



Selection in initial and return migration: Evidence from moves across Spanish cities



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ABSTRACT

This paper investigates the contribution of migration to the sorting of more productive workers into big cities using administrative data for Spain that follow individuals over their work lives. While migrants to small cities do not exhibit selection of any type, migrants to big cities are positively selected in terms of education, occupational skills, and individual productivity as proxied by their pre-migration position in the local earnings distribution. However, not everyone benefits equally from big cities and this leads to a second round of sorting. Returnees are not only ex-ante less productive than permanent migrants, but are also those who, following the first move, have least boosted up their earnings in big cities. Low realized earnings and unemployment affect return decisions of workers who moved to big cities at younger ages in particular, suggesting that older migrants may face less uncertainty upon moving to big cities.

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1. Introduction

Workers earn substantially more in big cities (Glaeser and Maré, 2001; Wheaton and Lewis, 2002; Combes et al., 2010; Moretti, 2012). This may partly reflect the existence of productive advantages in areas where more firms and workers locate nearby (Duranton and Puga, 2004; Rosenthal and Strange, 2004) and also that interactions in big cities facilitate the acquisition of greater skills (Glaeser, 1999; De la Roca and Puga, 2017). However, it has long been thought that those higher earnings may also partly reflect the sorting of more able workers into big cities (Combes et al., 2008). Already in 1890, Alfred Marshall wrote “[i]n almost all countries there is a constant migration towards the towns. The large towns and especially London absorb the very best blood from all the rest of England; the most enterprising, the most highly gifted, those with the highest physique and the strongest characters go there to find scope for their abilities” (Marshall, 1890, p. 5.6).

Existing empirical studies of worker sorting on ability across cities of different sizes compare differences in observable skills between big and small cities. Workers in big cities tend to have higher education (Berry and Glaeser, 2005) and greater occupational skills of both cognitive and social type (Bacolod et al., 2009). However, such differences appear to be relatively small in relation to the observed earnings premium, which hints to an important role for learning advantages in big cities. De la Roca and Puga (2017) estimate wage regressions including worker fixed-effects and the heterogeneous effects of big-city experience to recover innate distributions of skills in small and big cities. They do not find statistically significant differences in these innate skills distributions within broad levels of education and occupational groups. Baum-Snow and Pavan (2012) recover measures of ability from a finite-mixture model in a structural estimation setting and find evidence of positive sorting on observed skills to big cities. Again, they find that sorting on unobserved ability within levels of education has a minor contribution to the observed city-size earnings premium.

One common goal of these studies is to examine whether skills vary with city size in a given point in time; however, they tell us little about the dynamic sorting process that may lead to differences in skills between big and small cities. To that end, this study investigates the contribution of internal migration to the sorting of workers across cities of different sizes by studying whether greater productivity and skills increase the likelihood that a worker mi-

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grates to a big city. Using rich administrative data for Spain that follow individuals over time and across cities throughout their careers, I show that migrants who move to big cities are positively selected in terms of their level of productivity as proxied by their relative position in the local pre-migration earnings distribution. This remains so even when looking within given levels of educational and occupational groups, yet, the extent of selection drops substantially after conditioning on observable skills. In contrast, migrants who move to small cities do not exhibit clear selection of any type.

In addition, I document a second stage of sorting that happens after a first migration episode. About 30% of migrants end up leaving their city of destination within five years. Moreover, 67% of these second moves involve a return migration to the city of origin. Such return migration is more frequent in big cities. I find that to understand return migration, it is important to look not only at the initial worker characteristics and relative earnings prior to the first move, but also at the heterogeneous experiences of workers following their first migration episode.

I develop a conceptual framework in which big cities provide workers with a stochastic earnings premium but also involve higher housing costs. Even if faced with the same distribution of the premium, more skilled (and thus higher income) workers are more likely to be able to afford the higher housing costs of big cities and the costs of migration. As a result, of all workers in small cities, only those with skills above a certain threshold are willing to migrate to big cities. Then, of workers who migrate, those with the highest skills remain in big cities while those with intermediate skills end up returning unless the realization of their stochastic earnings premium is sufficiently high.

These predicted patterns of return migration are supported by the data. Returnees are not only less productive than permanent migrants prior to their first move. They are also those who, following the first move, have least boosted up their earnings in the big city. This pattern seems to be specific to returnees. When I examine second-time moves of migrants to other cities, they are not affected by low realized earnings in the big city. Furthermore, I find different patterns of return migration for workers who moved to big cities at different ages. Workers who moved at later ages are more likely to return, yet, such return decision is not driven by a negative experience in the big city as proxied by low realized earnings or unemployment spells. These findings suggest that older first-time migrants to big cities are more rooted in their city of origin and, hence, more prone to return. At the same time, they seem to face less uncertainty than younger migrants upon moving to big cities.

