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Article
The Effects of the Compulsory Minimum Wage in Germany

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The German Federal Government introduced a country-wide statutory minimum wage of 8.50 euros on 1 January 2015. Major exemptions were made for the long-term unemployed and for young workers below the age of 18. Moreover, for a transitional period, a few industries were allowed to pay a lower wage if a corresponding tariff wage had been negotiated between the unions and employer associations. The newly-implemented Minimum Wage Commission was mandated to recommend subsequent changes, resulting in a rise to 8.84 euros in 2017. For 2019, an increase to 9.19 euros has already been decided. Before 1 January 2015, a couple of industries had already introduced a sectoral minimum wage. The fore-runner was the construction sector, which implemented a binding wage floor in 1997. Using the legal framework of the Workers Posting Law of 1996, the regulations in the construction sector were especially aimed at preventing a downward spiral through massive underbidding by East European firms and workers.

To investigate the impact of the minimum wage on wages, employment and other outcome variables, the German Ministry of Labour commissioned a series of evaluation studies. These studies typically find significant effects on the wages of low-paid workers and minimal or no job losses (for an overview, see Möller 2012). The data feature transitions between different labour market states (regular social security jobs, minor employment as the so-called mini-jobs and unemployment). The IAB Linked Personnel Panel (LPP) is also suitable for evaluation purposes.

RESULTS OF EVALUATION STUDIES: WAGE EFFECTS

Based on the Structure of Earnings Survey, Bruttel et al. (2018) present the first descriptive evidence on the wage effects of the compulsory wage floor. The authors show that in 2015, wages in the 20 most affected industries increased by 7.1% compared to 2.5% over the same time window in previous years. The intertemporal comparison shows no substantial changes in the total number of newly-created jobs that are eligible for social security payments. However, there is a strong indication of a major change in the structure of employment, i.e., a sharp decline in the number of mini-jobs. The excess termination of mini-jobs in the treatment period amounted to 145,100. However, only 88,800 of these individuals left their employer, whereas 56,400 jobs were upgraded to regular social security jobs (mostly part-time). Only a small fraction of those who left their employer received another firm’s employment. Among these individuals, very young and rather old persons were overrepresented. One can assume that more than a few of these persons left the market.

Based on the register data of the Federal Employment Agency, the authors find that the number of employees who receive such benefits decreased by only 43,000 out of approximately 1 million. After this recent event, the ongoing study again finds strong wage effects. Affloldt et al. (2018) combine the IAB earnings data with imputed working hours from the labour force survey of the Statistical Office. The authors explore the regional employment effects of the minimum wage and use a DiD approach. According to their findings, hourly wages at the 10th percentile increased by below one euro in western Germany and by 1.25 euros in eastern Germany, where the general wage level is lower. Moreover, their results show that a 1 percentage point higher regional bite led to 0.3% higher growth in hourly wages at the 10th percentile, whereas there were no economically significant effects at the median or the 90th percentile.

RESULTS OF EVALUATION STUDIES: EMPLOYMENT EFFECTS

The LMM data are suitable for studying the effects of the minimum wage on the dynamics of the employment structure (Berger et al. 2018). Berger and Weber (2017) compare the changes in the months just before and after the introduction of the minimum wage (December 2014 to January 2015) with the corresponding period in previous years. The intertemporal comparison shows no substantial changes in the number of newly-created jobs that are eligible for social security payments. However, there is a strong indication of a major change in the structure of employment, i.e., a sharp decline in the number of mini-jobs. The excess termination of mini-jobs in the treatment period amounted to 145,100. However, only 88,800 of these individuals left their employer, whereas 56,400 jobs were upgraded to regular social security jobs (mostly part-time). Only a small fraction of those who left their employer received another firm’s employment. Among these individuals, very young and rather old persons were overrepresented. One can assume that more than a few of these persons left the market.

Bruttel et al. (2018) summarise the results of the first report of the German Minimum Wage Commission. Herein, the authors exploit the variation in the minimum wage exposure in different sectors of the economy in a more descriptive way. For instance, they compare the employment trends of predefined minimum wage sectors (the IAB Earnings Survey) with the Employment levels in the total economy. As a result, the dissipation effects appear to be weak or nonexistent. Some of the industries with a high bite of the minimum wage may experience a remarkable employment increase after 2015.

Bossler and Gerner (2018) find an effect on the affected region’s employment level in the range of -0.5 and -0.8%, whereas Caliendo et al. (2018) present an employment effect for the affected fraction of social security employment range from 0 to 1.7% point. Bonin et al. (2018) find an effect on the affected region’s employment level in the range of 0.5 and 0.8%, whereas Caliendo et al. (2018) present an employment effect for the affected fraction of social security employment range from 0 to 1.7%.

Affloldt et al. (2018) also use the variance in the regional bite of the statutory minimum wage. They find that despite a significant wage effect, there was neither a reduction in employment nor an increase in unemployment in the more affected regions. In contrast, in 2016, they find a reduction in the unemployment rate...
and an increase in the number of jobs caused by the treatment, although both effects are rather small.

