Abstract of the paper:

This paper evaluates the impact of the German minimum wage policy on firms’ financial leverage, using firm-level variation in treatment intensity. The results show that the minimum wage reduces financial leverage by 0.5 to 0.9 percentage points (1–2% of the mean). Mechanism analysis indicates that the minimum wage increases firms’ labor share—reflecting higher operating risk—and firms substitute it by deleveraging. The rise in labor share is closely tied to changes in production: on the input side, there is no significant capital–labor substitution; on the output side, value added rises and is redistributed more toward labor. Firms' risk substitution behavior enhances firm resilience following the reform and during the pandemic. Overall, while the minimum wage benefits workers by allocating more earnings to the labor force, it also introduces greater operating risks and encourages conservative financial behavior among firms.