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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

The main data set covers the period from 1990 to 2002. The data for 1990–1999 are related to the non-union sector.

See also Baker, Glyn, Howell & Schmitt (2002), Glyn & Howell (2003) and Schmitt (2004) for research on the German labour market. For a policy perspective see Glyn & Howell (2003) and Schmitt (2004). For a critique of the OECD and IMF reports see Glyn & Howell (2003) and Schmitt (2004). For a more recent critique see Schettka (2005) and Stockhammer (2004).

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 & Wyneczyk ([1994](#), pp. 292-318) and Stiglitz ([1997a](#), [2002](#)).


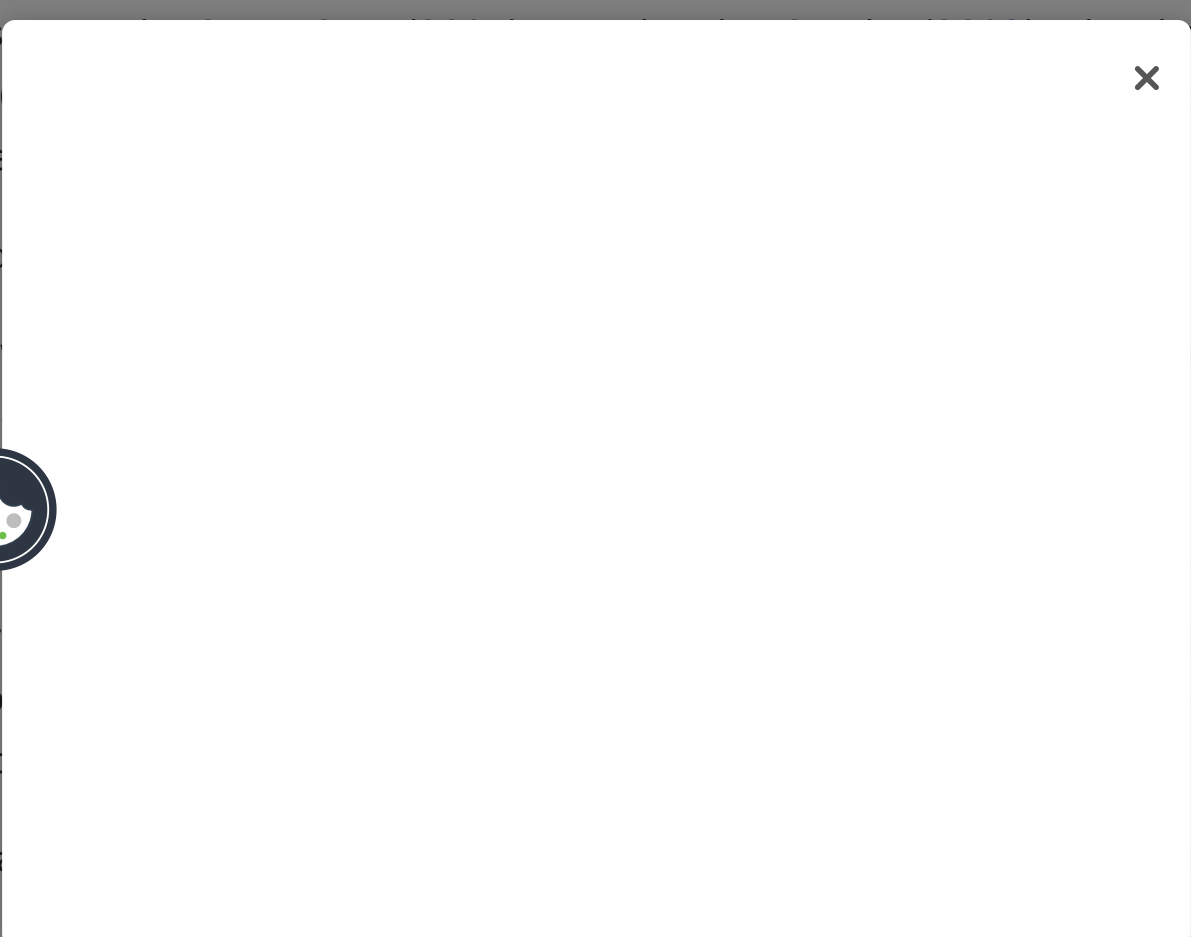
On the interaction of wage bargaining co-ordination with the Central Bank's monetary policy and the effects on unemployment see more extensively Hein ([2002a](#), [2002b](#)).

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.

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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 average of the EMU countries has benefited from the EMU.

This is not the case for the EMU countries with the highest unemployment rate. The existing welfare state arrangements are not sufficient for the EMU countries with the highest unemployment rate. The dismantling of the welfare state is not the answer to these challenges.

See Hein



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