Community-oriented urban policy and local earnings – a complicated relationship

Uwe Neumann[1]

Extendet abstract

The literature on geographical agglomeration expects that regional policies which boost productivity, attract investment, or support specific industries can lead to higher local wages (Head and Mayer 2006). The so-called “market potential” (or “market access”), which represents the total demand for the products or services provided by a firm, comprises the local demand and the demand from customers in other regions. It is affected both by transport costs and by the density of competition with other firms, which increases in line with market size. A higher “real market potential”, which takes into account this trade-off between total demand and competition, will assert a positive influence on wages and wage growth. In wage equation (1), which provides the conceptual background for the empirical study, w_i represents average wage (growth) in region i, average regional output per firm is represented by the “real market potential” RMP, and h_i represents average years of schooling.

$$log\, w_i = \alpha + \beta log RMP_i + \rho h_i + \varepsilon_i \qquad (1)$$

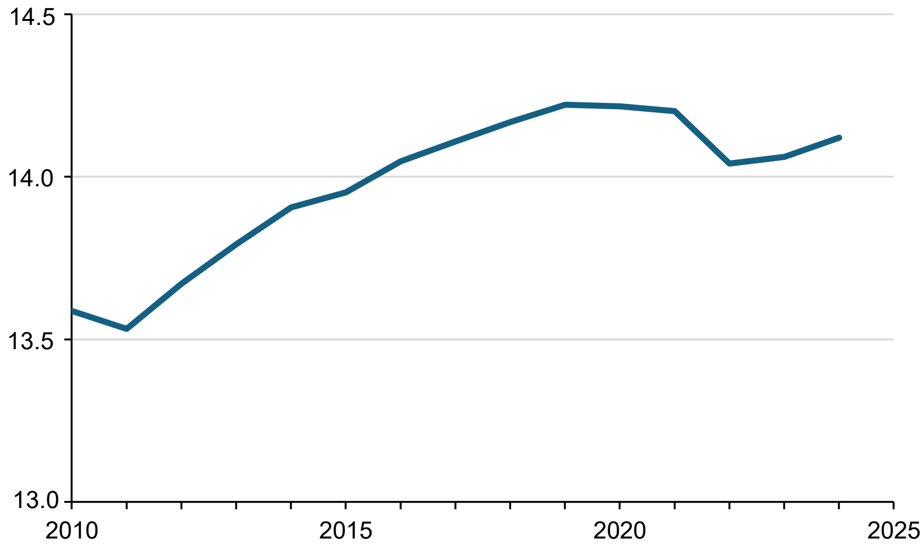
For many decades urban regeneration policy focussed on the upgrading of local housing environments. More recently, community-oriented initiatives designed to raise both labour demand (e.g. by fostering entrepreneurship) and supply (e.g. by providing support in job search and training) have accomplished these measures. It is expected that this integrated policy will raise local economic potentials and, thereby, boost local earnings.

Whereas a revitalisation of local economies is desirable, it may bring about disadvantages for poor residents. While the concentration of poverty remains a feature of inner cities, in many industrialised countries, most notably in North America and Europe, over the past decades

[1]Uwe Neumann, Hohenzollernstr. 1-3, 45128 Essen, Germany, e-mail: uwe.neumann@rwi-essen.de.

household location preferences have shifted in favour of central urban areas. In fact, a so-called "gentrification" of deprived quarters involving a renewed inflow of more well-off households has become a widespread trend, often leading to a rise of housing costs and displacement of low-income households (Christafore and Leguizamon 2019). Surely, in Germany a "donut effect" (i.e. a renewed desire to settle at suburban locations) leading to a halt of population growth among the largest cites during the Covid pandemic (Delventhal et al. 2022; Ramani and Bloom 2021) has again been superseded by continued growth of the population share of the ten largest cities since 2022 (Figure 1).

Figure 1
Population share of the ten largest cities* in Germany
in %



Author´s calculation using data from the Federal Statistical Offices and the Statistical Offices of the Federal States in Germany (2025). *Berlin, Hamburg, Munich, Cologne, Frankfurt/M., Stuttgart, Düsseldorf, Leipzig, Dortmund, and Hanover

The danger of displacement of lower-income households has been discussed most prominently in the context of very large urban regeneration measures such as those carried out in the London Docklands since the 1970s (Brownill 2010). Yet, so far only relatively few studies have analysed the outcomes of a more integrated approach to urban regeneration policy that includes community-oriented initiatives, particularly with a view on local residents in renewal areas (Bartik 2012, Jump and Scavette 2024).

