Abstract:

A large number of papers in the immigration literature rely on geographic variation in the concentration of immigrants to identify the impact of immigration. National flows of immigrants are often interacted with the past geographic distribution to create an instrument, in the hopes of breaking the endogeneity between labor market conditions and the location choice of immigrants. We present evidence that estimates based on this “shift share” instrument are subject to bias from the conflation of short- and long-run responses to local shocks. The bias stems from the interplay of two factors. First, local shocks may lead to spatial adjustment processes that gradually offset their initial impact. Second, the composition and settlement patterns of U.S. immigrants have been almost perfectly serially correlated in recent decades, with the same cities repeatedly receiving large immigrant inflows. Estimates based on the conventional “shift-share” instrument are therefore unlikely to identify a causal effect. We propose a “double instrumentation” solution to the problem that — by isolating spatial variation that stems from changes in the country-of-origin flows on the national level — produces estimates that are likely to be less biased than those in the previous literature.