

“Immigrants and The Great Divergence”

Andrew J. Padovani

Daniel Tapia-Jimenez
Comments

In “Immigrants and The Great Divergence”, Andrew Padovani advances a persuasive argument concerning migration as a function of wage levels and housing supply elasticity. He finds that foreign-born workers, whether they are high- or low-skilled, are more inclined to reside in areas with higher wages despite higher housing costs. The same is true for high-skilled natives: they are largely located in cities with higher wages because they can bear the higher costs of housing. Low-skilled natives, however, are less willing to bear the higher costs of housing for the sake of higher wages. A key distinction between foreign-born and native workers is that the former has already invested in migration, and is therefore more mobile than the latter.

Andrew builds his case by first identifying empirical regularities between constrained housing supplies and the wages, rents, and ratios of high-skilled, foreign-born, and low-skilled foreign born workers in Metropolitan Statistical Areas (MSAs). All of which (wages, rents, and all ratios) are found to be higher in an MSAs with more constrained housing supplies. However, the population of low-skilled natives in these areas decline. Indeed, he also shows that migration of high-skilled native and high- and low-skilled foreign-born workers to cities has been increasing over time despite higher housing costs. Further, the foreign born-share of migration to MSAs with restricted-housing-supply tended to be higher.

To advance his argument, Andrew utilizes a modified spatial general equilibrium that describes how native and foreign-born workers choose to locate, based on wages, rents, amenities, and idiosyncratic preferences. He identifies the equilibrium, and then examines how variables respond to exogenous shocks affect the variables in the model. Their relationships between these variables form the basis of his theoretical predictions.

With MSAs as the unit of analysis, these theoretical predictions are then empirically tested using a difference-in-differences regression that captures the interactive effect of labor demand shocks and a constrained housing supply on six variables: mean native wage, mean foreign-born wage, mean rent, and the ratios of foreign-born workers, low-skill foreign-born workers, and high-skilled workers. He finds that, following a shock in restricted-housing-supply MSAs, natives’ wages and rent growth increases, while wage growth for foreign-born workers is unaffected. He also finds that the ratios of foreign-born, low-skilled foreign-born, and high-skilled workers all increase in MSAs which experience labor demand shocks and constrained-housing supplies.

The results imply that high-skilled workers, whether foreign or native born will migrate to MSAs that experience a labor demand shock even if that area has tight housing markets with higher rents. This is also true of low-skilled foreign-born workers who lack the resources to cope with increases in housing costs unlike high-skilled workers.

The paper is well-written and argued, and represents an interesting avenue of research that will bear on an increasingly urban world. I have the following questions:

Question 1: Do the theoretical distinctions between native and foreign-born workers hold in all countries and periods?

While native and foreign-born workers are distinct in a variety of ways, the relevant economic explanation for their differences concerns their mobility. In the paper, this mobility is evidenced by their willingness to immigrate in the first place. Greater mobility then translates to a greater willingness to locate in MSAs with high wages, despite high housing costs. However, countries can be subject to large internal migrations, like the Dustbowl, making natives more mobile and more likely to pursue higher wages rather than lower housing costs. In such a case, and if I'm not mistaken, highly native and foreign-born workers would behave identically under the model. This implication may not be a problem for the purposes of the paper, but if it is some time should be spent discussing why it isn't the case (perhaps the foreign-born worker-specific variables as described in Eq. 2?)

Question 2: Are the results robust to the treatment of MSAs that are either temporally inconsistent or rural?

It was stated at the onset that some MSAs are inconsistent between administrations because they either changed in population or in economic linkages. In both cases, the reasons underlying their exclusion as a unique observation may be important for your theoretical argument: population growth and recognition as an independent MSA may signal economic development which may draw foreign-born workers. To show that is not a problem, it may be useful explain why these changes are unrelated to your theoretical argument and run the empirical tests with different treatments of the MSAs to show robust findings.

Question 3: Are the results robust to group-specific trends?

Difference-in-difference models rely on the parallel trends assumption, which would require that two groups have identical time trends. In your model, I believe this would amount to including a trend-line that describes how restricted housing supply MSAs changed relative to MSAs with an unrestricted housing supply. A substantive implication of this assumption could be that restricted housing-supply MSAs with less space to expand are inherently more likely to have increases in rent. A trend-line for such MSAs could control for this and further demonstrate the robustness of your results.