Foreword

John M. Quigley
University of California, Berkeley

The term “new economy” is bandied about in the popular press to describe superficial changes in the economy during the 1980s and 1990s. But it is also a shorthand description of the changed landscape in industrial organization and labor markets on the production side of the economy, as well as the innovations in products and technology on the consumption side.

The hallmarks of this new economy go far deeper than the records posted by indexes of stock market activity during the late 1990s, and the changes brought forth by the new economy will hardly be slowed by the recession of the new millennium. This new economic order has four distinguishing features.

1. *Increases in disparities.* The dispersion of income and wealth levels across the population has increased. Economic returns to those with higher levels of education began to increase more than three decades ago, but this process accelerated during the 1980s and accelerated further during the 1990s. The differences in the economic prospects over a lifetime between college graduates and high school graduates, and between graduates and nongraduates, are enormous and are expected to increase. Not all of this has come from technical advance. Part of the increased disparity in returns to U.S. workers arises from freer markets. The absolute demand for low-skilled labor is increasing in many parts of the world, but not in the United States. Here, we can simply buy the goods we demand, many of which are produced abroad using unskilled labor paid at world prices. The economic outlook for unskilled labor in this country is dire.

2. *Increases in volatility.* As the economy has grown and technology has increased, economic shocks are transmitted more quickly. Variability over time and space has increased. Changes in comparative advantage have been rapid, and these have led to changes in asset values and the erosion of economic rents. Again, freer markets, international as well as domestic, have reinforced these trends.

3. *Increased gains for localization.* Microeconomic studies of factors affecting economic growth suggest that co-location really matters. Fostering the kind of specialized conditions conducive to profitability generates external effects. This makes economic growth endogenous. Also, the microenvironment really matters—it is to be presumed—for consumption as well as production. Thus, there is an increased role for planning and coordination over space to improve productivity.

4. *An enhanced role for information.* Instant access by consumers to product information augments their choices and makes them better able to understand and act on their interests. Analogous factors make producers better able to tailor their products to narrow niches. In many ways, the flow of information reduces the cost of production, but it also helps segment markets and make them more complete, which benefits both producers and consumers.

Each of these four factors has affected the way land and housing markets operate and the nature of competition for sites in urban areas. The research reported here is the first specifically dedicated to examining the links between the new economy and the housing sector. In part, the questions addressed are quite basic, and this issue begins to map out the important topics. For example: How do long-run changes in the structure of labor markets play out in the housing market? What are the implications of volatility for a commodity that lasts a half-century or more? How do increased localization and concomitant externalities affect the competition for space in urban areas? Do the features of the new economy affect the industrial organization of the housing industry, that is, building, financial services, and marketing? Finally, are there specific roles for government policy in relating the features of the new economy to housing?

In June 2001, the editors of this issue organized a broad, well-attended conference in Washington, DC, to consider these questions. The seven articles included in this issue represent the distillation of a lively conference. They touch on demographic change and housing, urban regulation and the new economy, and links between the volatile financial sector and housing wealth. They also evaluate the role of technology in improving the financial services, that is, the underwriting and lending, associated with the housing market. Finally, they analyze the housing needs specific to those who have not shared in the fruits of the new economy and the rising incomes of the past decade.

The character of the issue owes much to the choice of topics by the editors, my colleagues Vicki Elmer and John Landis. The quality of the articles also owes much to their relentless oversight during the review process. We can expect these questions to garner more popular and scholarly attention over the next few years, and we are indebted to Elmer and Landis for organizing the first foray into this uncharted terrain.

Author

John M. Quigley is I. Donald Terner Distinguished Professor and Professor of Economics at the University of California, Berkeley.