

Germany's national minimum wage – Implications for regional disparities

Gabriel M Ahlfeldt

London School of Economics and Political Science, CEPR, CESifo, CEP

Duncan Roth

Institute for Employment Research

Tobias Seidel

University of Duisburg-Essen, CESifo and CRED

PRELIMINARY DRAFT

PLEASE DO NOT CITE OR CIRCULATE

Abstract

This paper analyses the short-run effects of the statutory minimum wage introduced in Germany in 2015 on regional labour, goods, and housing markets. Using a difference-in-differences estimation strategy and employing administrative data, we find that the wage bill increased in municipalities with a high minimum wage bite, i.e. a high share of workers earning less than the minimum wage in 2014. As expected, this increase is driven by wage adjustments in the left tail of the distribution. The policy led to a compression of the wage distribution and accelerated an ongoing trend of spatial wage convergence. It did not reduce employment in high-bite regions, nor did it cause out-migration. However, we find an increase in cross-municipality commuting. Firms on the non-tradable goods market pass on some of the increased labour cost onto consumers via higher goods prices. The remainder materializes in reduced firm profits, proxied for by corporate tax revenues. The increased local demand due to the higher wage bill leads to a proportionate increase in the cost of housing, consistent with short-run inelastic housing supply. The distributional consequences of the policy are complex. The minimum wage has, in relative terms, benefitted low-wage workers in high-bite municipalities. Surplus has been transferred from firms to workers, but also to landlords. As a result of the policy, workers also face higher cost in terms of increased commuting and higher prices of housing and non-tradable goods. The short-run effects of the German minimum wage are best described by a model combining monopsony power on the labour market, monopolistic competition on the non-tradable goods market, perfect competition on the tradable goods market, and inelastic supply on housing markets.

JEL classification: J31, J58, R12

Keywords: Difference-differences, Germany, labour market outcomes, minimum wage, regional disparities