

Accepted Manuscript

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Peter Ganong, Daniel Shoag

PII: S0094-1190(17)30059-1
DOI: [10.1016/j.jue.2017.07.002](https://doi.org/10.1016/j.jue.2017.07.002)
Reference: YJUEC 3092

To appear in: *Journal of Urban Economics*

Received date: 11 February 2016
Revised date: 6 July 2017
Accepted date: 6 July 2017

Please cite this article as: Peter Ganong, Daniel Shoag, Why Has Regional Income Convergence in the U.S. Declined?, *Journal of Urban Economics* (2017), doi: [10.1016/j.jue.2017.07.002](https://doi.org/10.1016/j.jue.2017.07.002)

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Peter Ganong and Daniel Shoag*

July 2017

Abstract

The past thirty years have seen a dramatic decline in the rate of income convergence across states and in population flows to high-income places. These changes coincide with a disproportionate increase in housing prices in high-income places, a divergence in the skill-specific returns to moving to high-income places, and a redirection of low-skill migration away from high-income places. We develop a model in which rising housing prices in high-income areas deter low-skill migration and slow income convergence. Using a new panel measure of housing supply regulations, we demonstrate the importance of this channel in the data.

JEL Codes: E24, J23, J24, R14, R23, R52

Keywords: Convergence, Regulation, Land Use, Migration, Housing Prices

*Email: ganong@uchicago.edu (University of Chicago Harris School, 1155 East 60th Street, Chicago, IL 60637) and dan_shoag@hks.harvard.edu (Harvard Kennedy School, 79 John F. Kennedy Street Cambridge, MA 02138). We would like to thank Marios Angeletos, Robert Barro, George Borjas, Gary Chamberlain, Raj Chetty, Gabe Chodorow-Reich, David Dorn, Bob Ellickson, Emmanuel Farhi, Bill Fischel, Dan Fetter, Edward Glaeser, Claudia Goldin, Joe Gyourko, Larry Katz, and seminar participants at Harvard, Tel Aviv, Bar Ilan, Dartmouth and the NBER Summer Institute for their valuable feedback. Shelby Lin provided outstanding research assistance. We thank Erik Hurst for alerting us to the end of regional convergence and spurring us to work on an explanation. Peter Ganong gratefully acknowledges residence at MDRC when working on this project and funding from the Joint Center for Housing Studies and the NBER Pre-Doctoral Fellowship in Aging and Health. Daniel Shoag and Peter Ganong gratefully acknowledge support from the Taubman Center on State and Local Government.

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