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

Naomi Hausman
Hebrew University

January 28th 2016
IGC Cities Conference
London School of Economics
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 accommodate 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 (too000 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.
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”
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”
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 moment 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