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Urbanization, Commuting and Regional Labor Markets

Peter Haller

Dissertationen

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Bibliografische Information der Deutschen Nationalbibliothek

Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über <http://dnb.ddb.de> abrufbar.

Dissertation zur Erlangung des Grades eines Doktors der Wirtschaftswissenschaft
eingereicht an der Fakultät für Wirtschaftswissenschaften der Universität Regensburg
von Peter Haller

Tag der Einreichung: 10. Oktober 2017

Tag der Disputation: 19. Dezember 2017

Berichterstatte: Prof. Dr. Dr. h.c. Joachim Möller
Prof. Dr. Georg Hirte

Herausgeber der Reihe IAB-Bibliothek: Institut für Arbeitsmarkt- und Berufsforschung der Bundesagentur für Arbeit (IAB), Regensburger Straße 100, 90478 Nürnberg, Telefon (09 11) 179-0
■ **Redaktion:** Martina Dorsch, Institut für Arbeitsmarkt- und Berufsforschung der Bundesagentur für Arbeit, Telefon (09 11) 179-32 06, E-Mail: martina.dorsch@iab.de ■ **Gesamtherstellung:** wbv Media, Bielefeld (wbv.de) ■ **Rechte:** Kein Teil dieses Werkes darf ohne vorherige Genehmigung des IAB in irgendeiner Form (unter Verwendung elektronischer Systeme oder als Ausdruck, Fotokopie oder Nutzung eines anderen Vervielfältigungsverfahrens) über den persönlichen Gebrauch hinaus verarbeitet oder verbreitet werden.

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ISBN 978-3-7639-4122-3 (Print)

ISBN 978-3-7639-4123-0 (E-Book)

ISSN: 1865-4096

Best.-Nr. 300972

www.iabshop.de

www.iab.de

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Acknowledgements

I would like to thank my colleagues at the Institute for Employment Research, especially from the Research Group of the Director, and the University of Regensburg for their support and discussions during my dissertation. At several seminars, workshops and conferences I had the pleasure to discuss my work with many supportive and inspiring people – too many to thank them all personally. I am also deeply grateful for the hospitality during my visits at the Tshwane University of Technology in Pretoria, Institute for Development Economics in Chiba and VU University in Amsterdam.

Special thanks goes to Daniel F. Heuermann to guide me from the university into economic research and his ongoing support during the past years. Working with Wolfgang Dauth was a great pleasure and very instructive – thank you! Among many fellows I would particularly like to thank Linda Borrs, Johann Eppelsheimer, Anette Haas and Christoph Rust for our frequent discussions and their guidance on my papers. Of course, I would also like to thank my supervisors, Joachim Möller and Georg Hirte, for their criticism, advice and encouragement.

Last but not least, I would like to dedicate this dissertation to my parents for their constant support in every difficult situation of my life.

Nürnberg, April 2018

Peter Haller

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Introduction

Spatial Economic Structure and Urbanization in Germany

Compared to other European countries, Germany has a highly dispersed spatial structure with many centers of dense economic activity. The left panel of Figure I.1 shows the job density in Germany in 2014. The unique polycentric structure is characterized by large employment centers, like Berlin, Hamburg or Munich. However, there are several other locations with a thick labor market. To a great extent this pattern is determined by location fundamentals, like access to amenities or natural resources, and path dependency from the countries' unique older and younger history. In the current literature these channels are of secondary importance, as the existence of booming and declining cities can be attributed to agglomeration and dispersion forces which also form the spatial structure (see Combes & Gobillon (2015) for a review). Today Marshall's (1890) ideas about the advantages of agglomerations can be summarized by *sharing* of inputs and common infrastructure, better *matching* of jobs and workers as well as knowledge spillovers and *learning* effects between workers and firms (Duranton & Puga, 2004).

Recently, the complex system of interactions within and across cities is given very much theoretical and empirical attention (e.g., Allen *et al.*, 2015; Davis & Dingel, 2017; Ahlfeldt *et al.*, 2015). Especially the New Economic Geography (e.g., Krugman, 1991; Fujita *et al.*, 1999) established a sound theoretical basis to explain those interactions by, e.g., monopolistic competition, price indices, increasing returns to scale. However, this literature falls short to establish a close connection between the theoretical predictions and the empirical data, which often reveals diverse and fragmented regional labor markets, including spatial fractions and heterogenous workers and firms. The improvements of quantitative models for spatial analyses were recently summarized by Redding & Rossi-Hansberg (2017). Besides the advances in quantitative spatial models, empirical evidence about spatial frictions and spatial interactions of workers and firms leave much room for regional and urban research. Its polycentric structure makes Germany an attractive country for empirical studies. Empirical research can give new evidence about the spatial mechanisms of the German economy by looking at the internal structure of cities and the interactions between regions.

One important phenomenon is the increasing population in cities. It is a decisive element in the analysis of spatial interactions. Urbanization is key in the political discussion about future spatial development. Politicians often fear the rural exodus in Germany, whereas many urban economists stress the chances that urbanization brings through agglomeration advantages. A prominent publication that evoked also

public interest in the benefits of urbanization is Glaeser (2011). In fact, since 1995 the growth of urban areas in Germany is rather small. According to United Nation population data, the share of urban residents in Germany increased from 73.29 to 75.09 percent. However, this increase is spatially unequally distributed. The growth of workforce population shows a clear difference between East and West Germany. Population in non-metropolitan areas decreased by 16 percent from 1995 to 2014 in eastern municipalities, whereas there was a 1.8 percent increase in the western parts. The population in big cities increased by 3.3 percent in West Germany and remained almost unchanged in the east. In the right panel of Figure I.1 we can observe the population decline in East Germany. Also several municipalities in West Germany have a shrinking number of residents. The population seems to rise in and around employment centers. Bavaria (South Germany) is the state with highest growth in its municipalities. Overall, the increase is only less than half of the growth of US urban population. In newly developed countries the rise is even larger. For that reason, Brühlhart & Sbergami (2009) are questioning whether the agglomeration economics are as expected in developed countries like Germany. Hence, there is room for additional empirical clarification whether all advantages from denser urban areas are applicable for the German spatial system with prospering southern and declining eastern regions.

Figure I.1: Job Density and Population Growth in German Municipalities

