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No place like home?

**A study on the monetary
returns to staying among young
adults**

Introduction

- Utility maximization as the central behavioral criterion in migration decision
 - à The individual decides to migrate if he or she expects higher utility at a new place of residence
 - à The individual decides to stay if he or she expects to get higher utility at the current place of residence than at a new place.

Introduction

- How to measure utility?
 - Many economic migration studies approximate utility by income (higher income=higher utility)
- The location decision is not only affected by monetary factors, but also by non-pecuniary factors

Introduction

- The theory of compensating wage differentials (Adam Smith 1776)
 - predicts that larger incomes in other locations can be compensated by other attractive factors at the current place of residence



Introduction

- Location-specific capital (DaVanzo 1981)
 - refers any factor that tie an individual to a place: for example property ownership, personal knowledge of the area, presence of family members, community ties and close friendships
 - Factors that are not available everywhere, and their value would be lost or diminished if the person were to migrate to another place.
- The period of childhood and adolescence gives location-specific capital specific for the region of childhood.
- Location-specific capital in the current region can compensate for higher wages in other locations



The research question(s)

1. Are young adults who stay in their home region willing to accept lower wage growth than they could have got by migrating?
2. Do the stayers in their childhood regions have higher compensating wage differentials than individuals living in other regions?

Method

- The treatment effects framework
 - originates from medical literature
 - Migration as treatment
- How would annual earnings of an average stayer change if such a person were to migrate?
 - the average treatment effect on *the untreated*
- This question is challenging, as no individual is simultaneously migrating and staying

Matching

- basic idea is to find in a group of migrants those individuals who are similar to the stayers in relevant characteristics before the decision to stay or migrate.
 - differences in outcomes of this control group and of stayers can be attributed to the decision to stay



Data

- register data
- young adults who lived in northern parts of Finland and Sweden in 2000
- analyze the decisions to migrate or stay in 2002 and follow income changes over three years
- Labor market related migration
- The definition of interregional migration = change in the region of residence between 2002 and 2003.
- The estimated effect of staying is the observed average difference between the income growth of the stayers and migrants in the matched sample.
 - income = sum of real annual wage earnings and social security benefits



Results

- The compensating wage differentials were larger for those residing in their childhood regions
- Stayers in home regions: the change in income of an average stayer if such a person were to migrate
 - Finnish males: 1735 – 2341 Euros
 - Finnish females: 1380 – 1535 Euros
 - Swedish females: 850 – 1389 Euros

à young adults trade off income versus non-pecuniary benefits of staying
- No unambiguous evidence on the larger compensating wage differentials for women than men

Conclusions

- The results indicate that
 - young adults who stay in their home region can be willing to accept lower wage growth than they could have got by migrating
 - high location-specific capital in childhood regions can compensate for higher wages in other locations
- The existence of these compensating wage differentials decreases the incentive to migrate
 - Home regions thus seem to act as a magnet in the location decision, making migration less probable.

Discussion

- the willingness to accept lower wage growth in the home region can partly be due to home-region-specific non-monetary parental support
 - housing support, day care support
- Young adults residing in their home region can also be more likely to get financial support from their parents

Discussion

- The results can help public authorities in shaping the size of compensation that would be necessary to induce young adults to relocate
- I have assumed that the location decision is based on the job seeker's voluntary choice
- Possible alternative interpretations of the results:
 - many individuals can be “constrained to stay”
 - risk aversion
 - the degree of rationality to maximize utility may be limited by imperfect information