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From neighborhoods to nations

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Book Reviews

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Yannis Ioannides, *From neighborhoods to nations*, Princeton University Press: Princeton, NJ, 2013; 521 pp. ISBN 0691126852, \$75 (Hardcover)

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“By the year 2050, developments in communication will have abolished the need for social proximity, and help us escape pricey and congested urban life.” I made up this quote and it is probably entirely wrong. We see more urbanization and greater interaction at close ranges than ever before. In that light, a more than welcome book is Yannis Ioannides’ “From neighborhoods to nations.” It provides a thorough and methodologically profound overview of the economics of social processes, agglomeration and the spatial looks of the economy. The book collects an impressively broad range of insights and toolkits that is sure to spark thought.

The book first surveys social processes. Chapter 2 hits the ground running. Methodologically intensive, it stitches together models of social influence: group behavior and networks. The chapter contains reflections on a plethora of methodological options: graph theory, identification with experimental setups, reflections problems and spatial econometric theory. Chapter 3 develops sorting models and applies them in a spatial setting, explaining phenomena like sorting, stratification and tipping distributions of population.

A laudable effort is made in these chapters, and in fact throughout the book, to infuse the model discussions with subsections on empirical, real-world intermezzos. Sorting models are outfitted with insightful econometric applications on housing and income stratification—applications so complete, that they need their own appendixes. The blending of theory and empirics helps readers provide a sense of reality with the models.

Urban and regional perspectives feature from chapter 4 onwards. Chapter 4 starts out on a logit representation of firms’ location choices and measures of agglomeration. Chapter 5 provides an elegant overview of urban theories. Starting from a canonical urban model, Ioannides builds up to the ramifications of social proximity and localized firm externalities in a coherent framework. All that is interspersed with relevant empirical examples. The chapter is topped off with a section on matching in cities.

Chapters 6 and 8 take an almost fully empirical turn, guiding the reader through the vast literature on measuring agglomeration effects (and to a lesser extent the role of human capital) and city size distributions.

Chapters 7 and 9, on the other hand, are related in their modeling approach of a multiple-city system. Chapter 7 uses the nuts and bolts of New Economic Geography

(NEG) models—Dixit–Stiglitz, multiple locations, iceberg transports costs—to survey city specialization. The NEG nuts and bolts fit a broader literature, as section 8 demonstrates by (almost casually) hooking it up with a Pissarides-style matching model.

The final part of the book culminates in a dynamic version of the cities model in Chapter 9. Of course that broadness comes at pain in calculus—the author encourages the reader to sit through complex or tedious derivations more than once. Yet the payoff is high, too. The connection of an urban model to endogenous growth offers rich insight in the long-run consequences of infrastructure construction and the relation between national and urban growth. Chapter 9 is also a commendable effort to understand what economics has to say about size regularities like Zipf's law that the literature has frantically pursued.

This book is impressive in its broadness: it covers a vast amount of topics in admirable depth—especially when recognizing that the book is single-authored. Yet what the book cannot fix is the segregation in the literature itself.

While covering many different social and urban models, it is not always obvious how they connect. There are creditable efforts, like the social interaction added to in the monocentric model, or suggestions of how theoretical models of urban growth might satisfy the empirics of Gibrat's law. But some are less clear. There is a natural link between social networks and spatial econometrics, but the typical spatial econometric model requires that the connections (social interaction, trade) between units are exogenous. The book offers plenty of evidence that they are not. Similarly, after the first chapters provide an exciting overview of human interaction, the reader may be surprised that subsequent city-level results are driven by an elementarily defined scale externality.

It is not obvious whether models of social interaction in cities should propagate towards a uniform understanding—and hence, it is not obvious whether these chapters *should* be connected more. In this respect, the book offers a toolkit of available insights and methods in social and urban economics, rather than an encompassing theory. At times (chapter 6 onwards), the book turns almost fully “urban” and there is competition on that front (Combes et al., 2008; Glaeser, 2008; Zenou, 2009, for instance). The non-economist reader less familiar with the formalizations in that field might be lost in algebra occasionally. Non-economist readers might also find some perspectives lacking, which would be useful in describing urban social interactions, like the politics of cities, “social physics,” or social capital approaches. Then again, social interaction is simply a huge topic and a survey would be a Herculean task. One interpretation of the book is that the disparate approaches in this field are simply incommensurate, for now.

Ioanides offers a wealth of methods and insights in theory as well as empirics on social interaction in cities. It may be baffling as an introduction, but it is impressively broad and profound. The book collects insights in social influence, sorting and neighborhood formation with microeconomic foundations of agglomeration forces, trade and growth. The intellectual range of ideas in this book and its methodological detail surely provide enough hooks to inspire further developments on the social fabric of cities and the spatial economy—a case well worth pursuing.

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