Should I stay or should I go?
Worker migration and the role of housing wealth in the response to regional economic shocks

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Abstract

Why are many workers reluctant to leave places in economic decline? This paper documents the migration response of Norwegian renters and homeowners in the oil-producing labor market area of Stavanger following the persistent reduction in labor demand due to the 2014 plunge in global oil prices. I document using administrative data that the leaving rate of renters increases while it decreases among homeowners. The richness of the data allows me to control for potentially confounding factors and selection into housing tenure. Using a life-cycle model with endogenous location, housing, and saving choices, I show that 1) renters are compensated for the income shock by lower rents, 2) making homeowners relatively worse off in terms of welfare. 3), However, homeowners’ value of leaving is reduced by the shock to housing wealth, reducing their leaving rate. This, in part, explains why renters are more mobile following aggregate economic shocks. Moving vouchers that are unconditional on worker characteristics influence the leaving rate of renters more than homeowners because renters are on average more liquidity-constrained. This implies that moving vouchers do not target the groups facing the greatest moving costs and the most impacted in terms of welfare. I also empirically document changes in the inflow to the shocked region: while the young and high-income workers avoid the region, renters and older workers of lower income and with relatives in the region arrive at the same or a higher rate than before. I.e., the population composition does not only change due to who leaves but also who arrives.

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