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Migration Decisions within the Job Search Framework: Implications for Understanding the “Resource Curse”

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Migration Decisions within the Job Search Framework: Implications for Understanding the Resource Curse

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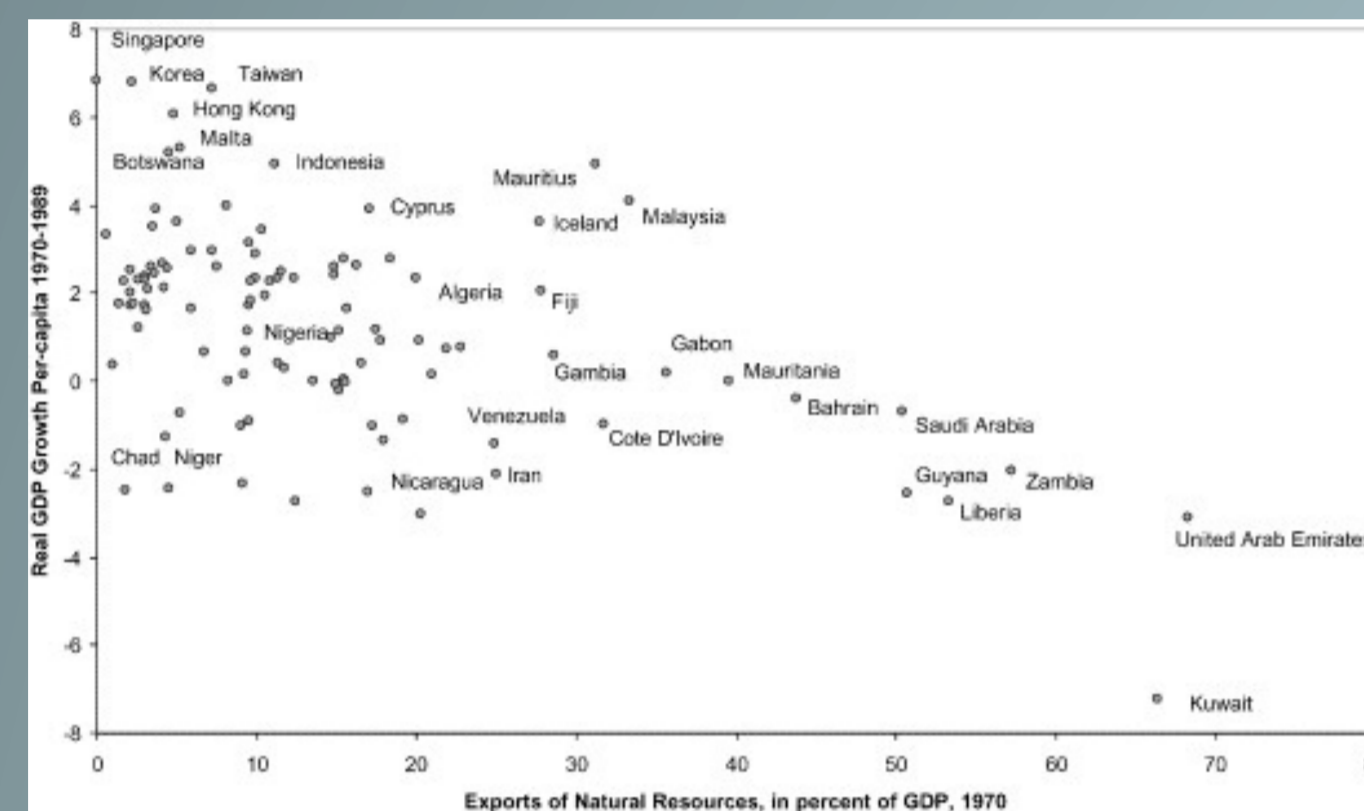
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Motivation

The effect of natural resource abundance in an area is complex. On one hand exploration of natural resources played a large role in early development of some of world's richest economies: United States, Canada, and Australia. On the other hand resource abundant areas are associated with higher levels of poverty, unemployment, and underemployment.

