

Berlin Applied Micro Seminar

Reallocation and the Minimum Wage - Evidence from Germany

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Abstract:

We estimate the effect of the newly introduced nation-wide minimum wage on employment and wages in Germany. In various difference-in-difference style specifications, we compare regions that were highly and less exposed and find that the employment effect of the minimum wage was limited; its main consequence was pushing up wages. We also show that individuals at the bottom of the wage distribution did keep their jobs and experienced a wage gain. However, the lack of employment responses masks large structural shifts in the economy. We show that in response to the minimum wage, small firms shut down, while large firms expanded their employment. The minimum wage increased mobility to small, low paying firms to large, high paying firms. These pieces of evidence underline the importance of reallocation in understanding the effects of minimum wage.