

# Competition, Mobility and Immigration<sup>\*</sup>

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## **Abstract**

We study the effects of immigration on wages using matched employer-employee from Germany before and after the opening of the German labor market to Central and Eastern Europe in 2011. We show that migrants and native-born workers are highly segregated across firms, even within narrowly defined markets, and that migrants are over-represented at low wage firms. Motivated by these facts, we derive the effects of a migrant labor supply shock on wages in a model of worker sorting across heterogeneous firms. In the model, segregation moderates wage effects by reducing competition, and workers exposed to competition respond by reallocating across firms. To test these predictions, we extend the Card (2001) “ethnic enclave” instrument to isolate firm-specific migrant labor supply shocks. Consistent with the model, we find that firms cut wages and shed German workers, but that workers move to higher wage firms with lower migrant shares. Our results suggest that inter-firm mobility is an important means by which the labor market adjusts to supply shocks, and can help explain the prevalence of null wage effects found in the literature.

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