DIETER SPETHMANN* AND OTTO STEIGER**

Stagnation and High Unemployment: The Case of Germany***

1. France and Germany: Same Economic Problems but also Same Explanations?

Since the mid-1990s, both France and Germany have been suffering from stagnation and high unemployment, with the French economy being a little better off than Germany's. While in France, unemployment accounts for ca 2.7 million in 2005, or 10% of the active population, the corresponding figures for Germany are about 4.5 million or 11%. And while the annual growth rate of the French GDP amounted to 1.87% between 1995 and 2003, the German GDP, in the same period, grew only 1.03% annually (Sinn 2005, 26).

The bad German figures are not helped by the perplexing fact that Germany is still the World's largest exporter, with a surplus in the trade balance of US $ 191 billion during 2005 (€ 3.8 billion within Euroland) and a surplus in the current account balance of US $ 108 bil-

* Titular-Professor and former CEO of Thyssen Steel Corporation, Düsseldorf; today associated with the law firm Clifford Chance Solicitors, Kaiser-Friedrich-Ring 72, D-40547 Düsseldorf, Germany. E-mail: DieterSpethmann@aol.com.

** Professor Emeritus of Economics, Universität Bremen, FB 7: Ökonomik/IKSF, Wilhelm-Herbst-Str. 5, D-28359 Bremen, Germany. E-mail: osteiger@uni-bremen.de.

*** Paper presented at the *Sénat Conférence Internationale on "Quel modèle de croissance pour la France? Étude des modèles de croissance des pays étrangers pour établir les principes d'une politique de plein emploi pour la France"*, Paris: Sénat de la République française, 30 June 2006, organized by Alain Parguez and Jean-Gabriel Bliek. For valuable suggestions we thank Gunnar Heinsohn (Universität Bremen). For a careful reading of the text the help of Cornelia Boltz (Alzey) is acknowledged.

lion. On the other hand, France's exports are stagnating, with a deficit in the trade balance of –US $ 29 billion (–€ 0.8 billion within Euroland) and in the current account balance of –US $ 44 billion during the same year (for Euroland figures see Steinbrück 2005, 28).

The official diagnosis for the scourge of stagnation and high unemployment in both countries, and the economic policy to fight these problems, seems to be the same in France and Germany. Only the French proposal "to extract enough savings to fund investments", because they are regarded as "the dominant factor of growth" (Parguez and Bliek 2006, 1), has – as far as we know – not been raised in Germany yet, maybe because its savings rate of 11% (2005) is considered to be high already enough. On the other hand, such reasoning is implicitly contained in the cry for abolishing the State budget deficit in both countries, where its advocates forget that, owing to the fact that consumption expenditures are bound by legal obligations, reduction of public expenditures can only be achieved by reducing the number of State employees and/or public investments in infrastructure, that is, a reduction of the budget deficit which, in the end, will only increase the deficit! While in West Germany, the contribution of public investments to the GDP amounted to 4.7% in 1971 and maintained a level of 3% during the 1980s, it declined to 1.9% in 2003, that means, during three decades, its share was reduced by around 60% (Bofinger 2005, 132 f.).

On the other hand, the French proposals for higher savings to fund future pensions, to raise contributions to fund health, and to curb real-wage increases to gain competitiveness are at the heart of the recommendations how to fight unemployment in Germany, too. Especially the latter proposal dominates the discussion that runs as follows: Inefficient competition policies, especially in the labour market, supposedly have resulted in high-cost economies. They should be rectified quickly by structural reforms, meaning the need to implement supply-side reforms that have been pushed ahead in the United States and Great Britain since the early 1980s. In the case of Germany, the political slogan that is most fiercely supported by Hans-Werner Sinn, president of the IFO-Institute for economic research in Munich, the most prestigious in Europe, says: both taxes and wages are too high! (Sinn 2005; compare Parguez and Bliek 2006 for France).

Nobody, however, talks about what had happened in the United States and in the United Kingdom in the early 1980s. During those days in the U.S., short-term interest rates had climbed to 22%, the yields on 30-year treasury bonds rose as high as 14%, the trade balance was deeply in the red, and the dollar near to collapsing. There was double-digit inflation and labour strikes were staged everywhere. Unemployment rose and the rate of growth fell. Great Britain did not fare much better. The economic indicators in both countries pointed "to a serious supply constraint in an economy with a strong demand" (Koo 2003, 2).

