

Land-Use Restrictions: Implications for House Prices, Inequality, and Mobility*

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Abstract

I investigate the extent to which land-use restrictions, through their impact on house prices, act as a barrier to labor mobility. To do so, I develop a multi-region heterogeneous agents model of migration and housing, where land-use restrictions act as a friction affecting the productivity of land and the housing supply. Using the structure of the model along with data on regional prices, output, and housing densities, I estimate a panel measure of implied restrictions. Consistent with the existing measure of restrictions, the model-implied measure suggests that restrictions are most stringent in regions with high incomes and house prices. Further, the measure shows that the regions that were most restricted in the past have become even more restrictive over time. Calibrating the model to 2014, I show that the variation in regional productivities and land-use restrictions generate the income and house price gaps observed in the data. Performing a counterfactual exercise, I find that lowering the level of restrictions in California back to its level in 2000 results in a large reallocation of labor. The state's population rises by 45%, while the income gap and house value gap between California and the rest of the U.S falls by 3.7% and 2.7%, respectively. I also study the importance of borrowing constraints and moving costs in hindering labor mobility and find that conditional on the observed income and house price gaps, neither plays a significant role.

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