

°253

Should the German Minimum Wage Increase to EUR 14 Now?

When politicians introduced the statutory minimum wage in Germany, critics warned that it might become the subject of a bidding war in election campaigns. The solution was a commission formed by representatives of trade unions and employers to propose minimum wage increases, based on the index of collectively agreed wages. The minimum wage was to follow general wage trends, not the other way around, and for a few years this worked well. But during the 2021 federal election campaign – when the minimum wage was EUR 9.60 per hour – some parties called for an increase to EUR 12. The traffic light coalition implemented this demand in 2022.

Direct Political Intervention Undesirable

This makes current attempts by politicians and trade unions to raise the minimum wage to EUR 14 all the more disconcerting. If the government intervenes here again, the sensible idea of keeping the minimum wage out of day-to-day politics will have finally failed. And the commission would become a farce. Are there good reasons for allowing this to happen? Proponents of EUR 14 point to high inflation. And it's true that if the minimum wage is based on the index of collectively agreed wages, there will be a delay before inflation is compensated. But this does not justify an increase to EUR 14, as a simple calculation shows.

Minimum Wage Rises Faster than Inflation

Inflation has increased since January 2021 and is expected to reach around 6 % in 2023. Collectively agreed wages are expected to rise by a similar amount. In this case, collectively agreed wages would have increased by around 10% from the beginning of 2021 to the end of 2023 and consumer prices by 19%. The current minimum wage of EUR 12, on the other hand, has risen by 26%, i.e., by even more than inflation. At the required EUR 14, the increase compared with the beginning of 2021 would be as much as 47%. This cannot be justified by claiming it compensates for inflation.

It could be argued that rising wages are necessary because of the shortage of skilled workers. In the current crisis, however, it is unclear whether the shortage will persist everywhere. If it does not, then strong minimum wage increases also push up the risk of job losses.

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