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The Short-Run Employment Effects of the German Minimum Wage Reform

Marco Caliendo, Alexandra Fedorets, Malte Preuss,
Carsten Schröder, Linda Wittbrodt

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Highlights

- In January 2015 a statutory national minimum wage was introduced in Germany, accompanied by diverging expectations regarding its impact on employment.
- We make use of the fact that the wage floor did not affect all regions to the same degree and assume that the stronger the minimum wage "bites" into the regional wage distribution, the stronger are the effects on employment.
- We use this regional variation in the bite in a difference-in-difference framework and test our results with a variety of bite indicators and other sensitivity tests.
- Overall, we find only moderate negative effects on overall employment of about 140,000 (0.4%) jobs, which are mainly driven by a sharp decline of marginal employment.
- The strong negative employment effects predicted ex-ante (500,000 to 900,000 lost jobs) did not materialize in the short run, which can be explained by the use of other adjustment channels and non-compliance.

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