In contrast, the refinance rate of interest at the Banque de France and the Bundesbank, determined by the Council of Governors of the Eurosystem, the decentralized central banking system of the EMU, the European Monetary Union (see further section 3 below), today is still very low: 2.75% (as of 8 June, 2006). The same holds for inflation: although France's rate is more than double that in Germany, with 1.4% and 0.6% respectively, the rates of inflation in these countries during 2005 are nothing to worry about. The trade balance of the EMU runs a surplus of US-$ 7billion (2005; current account balance: –US-§ 45) and the euro, the common currency of the EMU, is strong, especially in relation to the dollar, with a rise from U.S.$ 0.82 to the euro in October 2002 to U.S.$ 1.25 to the euro at present. The only indicators that are the same in the United States in the early 1980s – and in France and Germany at present – are high unemployment and stagnation. But while in the Anglo-Saxon countries, these indicators were the result of the battle against high inflation caused by strong demand in combination with supply constraints, in the two European nations, they seem to be a result of, first of all, a lack of aggregate demand.

Therefore, we are in sympathy with Alain Parguez's and Jean-Gabriel Bliek's diagnosis that, based on their crucial operational identity:

Private investment + State deficit = household net savings + firms' profits,

to avoid a fall in aggregate demand and, thereby, firms' profits, a fall in private investment and/or private consumption (that means, a rise in household net savings) must be compensated by a rise in the State deficit (Parguez and Bliek 2006, 2). The German indicators seem to support their recommendations of a demand-led Keynesian employment policy: while private consumption is stagnating (household net savings remain at the high level of 11% of the GDP), private investment has fallen: from roughly 23% in 1995 to about 17.5% in 2005. However, we hesitate to adhere to their proposals because we think one has first to ask what has caused the fall in private investments – and how it can be remedied – before relying on an increase in the State deficit to compensate for this fall.

This will be done in section 2, where we discuss the instruments by which the social safety net is financed in Germany. Section 3 will ask whether the EMU means an obstacle to the German growth rate, especially by the high real rate of interest. Section 4 will briefly discuss the implications of the huge transfers from West to East Germany and those of the country's demographic crisis. Section 5 will outline alternatives to the German employment policy: the cases of Japan, Sweden and Denmark.

2. Are Wages and Taxes too High, or How to Finance the Social Safety Net?

Within the European Union, Germany, in 2002, with € 27.50 per working hour for industrial labourers had the highest labour costs, while in France in the same year, they amounted to € 19.50 only (Sinn 2005, 108). Before discussing in detail the relation between labour costs and social safety, a short outline of our view of the economy must be given.

As demonstrated by Gunnar Heinsohn's and Otto Steiger's approach of property economics (Heinsohn and Steiger 2006a and 2006b; see also Steiger 2006), a reproduction system that deserves the name "economy" must be a property-based system. In contrast to what is taught by neoclassical economics, the economic system is not, first of all, determined by agents optimizing the possession of their scarce resources according to their preferences, with the *consumer* as the possessor of the resources being the key agent. Rather, an economy deserving that name is determined, first and foremost, by indebted proprietors who are eager to defend their property. To keep the economy running, proprietors, of course, need resources, but to dispose of them, they first need money; and to dispose of money they cannot avoid running into debt, with the indebted *entrepreneur* as the key agent. Unlike the optimizing operations in neoclassical economics, running into debt is not a risk-free business, because it is not only by paying interest that the entrepreneur will get the money needed for production but, first of all, by supplying collateral to his lender – property titles he will lose when not fulfilling his obligation to pay back the loan with interest.

One of the main causes for this risk is the wage contract concluded between the entrepreneur and the labourers to be employed in his production. Wages must be advanced, that is, they must be financed by the money loan, because workers must be paid *before* production starts, its time-consuming process is finished, and the products are sold as commodities to other entrepreneurs or to consumers on the market. (It is only at this stage, that is, at the end of production, not at its start, that the optimizing consumer will play a role). However, unlike the debtor in the loan contract or the entrepreneur in the wage contract, in most cases, the indebted entrepreneur cannot take it for granted that he will find partners on the market who could guarantee a reflux of the money loaned for wages. Therefore, the advance of wages financed by the money loan is, after all, a strategic variable to be considered when asking what determines aggregate employment.

However, when discussing labour costs, one must distinguish between net and gross wages, with the latter including so-called "social contributions." Only with regard to net wages, Keynes's dictum in chapter 18 of his *General Theory* holds that the level of wages – if set according to labour productivity – is not an obstacle to employment, but rather a stabilizing ingredient of the economy, and that a reduction of wages would involve the risk of triggering deflation.

Social contributions in property-based economy are aimed at providing the means necessary to finance the *social safety net*, which the property-based economy's manifold contracts, the *property net*, unlike the loyalty nets in possession-based reproduction systems – the tribal reciprocity system and the feudal command system –, is unable to develop out of itself.[1] Now, the question to be discussed is whether social welfare should be financed mainly by social contributions or by other means, for example, taxes.

