information international august 2017

1. Experience with the minimum wage in Germany

As of January 1st, 2015 the German Government has introduced a statutory overall minimum wage. Since this date every employee under the scope of application of German law is entitled to receive 8.50 EUR per hour minimum wage as a matter of principle. There are few exceptions for pupils or students in specific cases and for support measures encouraged by the German employment agency. Germany was one of the last countries in Europe to introduce a minimum wage.

The German customs administration is responsible for monitoring the compliance with the provisions of the minimum wage law. It retains the right of inspections in German companies and to impose fines in cases of noncompliance. Every two years an adjustment of the minimum wage is discussed by a minimum wage commission, with the previous two years' collective bargaining rates serving as a benchmark. Representatives of both employers and employees, together with economic experts and advisors form the commission. In June 2016 the commission decided that the minimum wage increases from 8.50 EUR to 8.84 EUR from January 2017.

The introduction of the German minimum wage was very controversially discussed in the German society and the different political camps. After the first 18 months with the minimum wage it can be stated that most of the concerns have not become reality.

Contrary to the concerns of many German economists that the minimum wage will destroy jobs, registered unemployment in Germany today is lower than it has been for a very long time. Even though there has been a decline of jobs among the "marginally" employed, the reduced number of mini-jobs does not necessarily correspond to an equal number of job losses. In fact, there has been simultaneously an equally large creation of regular jobs paying normal social security contributions, which leads to the conclusion that many former mini-jobbers changed to an employment relationship subject to social insurance.

According to the report of the minimum wage commission in 2015 there was an above-average increase in labour costs. However, this is mainly due to the good economic situation and the corresponding low unemployment rate, only secondarily a result of the minimum wage policy.

Some economists assume that the minimum wage has strengthened domestic demand in bringing an additional gain in purchasing power and leading to the generation of new employment opportunities. But this assumption could not be proven by figures until now.

A negative effect has been observed in the employment of trainees or interns, which are covered by the minimum wage law in principle. A significantly lower number of jobs for trainees have been offered on the German employment market since the introduction of the minimum wage. The companies are in many cases obviously not willing to pay hourly wages of 8.50 EUR or more to their trainees. This might be an issue the German legislation should think about in the future.

The introduction of the minimum wage did not result in the predicted economic problems. In fact, it resulted in substantially higher wages for the lowest paid, in mini jobs being replaced by regular jobs while job creation continues, and in benefits for the German economic and market situation. The

minimum wage ensures fair competition on the German market as companies cannot create a competitive advantage for themselves through wage dumping anymore.

Steffen Zimmermann   +49 6221 4340270   stefffen.zimmermann@adjuga.com