Discussion of Gharad Bryan and Melanie Morten:

Economic Development and the Spatial Allocation of Labor: Evidence From Indonesia

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Contribution

- This is a great paper that looks at the implications of distortions in the spatial distribution of economic activity.
- Despite some recent attention this strikes me as a rather under-researched first-order question.
- Needless to say that much of the existing literature on economic geography examines developed countries.
- I have three main comments, which concern the estimation of amenities, the identification of the migration costs and the policy implications of the analysis.

Amenities

- The model implies that an increase in productivity in a location does not increase wages.
- The reason is that the increase in productivity attracts additional migrants, which are negatively selected.
- This implies that wage differences between cities are all explained with amenity differences.
- The main draw back of this feature of the model is that the model cannot capture the empirical regularity that larger (or denser) locations pay higher wages.

Identification of Migration Costs

- The structural identification of the migration costs relies on two key pieces of data:
  - The Frechet shape parameter (θ), which is in turn estimated from wage data
  - The observed migration flows between regions
- Intuitively, higher estimates of the Frechet parameter imply less variation in productivity across locations.
- As a result lower migration costs can explain any given level of observed migration.

Table 4: Estimated Frechet parameters

	Indonesia				United States	
	(1)	(2)	(3)	(4)	(5)	(6)
	1976	1995	2011	2012	1990	2010
ρ (correlation)	0.79***	0.81***	0.82***	0.83***	0.94***	0.93***
	(0.0072)	(0.0053)	(0.0096)	(0.0065)	(0.00038)	(0.00037)
θ (dispersion)	14.8***	16.6***	19.3***	19.0***	45.2***	37.9***
	(0.21)	(0.18)	(0.24)	(0.23)	(0.13)	(0.095)
Number missing migrant pairs	114	30	32	18	1	15
Mean mig cost (drop missing)	0.36	0.39	0.35	0.36	0.15	0.17
Mean mig cost (missing=1)	0.60	0.45	0.42	0.40	0.15	0.18

What is Driving Differences in Migration Costs?

- As Table 4 shows, the estimates of the Frechet parameter are much higher for the US than for Indonesia.
- To what extent does this - rather than larger flows of migrants - explain the lower migration cost estimates in the US compared to Indonesia?
- Similarly, how do these two factors contribute to the estimated time profile of migration costs?

Policy Implications

- The key policy question is how government policy can reduce the estimated migration costs to achieve better job matches.
- The estimated migration costs are both correlated with measures of cultural and physical distance between locations.
- From the trade cost literature we know that only a small part of the effect of distance on trade flows can be explained by actual shipping costs.
- Before we rush to build highways to reduce migration costs, it would therefore be good to know what is exactly behind the effect of distance on migration costs.