In Germany, around 50% of public revenues is financed by taxes and the other 50% by social contributions. In the 1950s, social contributions amounted to 20% of gross wages. In the

[1] We are aware, of course, that there does not exist a common measure of how strong the social safety net should be. We can only point out that in countries, where the net is tight, like in France and Germany, the share of the "poor" is low (around 10%), and *vice versa*, where it is weak, like in Britain and the United States, the share is high (around 20%).

1970s and 1980s, they rose to 30%, and in the 1990s, to presently *42%*.[2] From the perspective of the entrepreneur, however, this means that he must add as much as *72.5%* to net wages! And this is nothing but a heavy tax on production or labour, with no deductions at all for low wages. On the contrary, this tax must be paid from the first euro earned up to a salary of around € 4000 per month or € 48,000 per year (the median income in Germany amounts to approximately € 30,000). People who earn more are exempted from these contributions,[3] as are civil servants with a permanent contract whose (higher) pensions and health expenditures are more or less paid from taxes.[4]

In an effort to prevent a further increase of the high social contributions and to stimulate unemployed to supply their labour power instead of relying on benefits, unemployment relief was reduced as of 1 January, 2005: until then, unemployed were entitled to about 80% of their last net incomes for a period of 24 months (financed by the 6.5% contributions to the unemployment insurance) and thereafter to 60% without limitation (financed by taxes). Now, these benefits are paid only for a period of 12 months. Thereafter, unemployed will have to rely on the benefits granted on the basis of the so-called "Hartz IV" reform, a combination of mere

---

[2] 19.7% for pensions, 15.8% for health expenditures and 6.5% for unemployment insurance. For the so-called "mini" or € 400 jobs, that is, jobs with net earnings up to € 400 per month, employers have to pay 20% for social contributions on the gross earnings which amount to € 500 per month. From 2007 onward, social contributions will be raised to 30%. It has been estimated that the popularity of these jobs – 8 million in 2004 – has reduced the number of full-time jobs by 500.000 (Bofinger 2005, 171); see also our comments below on the shadow economy.

[3] If these limitations were not made, social contributions could be reduced. In Switzerland, for example, even millionaires have to pay contributions for pensions, with the result that only a rate of 10%, instead of Germany's 19.7%, has to be paid. The minimum pensions amount to SFr 2,000 per month and the maximum to 4,000, that means, high-income earners will never get back what they have paid for – indeed a most striking example of how to achieve income redistribution!

[4] Not surprisingly, pensions and health expenditures of the political class are merely paid by taxes, too. For example, a member of the Bundestag, the Federal Parliament, is credited with 3% of his last salary (today around € 7,000 per month, without so-called "extra" benefits) for every year as a parliament member up to 69% of the last salary, meaning after as little as 23 years' membership. In contrast to these generous benefits, State employees reach about 71% of their last salary after 40 years, while "normal" pensioners are entitled to 48% of their last salary only after 40 years and to 60% after 45 years. (However, most of these pensioners are also entitled to special pensions provided by their companies).

social benefits and unemployment relief. People who are able to work at least three hours per day are entitled to € 345 per month plus benefits for housing and heating.[5] However, just like recipients of social welfare, unemployed are only entitled to these benefits, provided that they do not own assets exceeding € 200 per working year, that means (because a person has at best a chance to work for 40 years) they are permitted to retain assets up to € 8,000, which they will not have to live up before being entitled to benefits.[6] This restriction leads to the fatal consequence that after one year of unemployment, people risk to become Karl Marx's proletarians without property, that is, they will be prevented from becoming what is of utmost necessity in property-based economy: an indebted entrepreneur!

So far, the "Hartz IV" reform has turned out to be a disaster. Its costs, which had originally been budgeted at roughly € 15 billion per year, have nearly doubled: in 2006, they will amount to € 28 billion. This is, of course, due to an effect politicians should have thought about beforehand: while many individuals hesitated to apply for social welfare out of shame, asking for unemployment benefits is not seen as disgrace, in spite of many politicians, even social democrats, qualifying such benefit seekers as "parasites." But what is worse than the dramatic rise in costs is the fact that the main expectation connected with the reform, that is, to stimulate unemployed to look for jobs, has not been fulfilled: the labour market simply does not offer the jobs the reformers wanted. While there are still 4.5 million unemployed, vacancies amount to 500,000 only.

