Skills in Urban Economics, William Strange

Discussion introduced by Pierre-Philippe Combes

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William Strange’s contribution

- Questions: Enters two important black-boxes for the understanding of the role of space for local economic outcome
  - What are the determinants of individual skills?
    Answer: Genes, traits, intelligence (exogenous), but also Education (a first more endogenous individual choice, labour economists view) and Agglomeration (through a second, endogenous, choice of location, economic geography view)
  - How skills impact on economic outcome (wages)?
    Answer: A direct effect (labour economists view) but also an indirect one due to spatial selection and therefore agglomeration again (the economic geography view)
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Strategy:
- Original use of data that allow distinguishing genes, etc from education, and from cognitive and motor skills and occupations
- Clever econometric strategy

Fairly clear-cut results opening policy implications and new questions
Which implications for France?

- Shall we expect similar conclusions for France? (fairly even distribution of education and skills)
- My priors would be “no” given the large (0.44) correlation between workers fixed-effects and density found by Combes, Duranton and Gobillon (2008)
- Is it yours also?
- Do I wrongly interpret fixed-effects in terms of skills?
  - Do they capture only constant characteristics as genes, etc, and education?
  - Or also part of skills (technically, they correspond to the average worker's wage over the whole professional life, i.e., the average of time-varying skills)?
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Or different mobility patterns can explain differences across countries?
  - Before professional life, fairly high mobility in France, at least for those involved in the best universities/‘grandes écoles’ that are all in Paris
  - Lower mobility along the professional life?
On the strategy

- Does distinguishing genes, etc from education and skills necessarily prevent us from using individual fixed-effects?

- If yes, do we reach an explanatory power of these variables on economic outcome similar to the one of individual fixed-effects?
  - My prior being “no” typically the explanatory power of (detailed) education+occupations is half of the one of individual fixed-effects, but maybe with genes etc, would it be different?
  - Which other variable could explain the gap between the two? Is part of the story still missing? Or do we simply still badly measure genes, traits and intelligence?

Do you think that endogeneity of location and skills choices could affect the results of the wage equation estimation? Which instruments could be used?

For location, the literature makes some propositions (historical data, geology) and we have an idea of the bias (20% upward for density)

But for genes, education and skills? knowing that some vary over time, others not? and that typically some are sometimes used to instruments others...
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