

Germany's Young Pension Rebels

Editoriale

It's the season for Christmas miracles, and right on cue a mega debate about pensions is erupting in Germany. Sure, this is a nerdy miracle, but it's the kind of divine intervention Europe's largest economy needs.

Lawmakers are due to vote this week on a long-delayed collection of reforms to the old-age entitlement equivalent of America's Social Security. The legislation isn't great, and the political miracle is that some influential legislators are saying so—and threatening to kill the deal unless Chancellor Friedrich Merz signs on to more substantive long-term reform.

The backdrop is Germany's long-brewing retirement crisis. A rapidly aging population means the "statutory pension" costs some €360 billion per year, or 8% of GDP. Payroll tax revenue is insufficient to fund benefits, forcing Berlin to tap into general tax revenue to fill a gap of €96 billion for the social-insurance system as a whole last year. Left unchecked, this single entitlement will require escalating tax increases to fund, or steal money from other priorities—such as defense. Or, probably, both.

The legislation up for a vote this week doesn't fix this. The main provision guarantees that the pension payout will be maintained at 48% of the average wage until 2031, meaning benefits will increase automatically as wages grow. When it was first introduced a few years ago, this "stabilization" provision overruled a prior formula that increased benefits more slowly. Extending the higher benefit level is a costly concession to the center-left Social Democratic Party (SPD), which is the junior partner in Mr. Merz's coalition government.

In return, Mr. Merz's center-right Christian Democrats (the CDU and CSU) added a provision that makes it easier for retirees to continue working while still receiving

benefits. The hope is that this boost to the labor force generates some economic growth to cushion the fiscal blow of the more generous benefits.

This isn't enough for lawmakers associated with the CDU's youth wing. There are 18 of them, and they're demanding bigger reforms as the price for their votes. Mr. Merz and the SPD need that support to pass anything through the Bundestag with the coalition's 12-seat majority.

Their immediate goal is to scrap that 48% target and return to the previous formula for calculating benefits. The old formula would produce a pension payout of about 47% of the average wage. That one percentage point amounts to big money given the size of Germany's retirement system: savings of €145 billion between now and 2040.

Barring that, the young rebels may accept a promise from Mr. Merz to accelerate the work of a blue-ribbon commission on pension reform and to broaden the scope of benefit reforms, payroll taxes and retirement age that such a commission can consider. The rebels cast this as a matter of generational fairness, which these days counts as retro common sense.

The CDU rebels may make a tactical decision to support the current pension bill this week to avoid the risk that Mr. Merz's administration collapses, which is a fair calculation. But they're laying down a marker. With other European governments ducking pension reforms (France, that means you), it's a relief to see there are still some young adults in the room.