

Discussion: “Building cities”
Henderson, Regan, and Venables
Asher, Nagpal, and Novosad

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Building the city: sunk capital and sequencing

Henderson, Regan, and Venables

- Nice job using new data on built structure to test predictions of spatial model
- Focus on formal/informal building decision an important one for developing world
- Highlights potential inefficiencies from too little formal building (extensive/intensive margins)
 - From informal to formal conversion costs
 - From wrong expectations of future demand/ price growth.
 - Too little: fail to accomodate growth
 - Too much: get stuck with unneeded durable buildings

Things that are obviously true

- Factors affecting formal building are crucial for a city's long run trajectory
 - Growth (pop, emp, income)
 - City structure
 - Potentially: type of residents
 - If agglomeration economies: productivity
- Policy decisions:
 - Conversion costs quite clear – keep low, buy out interested parties
 - Infrastructure decisions might be harder

Infrastructure building decisions

- They seem difficult – big public investments based on expectations
 - Infrastructure decisions depend on building
 - Building depends on infrastructure
 - Both depend on expectations of future price growth/ future demand for the city
 - Ultimate ability of city to handle density will depend on presence of subway, how roads are built (tooooo narrow in Jerusalem, Cairo, old cities in general)
- Just how important is the subway decision? Tel Aviv example
 - TA proper: 1/2 mil; TA metro: 3.6 mil, 45% of Israeli pop
 - Income in TA proper 16% higher than rest of nation
 - Start-up *metro*
 - TA growth means national (international?) growth
 - But no subway, no building, low density, high housing prices, plenty of complaints

How are expectations formed? (somewhat ridiculous q)

- Vernon's paper takes expectations as exogenous to show what happens to structure under different expectations
- But how these expectations are formed, how they adjust is fascinating
 - Generally trust private market to assess fundamentals (Type of industry, skills, entrep., institutions, natural advantages)
 - Still an important policy role:
 - Public signals of infrastructure support to private builders?
 - Getting out of their way of private builders by reducing regulation
- Speed of adjustment to shock likely depends on regulation (arduous permitting)
 - Can affect speed of growth of city
 - Can affect propagation of shock to surrounding rural areas

The Urban Geography of Growth in India

Asher, Nagpal, and Novosad

- This paper provides the motion that can help us study adjustment
 - Changes in city structure and formal/informal allocation, as above
 - How the city grows
 - How the rural area around it grows (or doesn't)
- Plausibly exogenous shocks to a city's industrial labor demand to help us study growth effects
 - Workhorse to identify cause and effect
 - Should think creatively – variety of outcomes and mechanisms we can learn about
- First should provide some in-context evidence on “plausible exogeneity”

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Instrument exogeneity

Asher, Nagpal, and Novosad

- Inst. commonly used in U.S. data, previously used in India
- (Didn't get detail on instrument construction; raising possible issues)
- Frequency of shocks: 5 vs. 10 year intervals
 - Can regress city growth (emp, wages) on contemporary share of new firms (0 yrs, 1-5 yrs old)
 - If firms don't enter currently growing places, they likely can't predict at your intervals
- Employment Bartik: industries particularly concentrated in one or two places, making the shock less exogenous? Is the type of industry located in a city correlated with other factors that predict growth, like skills?
 - Evidence: do all the quickly growing industries, nationally, tend to be high skill? (pick up skilled cities)
- Trade Bartik: India case: trade opened all at once across industries. When using elsewhere, want to be sure that trade liberalization wasn't done for certain cities.

Outcomes we might care about

- Novosad et al. stress urban to rural growth path (good)
- But I would start with how and how much the city grows
 - Interesting in its own right, could also affect the rural impact (migration, education incentives)
 - How do effects vary with regulation? Does rural-urban migration slow in high reg. cities?
 - How do effects vary with different types of infrastructure investments? Public transport that facilitates density? Roads that facilitate movement around center and to the edge?
- Effects on city shape (density, formal vs. informal, segregation)
 - How does a positive shock influence the transition of land use from informal to formal sector? How long does it take?
 - Variation across cities/ areas in cities in conversion costs to estimate conversion cost delay in response to shocks?

Outcomes we might care about

- Endogenize regulation and infrastructure investments in response to shocks.
 - Depend on political features?
 - Depend on population characteristics, like ethnic diversity?

Collecting good data can pay off

- TONS of stuff to learn once we have good data and source of variation
- MANY developing places experiencing quick growth under differing political and economic circumstances – can use this variation to learn about what works