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a reduction in output and profits.

3.2.5. Conclusion

This paper analyses the determinants of employers’ attitude towards minimum wages using a unique data set on 800 firms in eight service sector industries in Germany. One important finding of this survey is that a majority of firms in these industries supports the introduction of minimum wages. The main question of the paper is whether this finding can be explained by employers trying to use minimum wages in order to raise barriers to entry and reduce the competitive pressure in their industry, both from domestic competitors and from abroad. We find evidence that weaker competition, as measured by the Hirschman-Herfindahl-Index, is associated with stronger support for minimum wages by firms in East Germany.

Further, we find weak evidence that the share of new firms in an industry and region is related to the support of minimum wages in East Germany. This can be explained by the fact that a high share of new firms indicates low existing barriers to entry, which makes incumbent firms vulnerable to new competitors. Thus, minimum wages are only an attractive instrument if other barriers to entry in the industry, e.g. entry regulations such as the requirement of mandatory educational standards, are low. Given the proximity of East Germany to the low-wage countries of Eastern Europe, the (perceived) threat of competition from abroad seems to be the main driving factor here.

Our analysis also investigates the role of institutional features for the support of minimum wages. The estimation results clearly show that firms paying according to collective agreements are in favour of a minimum wage. This observation supports the theoretical model by Haucap, Pauly and Wey [2001] and implies that these employers try to use the minimum wage to increase the labour costs of their rivals, thereby increasing their costs.

Our results have several important implications. First, the German case shows that firms’ attitude towards minimum wages seems to be influenced by the potential effects of minimum wages on competition. While this is naturally not the only possible expla-
nation for employers’ support of minimum wages, it is one that should be considered by policy makers when designing minimum wage institutions. Second, this result implies that minimum wages may have an effect on both labour market outcomes and product markets (especially prices) through the impact of minimum wages on the level of competition in an industry. From an economic policy point of view, this makes minimum wages a subject for anti-trust authorities. Finally, the case of minimum wages in Germany highlights the role social policies may play as protectionist policy instruments in the wealthier EU Member States, especially with regard to the low-wage countries of Eastern Europe.

Therefore, further research clearly seems warranted along at least two lines. On the one hand, it is important to identify the social policies which are most vulnerable to lobby groups, as these policies are most likely to be abused as protectionist policy instruments. On the other hand, more effort should be made in the empirical analysis of attitudes towards social policies and lobby efforts in this context (e.g. Afonso 2011). Up to now, this type of research is unfortunately hampered by a lack of adequate data.