This study contributes to our understanding of internal or regional migration within countries. Previous studies of regional migration (see Greenwood, 1997, for a survey) find that migrants tend to be more educated, employed in high-skilled occupations, and generally more productive. Borjas et al. (1992) using NLSY data show that more educated and productive workers in the United States are more likely to migrate regardless of their state of origin. Further, skilled workers in states with low earnings inequality have a higher propensity to out-migrate to states with higher inequality. Bound and Holzer (2000), using US census data to examine the role of individual characteristics in the sort of labor adjustments to regional shocks studied by Blanchard and Katz (1992), find that workers with low education are less prone to migrate in response to shifts in demand. For Europe, Hunt (2004) examines determinants of migration among federal states in Western Germany and finds that migrants are more skilled than stayers. Bauernschuster et al. (2014) also show that German migrants are more educated and less risk averse than stayers, which makes them less sensitive to cultural differences across regions. I contribute to this literature by using cities (instead of states or regions) as the spatial units

of analysis, and showing that migrants from small to big cities are key to understand why migrants are largely positively selected. This positive selection validates the predictions of a standard Roy self-selection model where mismatched high-skilled individuals in small cities move to areas with higher returns to skills, namely big cities.²

The findings in this study also add to the literature in urban economics that examines mobility of individuals across cities with different consumption and production amenities (Rappaport, 2009; Sinha and Cropper, 2013). Chen and Rosenthal (2008) follow a spatial equilibrium framework to rank US cities by quality of life (i.e., cities where real wages are lower as individuals are willing to forgo part of their earnings to enjoy attractive areas) and by quality of business environment (i.e., cities where firms are willing to incur higher rents and wages to access more productive workers). They show that, in the 90s, cities with higher indices of quality of life tended to attract retirees and married couples older than 55, while cities with higher indices of business environment were more appealing to highly-productive individuals aged between 20 and 35. As big cities exhibit higher levels of quality of business environment or agglomeration economies, this latter finding conforms to the positive selection I observe for migrants from small to big cities in Spain.

Finally, the study provides new insights on the degree of selection in return migration from big cities and underscores the role of uncertainty. When examining second migration decisions of individuals, I allow productivity and skills to vary over time by looking at the worker's relative position in the local earnings distribution at the time of each migration episode. This turns out to be particularly important in distinguishing who stays and who returns after a first migration episode. Surprisingly, few studies examine such return migration flows within a country.³ Considering selection on the basis of productivity and skills observed in the first and second location allows me to gain further understanding of the characteristics and experiences of returnees, as well as characterize the implications that these return moves have for distributions of skills in big and small cities.

An extensive set of studies that analyze selection in initial and return migration have focused mostly on international migration, specially on flows between Mexico and the United States.⁴ Besides of the reasons highlighted above, studying migration across cities within a country helps overcome two important caveats of international migration studies. First, we can observe migrants' work histories in both the origin and destination, whereas international studies tend to observe migrants' work histories only in one location, either the origin or the destination country. Second, even if international studies could track individuals across countries, institutional and economic differences between them, as well as high migration costs (both monetary and psychological), would make it more difficult to evaluate the performance of migrants and returnees than in the case of internal migration.

² Several recent studies document the strong positive relationship between earnings, inequality and city size (Baum-Snow and Pavan, 2013; Eeckhout et al., 2014; De la Roca and Puga, 2017).

³ DaVanzo (1983) and Kennan and Walker (2011) for the US, and Hunt (2004) for Germany are some exceptions of return migration. A common feature of these studies is the small sample of return migrants in the survey data they use. Moreover, migration in general is underestimated due to attrition of movers. The large panel of administrative data I use is a great advantage on this respect.

⁴ See Borjas and Bratsberg (1996) for a model on international return migration. See Chiquiar and Hanson (2005), Ibararán and Lubotsky (2007), McKenzie and Rapoport (2010), Fernández-Huertas (2011), Kaestner and Malamud (2014) for selection and return migration flows between Mexico and the United States. See Co et al. (2000), Constant and Massey (2003), Dustmann (2003), DeCoulon and Piracha (2005), Rooth and Saarela (2007), Ambrosini et al. (2015) for international return migration in European countries.

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