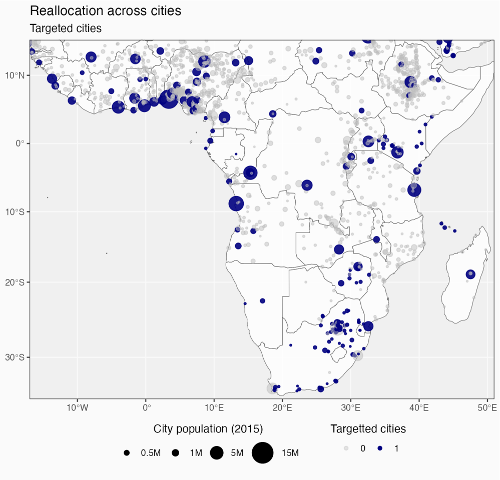
Road paving: targeted cities in SSA



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Climate change is anticipated to drive rural $\rightarrow$ urban migration

Hypothesis: climate damages primarily in agriculture $\implies$ rural-to-urban migration

Test: do ag. temperature shocks drive urbanization?

Data:

- Average annual temperature over 2015 cropland extent (USGS + Berkeley Earth)
- Share of population urbanized (World Bank)

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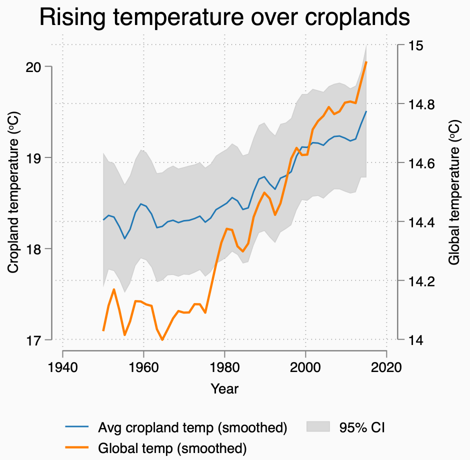

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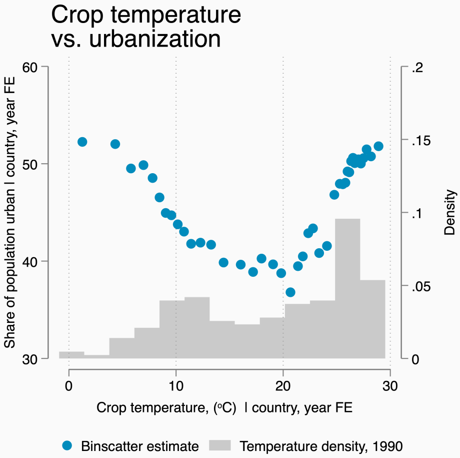


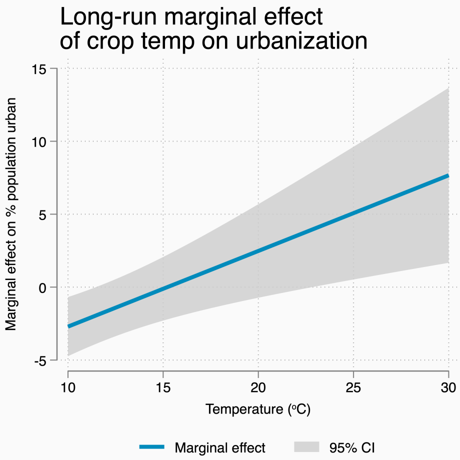
Climate change is anticipated to drive rural → urban migration

Test: do ag. temperature shocks drive urbanization?

Estimate nonlinear effect of crop temp. shocks on urbanization:

$$
\begin{aligned}
\text{share urban}_{nt} = \eta_0 \underbrace{T_{nt}}_{\text{crop temp.}} &+ \eta_1 T_{nt}^2 \\
&+ \lambda \text{share urban}_{n,t-1} \\
&+ \chi_0 T_{n,t-1} + \chi_1 T_{n,t-1}^2 \\
&+ \underbrace{\xi_n + \xi_t}_{\text{country + year FE}} + e_{nt}
\end{aligned}
$$

$$\text{long run marginal effect} = \frac{\hat{\eta}_0 + 2\hat{\eta}_1 T_{it}}{1 - \hat{\lambda}}$$