Growth and Natural Resource Abundance 1970-1989 (Sachs and Warner, 2001)



Research Question

- Why do resource rich areas underperform economically?
 - Are there barriers to migration?
 - Does homeownership constrain migration?

Effect of Homeownership

The interest in the effect of homeownership on migration comes from a positive association between higher rates of homeownership and higher rates of unemployment. Oswald (1996) finds that in the US periods of high unemployment correspond to periods of high homeownership rates. In Europe, countries with the highest proportion of home owners also had the highest unemployment rates. It is suggested that home owners are relatively less mobile than renters and therefore stay in unemployment longer. Empirical evidence shows that indeed, homeowners are least likely group to migrate (Gardner et al., 2001; Böheim and Taylor, 2002; Lux and Sunega, 2012).

References

- Böheim, R. and M.P. Taylor. 2002. "Tied Down or Room to Move? Investigating the Relationships between Housing Tenure, Employment Status, and Residential Mobility in Britain" *Scottish Journal of Political Economy* 49(4): 369-92.
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- Lux, M. and P. Sunega. 2012. "Labour Mobility and Housing: The Impact of Housing Tenure and Housing Affordability on Labour Migration in the Czech Republic" *Urban Studies* 49: 489-504
- Oswald, A.J. 1996. "A Conjecture on the Explanation for High Unemployment in the Industrialized Nations: Part I." University of Warwick Working Paper No. 475, December.

Conceptual Framework

- Based on the three-state optimal search model
- Three states: employment, unemployment with national search, and staying local

$$V_e(w) = \frac{w}{\rho} + \frac{\lambda_e}{\rho} \int_{w-\tau}^{\infty} \{V_e(x) - V_e(w)\} dF(x) + \frac{\lambda}{\rho} \int_{\xi_{el}}^{\infty} \{V_l(l) - V_e(w)\} dG(l)$$

$$V_u = \frac{-c}{\rho} + \frac{\lambda_u}{\rho} \int_{\xi_{ue}}^{\infty} \{V_e(w) - V_u\} dF(w) + \frac{\lambda}{\rho} \int_{\xi_{ul}}^{\infty} \{V_l(l) - V_u\} dG(l)$$

$$V_l(l) = \frac{l}{\rho + \lambda} + \frac{\lambda}{\rho + \lambda} \int_{\xi_{lu}}^{\infty} \{V_l(l) - V_u\} dG(l)$$

$$+ \frac{\lambda}{\rho + \lambda} \int_{\xi_{le}}^{\infty} \{V_e(w) - V_l(l)\} dF(w) + \frac{V_u}{\rho + \lambda}$$

V_e – employment state

V_u – unemployment with national search state

V_l – staying local state

Empirical Framework

The empirical framework is based on the migration model where an individual will move away from the local area if the utility he can achieve in another region is higher than the utility he is currently achieving.

$$M_{it}^* = \alpha + \beta_1 UN_{it-1} + \beta_2 IND_{it-1} + \beta_3 HOME_{it-1} + \beta_4 UN_{it-1} IND_{it-1} + \beta_5 HOME_{it-1} IND_{it-1} + \gamma ECON + \delta DEMO + \varepsilon_i$$

where UN_{it-1} is an unemployment dummy (1-unemployed, 0-otherwise) in time period $t-1$, $HOME_{it-1}$ is home ownership dummy (1-owns home, 0-otherwise) in time period $t-1$, IND_{it-1} is an industry indicator in time period $t-1$, **ECON** is a vector of other economic factors that may affect migration decision such as wage difference, unemployment rate difference, unemployment benefits, etc, and **DEMO** is a vector of demographic characteristics such as age, education, family composition, etc.