On the other side, the shadow economy, circumventing the heavy burden of social contributions, is thriving. According to a recent report by Friedrich Schneider (NN 2006, 6), the number of "full-time domestic illicit labourers" is estimated at as many as 8.124 million,[7] and the number of temporary foreign illicit labourers at 925,000. As the medium wage of these

---

[5] If unemployed are not able to work at least three hours per day, their benefits are reduced to € 282 per month (plus costs for housing and heating) – the level of the former social benefits.

[6] Of course, assets like insurances for pensions are exempted, if they are definitely assigned to this purpose. But then, they are locked, that is, they can no longer be used as collateral for a money loan!

[7] Not surprisingly, this number is nearly equal to the eight million € 400 jobs (see note 2 above), that means, because nobody can make a living on € 400 per month, many of these "mini" jobs, allowing for a maximum of 40 hours per month, seem to be filled up by additional illicit working hours.

shadow workers is estimated at 12 € per hour, they account for roughly 15% of the German GDP or € 345.5 million.

But what about the supposedly high taxes in Germany? In the 1990s, they have been dramatically reduced: from a marginal tax rate of 56% for personal incomes to 53% in 1991 and to 42% in 1998. This implies that today the medium wage earner, with a taxable income of € 30,000, has a tax rate of 19.4% as a single and of 10.3% as a married person. Only 5% of personal incomes are taxed with a rate of more than 30% and roughly 15% with more than 20%. At the same time, the nominal tax rate for corporate incomes was reduced from 45% to 25% and, together with the so-called trade tax of 13% (raised by the municipalities), now amounts to around 38%. As this rate is regarded as one of the highest in the EU, the Federal Minister of Finance plans to further reduce the corporate tax rate to 15%, which will lead to a total tax rate of below 30%. Last but not least, in the 1990s, the wealth tax was abolished. This was justified by referring to a decision of the German Supreme Court saying that taxation of nominal and real assets should be the same, because the latter, as distinct from the former, are not taxed at fair value, that is, market value. Politicians, of course, could have solved this problem by upgrading the value of real assets. But the cry for lower taxes as a means to stimulate growth and employment hindered them from pursuing such a policy.

It goes without saying that tax reductions in Germany have neither created jobs nor stimulated growth. On the contrary, incomes after taxes and social contributions have stagnated, with a rise of only 0.5% in the first quarter of 2006 and, therefore, no stimulation of aggregate demand has taken place. At the same time, income distribution has been worsened, with a rise – in the same quarter – of income from entrepreneurship and assets by 4.6% and a stagnation of wage earners' net incomes, in spite of their gross incomes having increased by 1% (Pew 2006, 12).[8] All that has been achieved with the policy of tax reductions is a deficit in the State budget, which since 2001 has remained above the 3% rule of the Maastricht Stability and Growth Pact. Therefore, the new government has decided to raise the value-added tax, as effective from 1 January 2007, from 16% – behind Luxembourg (15%), the lowest rate in the

[8] During 2004 and 2005, net wages fell by 1%. As wage earners' pensions are based on changes in net wages, pensions had to be decreased for 2005 and 2006. However, both the former and the new government decided to leave them unchanged, thereby preventing a fall in pensioners' aggregate demand.

EU – to 19%, thereby partly reversing the policy of tax reductions, however, with the bias of further worsening income distribution.

But such a change is, of course, not sufficient, because it can only lead to a 2% reduction of the high social contributions, that is, from 42 to 40%. However, to stimulate private investment and, thereby, growth and jobs, a complete shift from social contributions to taxes in financing the social safety net will be necessary. This will be discussed in more detail in section 5 below.

To summarize this section, we approve of a most recent statement by Warnfried Dettling, in the 1970s one of the leading mentors of the CDU, Germany's ruling conservative party: "The manifold problems which [German] governments have been struggling for long while are rooted in a simple cause: *the public sector raises its money in the wrong way, and it spends it in the wrong way, too*. Therefore, not the level and extent of the means extracted are the true problem, but how the Stat raises them and for what purpose they are spent. In Germany, revenues come more from social contributions and less from taxes than in other countries; and they are spent above average on transfers and less on investment in human capital and infrastructure" (Dettling 2006, 9).

