

IAB-Colloquium

zur Arbeitsmarkt- und Berufsforschung

Are Workers Better Matched in Large Labor Markets?

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This paper examines the relationship between labor market size and job search outcomes. Much research and many policy initiatives assume that larger labor markets lead to better job search outcomes because they give workers and firms more choice in potential jobs or employees. The empirical finding that labor market size and job finding rates are uncorrelated, however, has led researchers to question this assumption. I show, theoretically and empirically, that large labor markets may cause workers to find jobs that are better matches given their individual skills and characteristics, even if they do not cause workers to find jobs faster. I construct a unique new data set from Denmark that combines administrative data, an online vacancy database and detailed geographical information. I show that workers in large labor markets find jobs for which they are a better match as measured by both previous industry experience and geographical location. They also find jobs which pay higher wages and result in longer employment spells even after controlling for spatial productivity differences among firms. The estimated effects imply that labor market size explains 6.6% of the spatial variation in wage premia, and also suggest a high rate of return on transport infrastructure projects that increase the effective size of labor markets by increasing workers' ability to commute to distant jobs.

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