The migration model is estimated by the the migration probability model

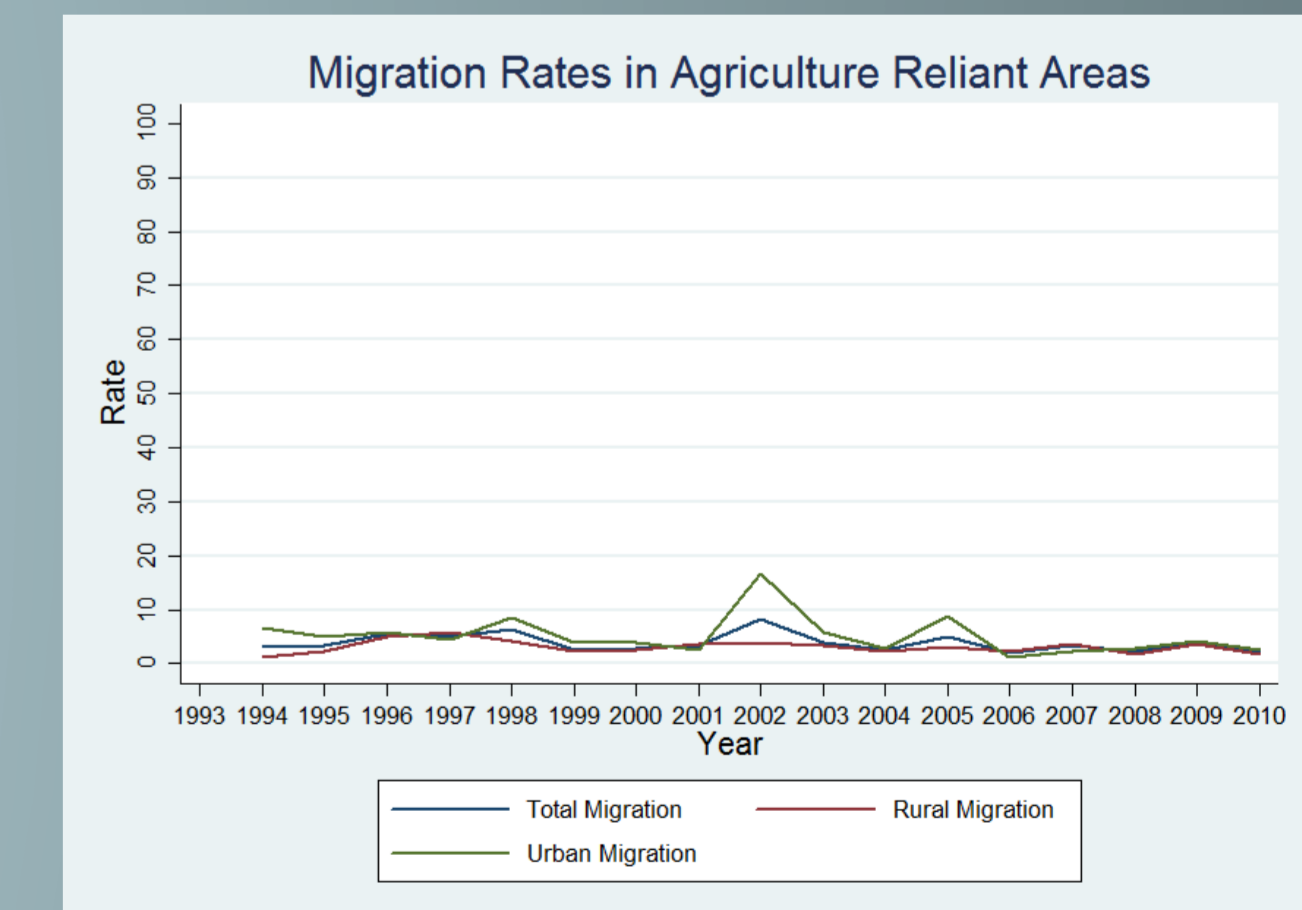
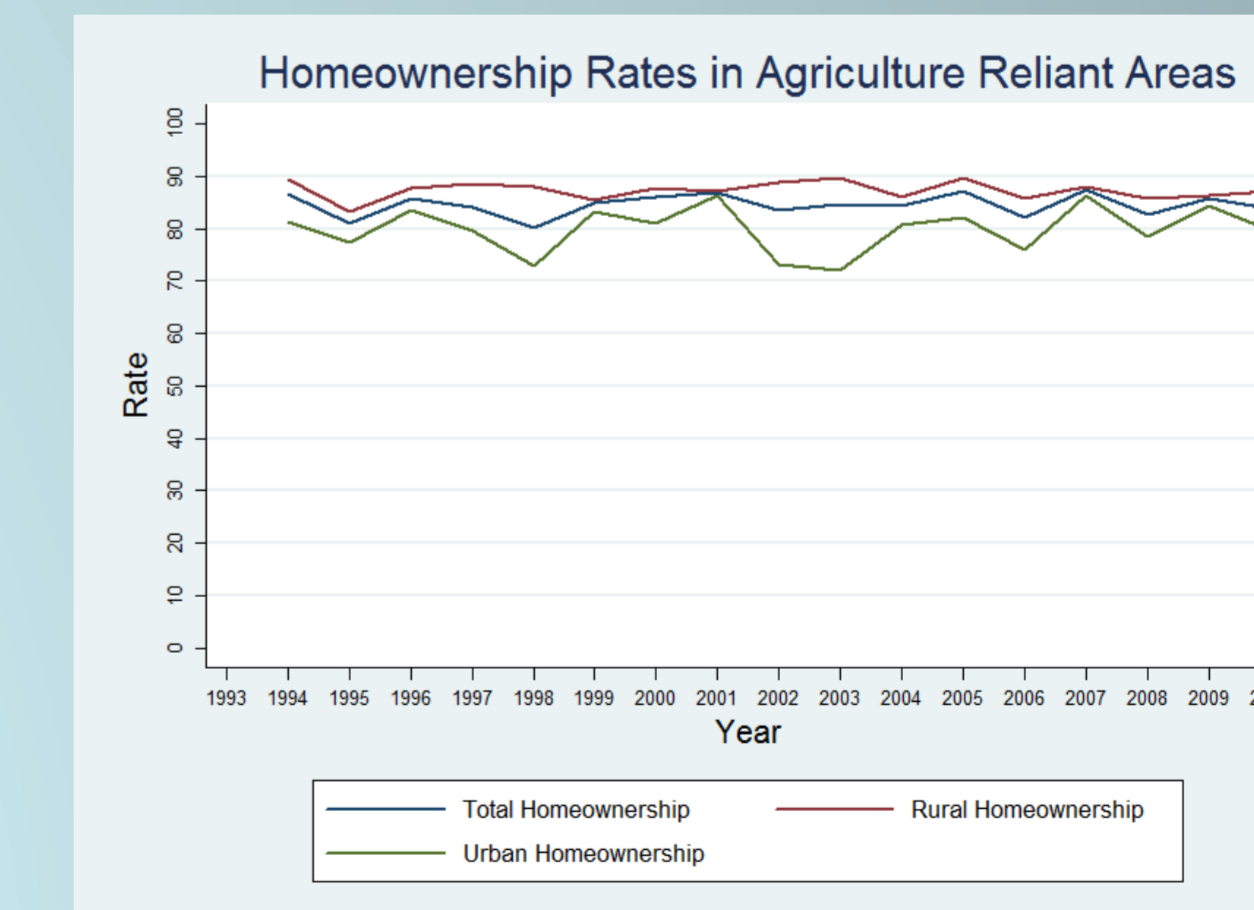
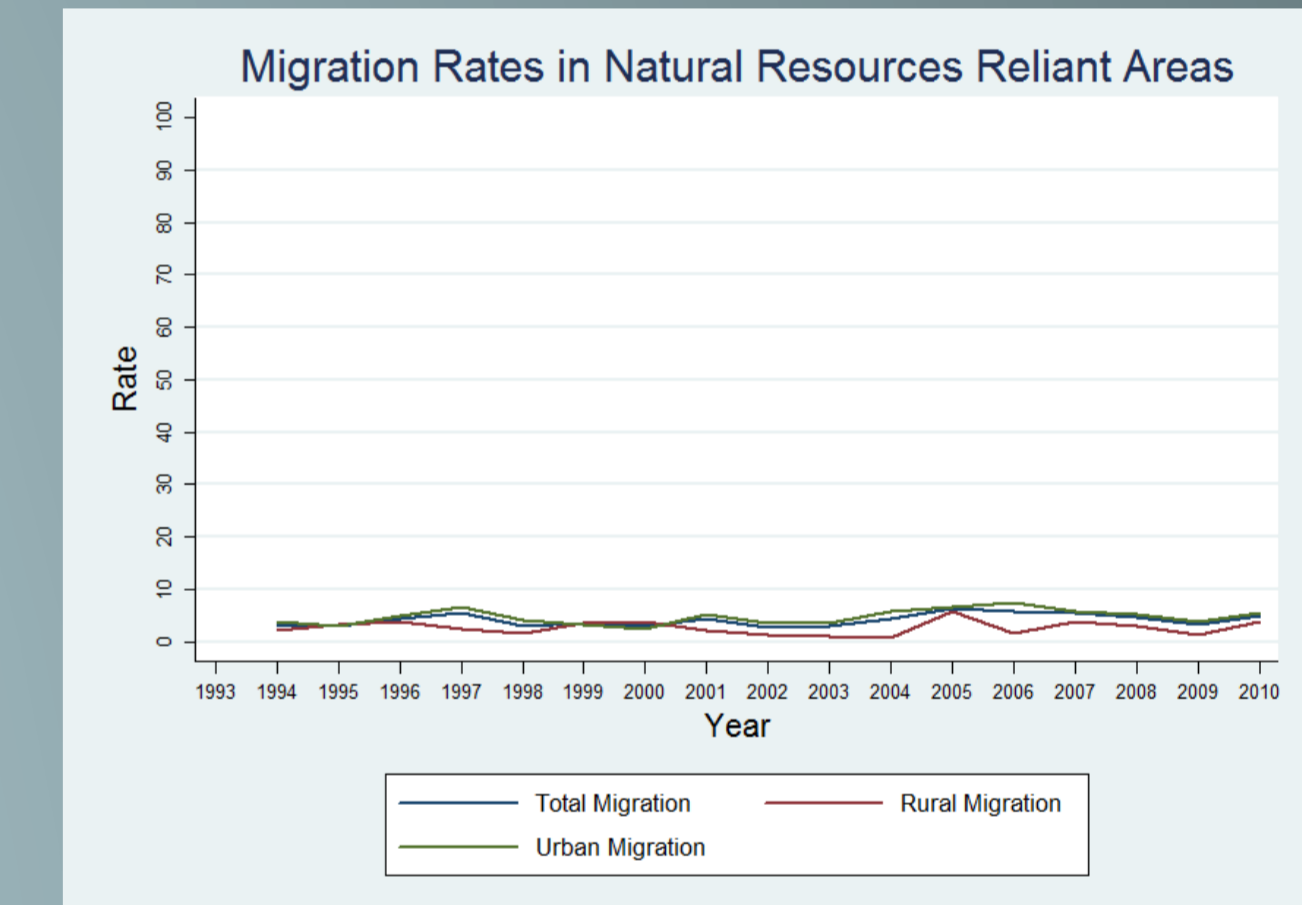
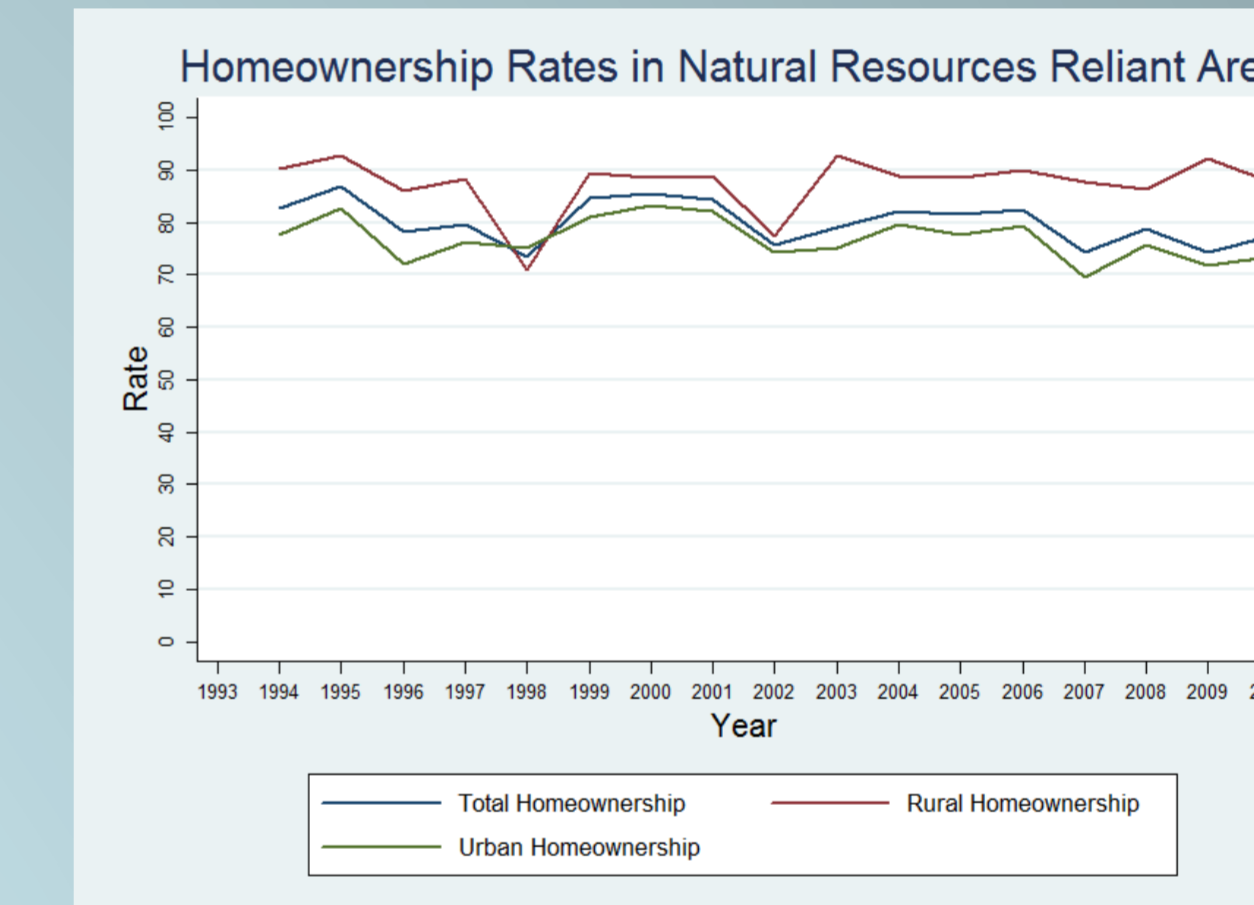
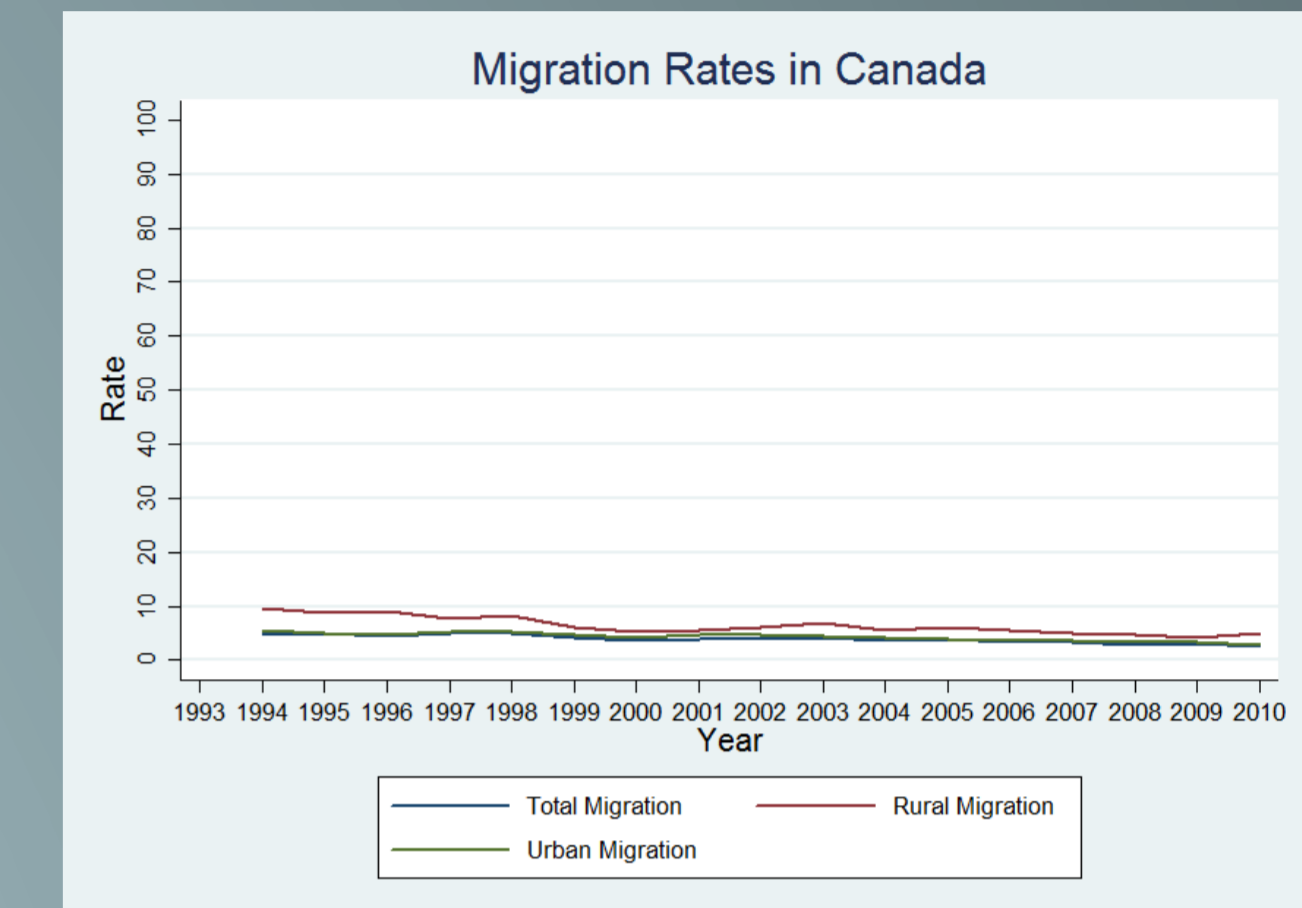