What can we learn from the various studies exploiting the regional variation in the bite of the minimum wage to identify the employment effects of the minimum wage? The picture is somewhat mixed because even indications of the effects vary. However, one can conclude that the effects are weak in all events. Since all studies are estimated from DID specifications, the results do not indicate changes in the treatment group compared to the control group. Hence, the effects are in relation to the number of treated employees. If existing, the decommissioning effects are all driven by the fall of a 1% change. The number of affected employees was in the range of 4 and 5 million employees before the introduction of the compulsory minimum wage floor. Hence, the decommissioning effect is 0.01% on average. First, the number of affected employees amounts to approximately 40,000 to 50,000 jobs, which is less than 0.2% of all jobs in Germany.

WORKING TIME EFFECTS

A possible adjustment path for employers after the introduction of the statutory minimum wage may be the reduction in working hours. The hourly wage could be increased to obey the minimum wage regulation while not adjusting monthly salaries. While the evidence concerning decommissioning effects in working hours is comparably scarce, some indicative evidence suggests that working times may have declined. Wagner and Weber (2016) show a reduction in working hours using mini-jobs by exploiting data from the German labour force survey. However, this reduction may also be explained by the changed composition of mini-jobs, since some of them have been upgraded to regular social security employment (Berge and Weber 2017). Another indication of a working-time reduction is provided in the establishment data. According to the subjective survey responses of employees, working-time reductions in manufacturing are much more prominent than other adjustment measures (Bellmann et al. 2016). In addition, the DID analyses by Bossler and Gerner (2016) show that the average contracted weekly working time decreased by 0.2 hours among the establishments surveyed in 2015. Moreover, estimates based on the German Socio-Economic Panel by Caliendo et al. (2017) also yield a reduction in working times.

FURTHER RESULTS

Since the minimum wage introduction only exerted relatively small employment effects, a crucial question remains as to where minimum wage induced labour costs have materialized. While there is no convincing evidence concerning firm profits presented in the existing literature, price adjustments appear to be a plausible adjustment channel. Descriptive analyses based on the IAB-Establishment Panel and the IAB-QUEST-Surveys indicate that price increases are very frequent among the self-reported adjustment measures of employers (Bellmann et al. 2016; Bossler and Jänicchen 2017). This channel is also corroborated in a DID analysis by Link (2018), who shows that scheduled price increases become more frequent in the mini-projects during the time of the minimum wage introduction. Since Bossler et al. (2018) do not detect any effects on the business volume of treated plants in Germany, the presence of a price increase suggests a low product price elasticity, which in turn indicates some sort of market power.

Further empirical results concern the exemption clauses of the new German minimum wage. The new legislation allows wages below the minimum wage for individuals below 18 years of age, apprentices, compulsory internships that are required in educational programmes, and if the construction of a new GSOEP data, there is overwhelming evidence of significant positive wage and earnings effects in the low tail of the wage distribution. Secondly, it is fair to say that the introduction of the wage floor did not lead to major job losses. Hence, ex-post evaluation studies do not support the terrifying predictions expressed by some economists in the lead-up to the introduction of minimum wages. Thirdly, also from the findings of the sectoral minimum wages, there are some indications that a minimum wage of a reasonable amount does not cause the disappearance of jobs. In general, the findings are not consistent with expectations based on a purely neoclassical model of the labour market. In such a model, a binding minimum wage leads to a loss of jobs among marginal workers. As far as the exemption of apprenticeships is concerned, a study by Bossler and Wegmann (2017) shows that the introduction of the statutory minimum wage has had a minor impact on the number of apprenticeships and the number of hazardous jobs offered to young graduates.

Against the background of steadily decreasing collective bargaining coverage, one of the political goals of minimum wage legislation was to strengthen the tariff autonomy. Theoretically, however, a minimum wage increase could also crowd out participation in the mini-projects instead of strengthening social partnerships. Empirically, Bellmann et al. (2018) do not find a significant reduction in collective bargaining. However, the authors suspect that in the absence of some institutions, they could move in and out of collective agreements.

OUTLOOK AND CONCLUSIONS

Despite some ambiguous results, several general conclusions can be drawn from the ex-post evaluation studies of the introduction of a German statutory minimum wage. First, the expansion of the coverage of a statutory minimum wage can correct market power imbalances at little or no additional costs. However, if the minimum wage is set at a level that exceeds the fictitious equilibrium point of a competitive market, it appears to be more plausible to characterise the market in terms of its substantial information asymmetries, transaction costs and other imperfections. In a world where employers exert some market power at least in some segments of the labour market, a compulsory wage floor benefits low-paid workers (see the new monopsony theory of the labour market as outlined by Manning 2013). Such a situation is particularly likely in cases of low tariff coverage. A statutory minimum wage of a reasonable level can correct market power imbalances at little or no additional costs. However, training and education below a level that exceeds the fictitious equilibrium point of a competitive market, significant job losses become increasingly likely.

For Germany, recent studies suggest that noncompliance could be a serious problem (Baurawal et al. 2017). If these findings are confirmed, the enforcement of the minimum wage should be given higher priority. Otherwise, there is no protection for those who need it the most.

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