Climate change is anticipated to drive rural $\rightarrow$ urban migration

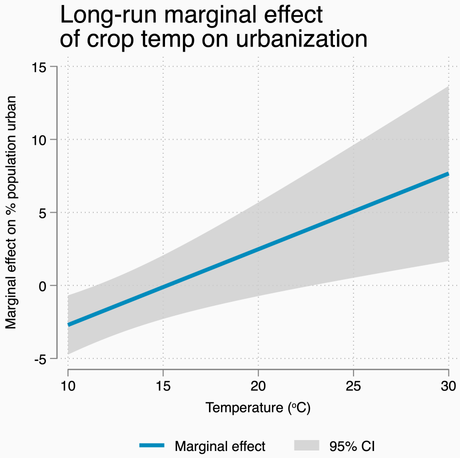
Counterfactual: simulate 1.5° ↑ global temp

- Estimate pattern scaling ς_n

$$T_{nt} = \varsigma_n \text{Global temp}_t + \xi_n + e_{nt}$$

- Map ΔT_{nt} to model parameters with a damage function peaking at 19.9° (Conte et al., 2019)

$$\underbrace{A_0(T_{nt}), \quad Z_0^y(T_{nt})}_{\text{ag. amenity and TFP damages}}$$



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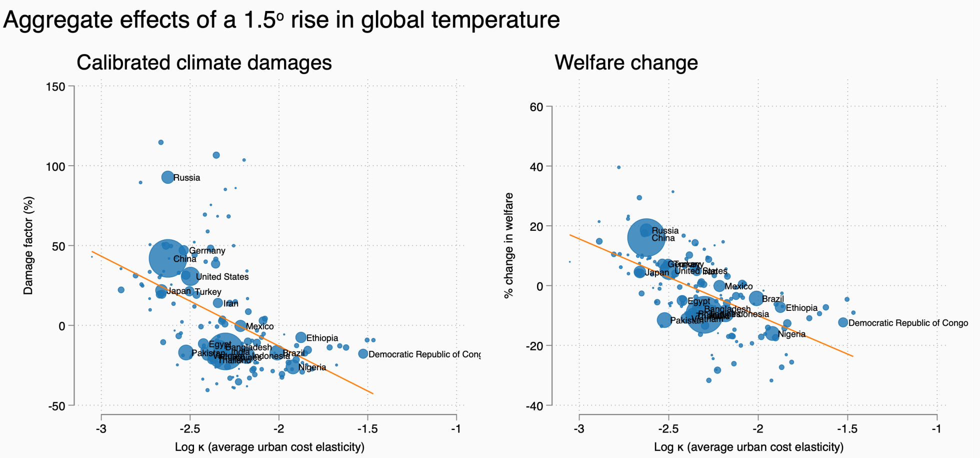
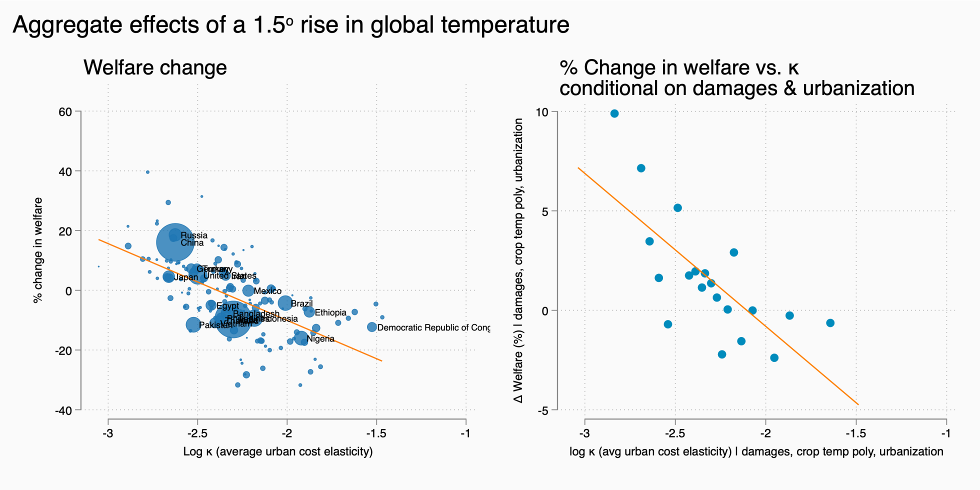
High urban costs amplify losses under climate change



Countries w/ cities least able to scale face highest climate damages

High urban costs amplify losses under climate change



Countries w/ cities least able to scale face highest climate damages

Conditional $\frac{\partial \text{Welf}}{\partial \log \kappa} = \text{-7.7}$