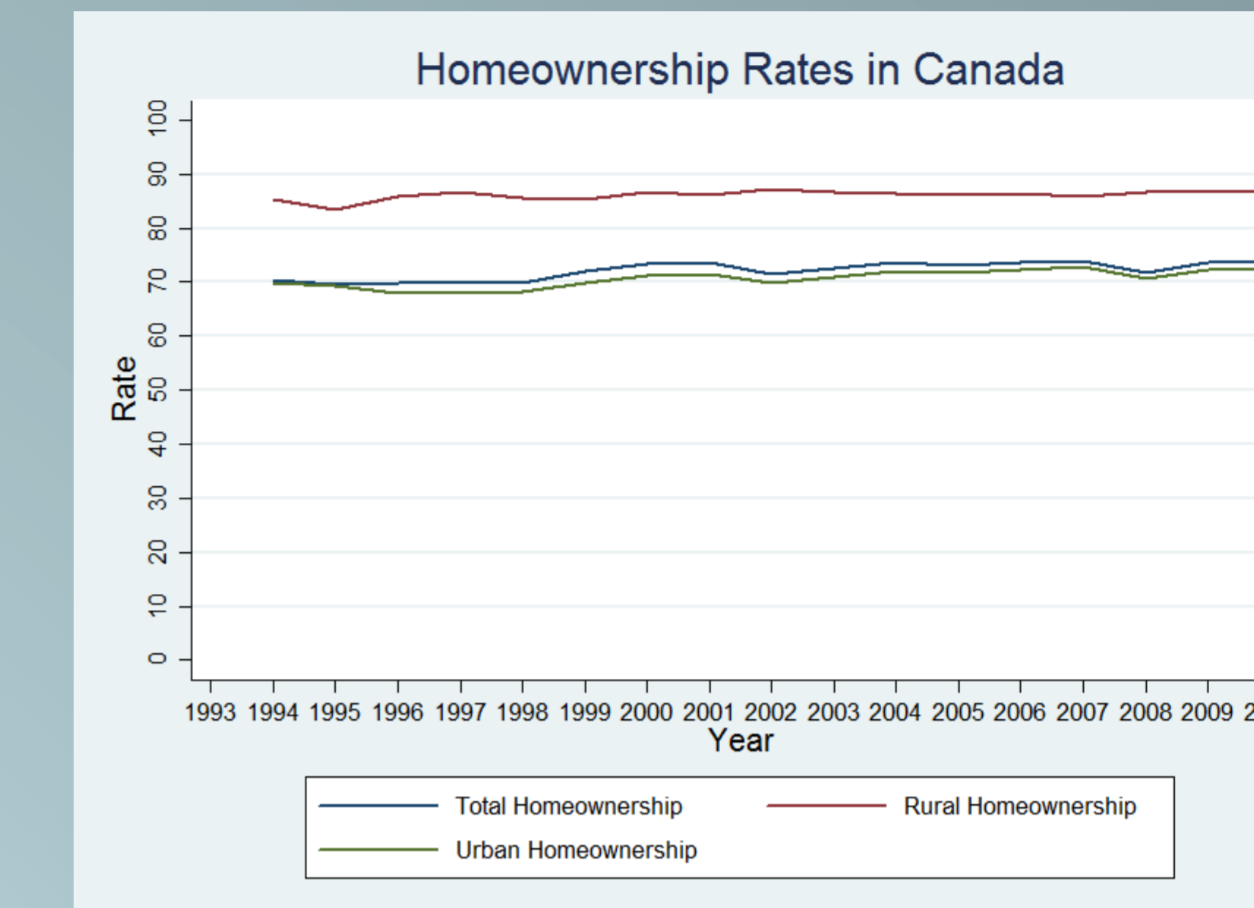
$$\Pr(M_{it} = 1 | \mathbf{X}_{it}; \beta) = \Pr(M_{it}^* > 0 | \mathbf{X}_{it}; \beta) = \Pr(\varepsilon_{it} \leq \mathbf{X}_{it}; \beta)$$

where M_{it} is a migration indicator (1-person moved in reference year, 0-otherwise) in time period t , \mathbf{X} is the vector of explanatory variables as specified above, β is the vector of corresponding parameters, and $\Pr(\cdot)$ is the probability of event.

Data

The data used in the analysis of the migration decision is based on the five panels of the Survey of Labor and Income Dynamics (SLID) conducted by Statistics Canada. Each panel is a nationally representative sample of approximately 17,000 households, containing about 34,000 adults that are interviewed each successive year for six years. Information is collected regarding respondent's labor market experiences during the previous year, income, educational activity, family relationships, and other economic and demographic characteristics.

Results and Discussion



It appears that there is a significant difference in annual variation in both homeownership and migration rates between the entire nation and areas reliant on natural resources and agriculture. The higher variability may be explained by greater exposure of natural resources sectors to global commodity markets. For example, in 1998 rural homeownership rate decreased significantly from 88 to 71 per cent. This decline corresponds to the 1998 Asian financial crisis.