Apart from facing difficulties in gaining access to suitable data with neighbourhood reference, evaluation studies are confronted with conceptual challenges, since the empirical framework of this research relates to larger territories. The study utilises basic assumptions from the literature on regional agglomeration, which also apply to the neighbourhood level.

The German nation-wide "Social City" programme serves as a case study. The Social City was established in 1999 with the goal of supporting regeneration and strengthening local civic society in deprived urban neighbourhoods.

As Ellen and O´Regan (2010) point out, a great share of studies on neighbourhood dynamics so far have drawn on data from the U.S. A comprehensive study of Europe´s largest national economy provides an alternative view. The following two questions guide this research:

1. Has community-oriented urban policy in Germany over the past two decades upgraded local firms´ market potential and thereby contributed to an income increase among the residential population?
2. Has urban policy initiated sorting of higher-income households to deprived areas and/or have lower-income households benefitted in terms of higher earnings?

The findings suggest that so far, the moderately funded German programme has not initiated displacement of poor households on a large scale. Yet, it appears that the boost provided to local economies served to prevent further deterioration and to counteract detrimental neighbourhood effects at best. Given a continuing rise of rents in urban areas, poor households may nevertheless find it more difficult to afford residence among upgraded housing environments in the forthcoming years, particularly in large cities.

The Social City programme review restrained from large-scale private housing refurbishment, construction of social housing or intervention in planning regulations. Rather, it combines upgrading of public space with support of community-oriented initiatives, e.g. networks among local businesses, local council offices providing consultation on services offered by the employment offices, social workers supporting schools in deprived areas. Among various policy fields, the precise focus varies between programme areas. The study explores the outcomes of the combined impact on the local market potential with a view to a potential increase in household income.

As far as neighbourhood-level and representative household-level microdata displays, there have been no considerable changes in the household and population structure due to mobility into and out of programme areas so far. As a whole, the results indicate that the Social City does not seem to have prevented economic divergence within programme areas, since households from middle and upper income terciles have at least kept up with overall income increases, whereas poor households on average have received no boost at all.

For poor households a likelihood of displacement emerges most prominently in thriving local economies and in the largest cities. It is plausible that the amount of funding for community-oriented local policy varies between federal states according to their economic prosperity. As far as this policy is concerned it is fair to say that it hasn´t done much harm to the opportunities of poor households to remain at central urban locations, mainly because it has operated with a moderate dosage. Especially in large cities, extensive urban regeneration schemes might make it even more difficult for poor households to find affordable housing at central locations, unless this policy is flanked with the construction of social housing and continuing efforts to support local communities.

References

Bartik, T.J. (2012), The future of state and local economic development policy: What research is needed? *Growth and Change* 43(4): 545-562.

Brownill, S. (2010), London Docklands revisited: The dynamics of waterfront redevelopment. In: Desfor, G., J. Laidley, Q. Stevens and D. Schubert (eds.), Transforming urban waterfronts. Fixity and flow: 121-142 New York: Routledge.

Christafore. D. and S. Leguizamon (2019), Neighbourhood inequality spillover effects of gentrification, *Papers in Regional Science* 98: 1469-1485.

Delventhal, M.J., E. Kwon, A. Parkhomenko (2022), JUE Insight: How do cities change when we work from home? *Journal of Urban Economics* 127: 103331.

Ellen, I.G. and K. O´Regan (2010), Welcome to the neighborhood: how can regional science contribute to the study of neighborhoods? *Journal of Regional Science* 50(1): 363–379.

Head, K. and T. Mayer (2006) Regional wage and employment responses to market potential in the EU. *Regional Science and Urban Economics* 36(5): 573-594.

Jump, R.C and A. Scavette (2024), JUE Insight: The labor market effects of place-based policies: Evidence from England's Neighbourhood Renewal Fund. *Journal of Urban Economics* 144: 103690.

Ramani, A. and N. Bloom (2021), The donut effect of Covid 19 on cities. *NBER Working Paper* 28876. Cambridge, MA: NBER.