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, ie 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?

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- 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...