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What ever happened to Germany? Is the decline of the former european key currency country caused by structural sclerosis or by macroeconomic mismanagement?

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Moreover, there is a macroeconomic explanation focusing on the combined effects of

restrictive and pro-cyclical monetary, fiscal and wage policies in Germany that is broadly consistent with modern macroeconomic theory and is supported by empirical data.

Keywords: Labour market institutions macroeconomic policy employment determination Germany European Monetary Union

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Notes

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See Bibow ([2003](#)) for an extensive discussion of the effects of German unification and the macroeconomic reactions by the Bundesbank and by German fiscal policies in the course of the 1990s.

In order to bring down the German unemployment rate, currently an annual GDP growth rate of slightly less than 2% is necessary.

Note that in this approach, contrary to what has been stated in the previous section, it is unemployment that lowers the growth rate and not low growth that is responsible for rising unemployment.

See for instance Blanchard & Katz ([1997](#)), Layard, Nickell & Jackman ([1991](#)), Nickell & Layard ([1999](#)), Schettkat ([2003a](#)), Snowden, Vane & Wynarczyk ([1994](#), pp. 292-318) and Stiglitz ([1997a](#), [2002](#)).

On the interaction of wage bargaining co-ordination with the Central Bank's monetary policy and the effects on unemployment see more extensively Hein ([2002a](#), [2002b](#)).

For a definition see [Table 1](#).

It should be noted, however, that the results remain essentially unchanged when the whole period from 1960 to 1999 is studied.

They discuss Belot & van Ours ([2001](#)), Bertola, Blau & Kahn ([2002](#)), Blanchard & Wolfers ([2000](#)), Elmeskov, Martin & Scarpetta ([1998](#)), Nickell ([1997](#)) and Nickell, Nunziata, Ochel & Quintini ([2002](#)).

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See Davidson ([1994](#)), Heine & Herr ([1999](#)) and Lavoie ([1992](#)) for textbook presentations of the post-Keynesian approach and Arestis ([1996](#)) for a survey.

See Auerbach & Kotlikoff ([1998](#)), Blanchard ([2003](#)), Mankiw ([2002](#)) and Stiglitz ([1997b](#)) for textbook presentations in the new Keynesian vein and Truger ([2003](#)) for a survey on macroeconomic policy implications.

The requirement of coordinated monetary and fiscal policy intervention increases considerably if hysteresis is taken into account. With hysteresis the NAIRU is not stable but rather depends on the past development of the actual unemployment rate, which can be affected by macro-policies (Ball, [1999](#); Blanchard, [2003](#), p. 283).

For a critique of the new Keynesian NAIRU approach from a post-Keynesian perspective see Sawyer ([2001](#), [2002](#)) and Hein ([2004](#)).

For an overview see Cecchetti ([1995](#)) and Bernanke & Gertler ([1995](#)). See Bondt ([2000](#)) and ECB ([2000](#), [2002](#)) on the monetary transmission mechanisms in the euro area countries.

See Arestis & Sawyer ([2003](#)) and Hein ([2002a](#), [2004](#)) for models of distribution conflict and inflation.

Empirical analysis for Germany and the EMU in the 1990s has shown, that the development of unit labour costs determines the development of output prices (Hein, Schulten & Truger, [2004](#)). Falling unit labour cost growth rates, however, are not accompanied by proportionally falling inflation rates. Therefore, nominal wage moderation

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pronounced fall in relative German economic performance in 2001 and the subsequent years: The German economy depends considerably stronger on cyclical fluctuations of the US economy than the other EMU countries (SVR, [2001](#), pp. 251–266). This is true for the dependence of German exports on US demand, the stronger correlation between German and US share price indices and the transmission of cyclical fluctuations via direct foreign investment. Furthermore, the transmission of negative cyclical shocks from the US to Germany seems to be stronger than that of positive ones.

For a general critique of the ECB's 'anti-growth bias' see Bibow ([2002](#)) and Hein ([2002a](#)). This 'anti-growth' bias consists of a too restrictive definition of price stability for the heterogeneous currency area—as an annual increase of the harmonised consumer price index of below but close to 2%—and an asymmetric response to the expected deviation of actual from target inflation. The ECB has tended to tighten whenever inflation increased above the target without relaxing when inflation expectations came down.

The European Commission ([2003](#)) defines the labour income share as 'compensation per employee as percentage of GDP at factor cost per person employed'.

As is well known, labour income shares tend to increase in economic downswing and to decrease in upswings due to pro-cyclical productivity growth and time lags in nominal wage setting.

Also the growth rates of primary government expenditure have been below the EMU average

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