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Why Has Regional Income Convergence in the U.S. Declined?

Peter Ganong and Daniel Shoag*

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Abstract

The past thirty years have seen a dramatic decline in the rate of income convergence across states and in population flows to high-income places. These changes coincide with a disproportionate increase in housing prices in high-income places, a divergence in the skill-specific returns to moving to high-income places, and a redirection of low-skill migration away from high-income places. We develop a model in which rising housing prices in high-income areas deter low-skill migration and slow income convergence. Using a new panel measure of housing supply regulations, we demonstrate the importance of this channel in the data.

JEL Codes: E24, J23, J24, R14, R23, R52

Keywords: Convergence, Regulation, Land Use, Migration, Housing Prices

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