In January 2015, the „minimum wage“ in Germany has finally been introduced. Finally, because the social democratic Party in Germany – the SPD – together with the German Trade Union organization DGB have fought bitterly for it, for many years. Before that, Germany had been one of the seven remaining countries (out of 28) in the European Union without a general minimum wage. It is right to say, a minimum wage – not just in Europe – is normality. It is standard. It is a necessity or at least it should be, worldwide.

And yet, introducing a minimum wage in Germany has been a bold step, a very bold step. In fact, it was the biggest reform in social legislation in Germany since 1990, since the reunification. Before its introduction in December: for many the “end of the world was near”, and that quite literally: businesses threatened to close down, the conservative economic institutes proclaimed the end of Germany as Europe’s economic stronghold, job losses (the IFO institute predicted a loss of 900.000 jobs in the first year alone), a rise in youth unemployment, there was even talk about the threat of a whole economic depression in all of Europe because of a German minimum wage. The doomsday scenarios went on and on.

Then came January 2015, and what happened? Nothing! Well, not quite. In terms of real economic change nothing happened in the beginning. But: there was an outcry. At least that is what everyone thought. Businesses have been suddenly crying louder than ever before. The chamber of Commerce and Industry was complaining and the chamber of crafts was screaming. But why? Actually, because it is their job. We quickly found out what was behind all the noise.

In my ministry we introduced a hotline in February: a minimum wage hotline especially for businesses. Especially for those businesses that were struggling with the introduction of the new law, and also with the bureaucratic requirements that came with it. There they could complain, ask for solutions and suggest potential improvements. And suddenly, there was no more noise. It was quite. We hardly received any calls. The same in several discussion rounds and talks with all partners: beside the usual opposition of business towards any type of state policy and intervention in the economy, there was not much. Because, those who
were screaming and complaining the loudest, either just did so as a matter of principle or because they were actually trying, by all means, to avoid the new regulations.

Some also tried to ‘cheat’, often in very creative ways (e.g. by cutting the workers holidays, or by inventing new ‘charges’ and deductions for their employees. Those who used such shady tactics were actually only some very few bad examples, and at the same time they were good at raising their voice. And overall, any critique concerning the minimum wage was never about the actual introduction itself. Criticism was raised only concerning the regulation and monitoring processes. In any case, and that is something we have been doing in Thuringia and all over Germany: it is important to listen; to listen carefully to all sides concerned. At all times.

In the end, all the fuss was really about nothing. Germany now has its Minimum Wage: 8,50 Euro per hour – or roughly 90 Rand per hour – both in East and West. That was another point of critique: an equal minimum wage in East and West. For the first time ever, there now was an equal wage standard in East and West Germany. For many this was too drastic – they demanded exemptions for some in parts economically underdeveloped areas in several Eastern States. But it has been the clear intention of Miss Nahles, our Minister of Labour, to introduce this wage with one equal base line. This is very important also psychologically, as it marks an end to different labour legislation in East and West. Furthermore it is a forward-looking approach.

In all of Germany up to 3.7 million people are now able to benefit from a national minimum wage. In Thuringia alone, that meant a workforce of 270.000 people (or 36% of the state’s total workforce) now have better and a more dignified and fair pay. This, in fact, makes Thuringia (out of all 16 German states) the state that was affected most by the new minimum wage.

Now we are at a 100 days with new legislation. Although, it is far too early for any proper evaluation, a few cautious conclusions can be drawn: 100 days after the introduction the minimum wage still enjoys an overall support of 86% of the population, nearly the same as before the introduction. In Thuringia, as the state mostly affected by the minimum wage, the economic growth projections for 2015 are at a solid 1,5%. Also for 2014: GDP growth for Thuringia was at 1,6%, slightly more than the average German growth rate and that although especially during the last quarter of 2014 many companies had already adjusted their employment policies.

Overall it can be said, that just in the forerun to the minimum wage, insurable official employment rose by 0,6% in Thuringia and the average wage per employee rose by 4,6%. To this date no direct negative impacts can be found statistically whatsoever; rather the opposite is the case: there is a “surprising effect” amongst German companies: those who were “scared” by the minimum wage, are now more optimistic than at the beginning of the year, and are starting to employ more people again since there are no meaningful negative economic effects. There was a lot of panic that marginal employment would collapse and entire sectors would disappear.

In the end, all across Germany however: so far only 220.000 Jobs have disappeared in the marginal sector as a direct link to the introduction of the minimum wage. At the same time the amount of insurable official employment has risen by already 50.000. Overall employment actually rose by 70.000, so the 220.000 have been compensated. We can see the same effect in terms of GDP growth: the job losses were more than compensated: firstly through the rise in insurable official employment and secondly through increased consumer spending.
due to the higher salaries of 3.7 million workers. Overall economists agree that the positive effects through increased consumer spending by far outbalance those negative effects in the marginal sector. Moreover impacts of the minimum wage are said to directly have influenced GDP economic growth in the first quarter. Another aspect is the increased revenue for the state: this again happened due to the rise in consumer spending (taxation) and of course because of the increased number of insurable official employment. This also led to a decrease in welfare spending.

Overall: the minimum wage in Germany so far sounds like a great success, and it can be said that the introduction occurred at exactly the right time: economic circumstance were right, it was introduced during a strong period of stable economic development. Even more important: the amount was right (some argue it should be higher, although no one currently believes it should be any lower). Of course it is difficult to find exactly the right amount, that would lead to more positive than negative economic effects. In Germany the amount of 8.50 Euro is at 51% of the average German hourly wage, in France that rate is at 62%, whereas in Estonia for instance it is at 36%.

The take-home message as such is, at least from the German perspective, the timing and the amount are crucial for the minimum wage to be a success. So that it can lead to more economic growth and even more so cut spending on social welfare for the state, by creating more sustainable and insurable official jobs. In Germany currently, after the first evaluation by the Ministry of Labour, no fundamental amendments are planned. The biggest amendment would be that there will be a more clear distinction between the minimum wage and charity work, as there are currently legal difficulties. However that is all: small legal adjustments, nothing else.

And I would hope, that the minimum wage here in South Africa will be just as successful. I am looking forward to hearing about your expectations and the most recent developments and to a lively and to stimulating discussion. Thank you.