

IAB-DiskAB

Invitation

"Labor Supply Shocks and the Adjustment Dynamics of Local Wages and Employment: New Evidence from a Commuting Policy"

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Exploiting a rare commuting policy that led to a sharp, sudden and unexpected inflow of Czech workers to areas along the German-Czech border, in conjunction with unique longitudinal population data, we analyze the impact of a *pure* labor supply shock on native wages and employment, and assess the dynamics of responses in the immediate aftermath of the policy. We extend the standard framework by allowing for heterogeneity in the employment response of natives and show that a labor supply shock may lead to “perverse” effects—whereby the group which experiences the largest shock need not be the group which suffers the largest wage decline. We find that the labor supply shock leads to a moderate decline in local wages and a sharp decline in local employment. This employment response is almost entirely driven by diminished *inflows* into work rather than *outflows* into other areas or non-employment, suggesting that “outsiders” shield “insiders” from the increased competition. There is substantial heterogeneity in responses across different demographic groups, pointing toward perverse effects across age groups.

Tuesday, January 20, 2015

14.00

Room **126a**