3. Different Real Rates of Interest as an Obstacle to Growth in Germany[9]

However, the combination of high social contributions and still too low taxes is not the only cause for stagnation and high unemployment in Germany. An important obstacle to growth, only recently recognized in the German debate on the euro, is the problem of different *real* rates of interest in the EMU. The neglect of this problem by economists may be due to the fact that such divergences were not discussed in the theoretical debate on monetary unions, most prominently the theory of the "optimal currency area" (OCA) as developed by Robert Mundell (1961) and Ronald McKinnon (1963). Although asymmetric demand shocks in countries with a single currency area formed an important topic in the OCA-approach, the theory was

[9] This section draws on Spethmann and Steiger 2004 (2005); see also its French summary by Emmanuel Garessus (2005), which also summarizes the other deficiencies of the Eurosystem not discussed here and which is added as appendix to this paper.

flawed by the fact that it never recognized such shocks as a challenge for the single monetary policy in a currency union, because divergences in real rates of interest could lead to a redistribution of welfare in a monetary union. On the contrary, such redistribution was denied. In a later critique of the OAC-theory, Paul De Grauwe (1992, 380) simply concluded "that there is a large potential gain for [a high inflation country like] Italy in joining a monetary union with Germany. In addition, there is no welfare loss for Germany." The problem with De Grauwe's conclusion was that he, like Mundell and McKinnon, did not bother about the possible existence of different real rates of interest in a currency union. Focusing above all on factor mobility as the decisive condition for a monetary union, interest rates and the question of how to organize central banking are not mentioned at all in the OCA-debate.

To understand the problem of divergences in real interest rates, a few words must be said about the Eurosystem, the decentralized central banking system in the EMU, consisting of the European Central Bank (ECB) and the EMU's twelve national central banks (NCBs). What most euro "experts" do not know is the fact that the European Central Bank (ECB), in spite of its name, is neither the central monetary institution of the EMU nor a bank of issue.

Why does a monetary union need a "true" central bank for all its member nations? This question was discussed by the Swedish economist Erik Lindahl who, in 1930 – for the first time in the history of economics – had developed a decentralized central banking system for a single currency in a union of independent nations.

This system, Lindahl postulated, should consist of (i) the national central banks of the union's member countries and (ii) a "central bank of the [national] central banks" or "main central bank" for all countries. Both types of central banks should be tied together into a single central banking system based on the fundamental rule that the main central bank was able to control the NCBs by allowing the former to determine the refinancing of the latter in the same way as the NCBs determined the refinancing of their domestic commercial banks (Lindahl 1930, 170).[10]

Why did Lindahl urge for such a control? He knew that in a monetary union of different nations, business cycles and, thereby, price levels often diverge, implying different *real* rates

[10] For Lindahl's a little bit complicated proposal, with the main central bank issuing "international notes" and the NCBs "domestic notes", we refer to Spethmann and Steiger 2004 (2005), 47 f.

of interest. Therefore, the main central bank should be able to differentiate the (nominal) rate of interest according to such divergences. A higher (lower) rate of interest for the NCB of a boom (stagnation) country would lead to a curbing (stimulation) of its credit to that NCB and, by a corresponding curbing and stimulation of the NCBs' credit to their domestic banks, smooth business cycles and price levels in the monetary union. Lindahl was convinced that the possibility of a higher rate of interest in one country would not "disturb capital markets in other countries". However, he was convinced that "such a differentiation of credit would perhaps fail because of *political* considerations" (Lindahl 1930, 171; emphasis added).

Political considerations as an obstacle to the functioning of a monetary union, Lindahl recognized also in his discussion of the fact that monetary stability could not be guaranteed by the monetary authority alone but, in addition, by the fiscal authority, especially through the balance of its budget. Therefore, he warned that his comparison, of the relation between the main central bank and the national central banks on the one side with the relation between a national central bank and its domestic banks on the other, suffered from a decisive weakness. "A central bank for several nations is not supported by a central governmental power but has to base its action on agreements between the nations. Therefore, it is difficult to conceive of a co-operation between the governments of different nations and the main central bank as intimate as between central bank and government within a nation" (Lindahl 1930, 171). The most recent political squabbles in Euroland, with its absence of a strong central fiscal authority, confirm most clearly that Lindahl was right, for example, concerning the fierce struggle between the Council of the European Ministers of Finance (ECOFIN) and the European Commission culminating in the latter's decision to file ECOFIN at the European Court of Justice on 13 January 2004 for not sanctioning Germany and France's violation of the 3% deficit rule. This case has been settled only on 20 March 2005, by a reformulation of the stability pact allowing for more flexible rules that, however, met fierce opposition from the ECB and most of the NCBs.

A proposal for a decentralized central banking system, very similar to that of Lindahl, was developed by Carlo A. Ciampi in a comment to the so-called *Delors Report* of 1989 (Ciampi 1989), then President of the Banca d'Italia and until May 2006 President of Italy. His proposal of how to organize central banking in the EMU consisted of three levels: "the central monetary institution, national central banks and commercial banks". In this hierarchy, the central monetary institution would be placed at the top and "act as the central bank of the national central banks" (Ciampi 1989, 227), while the latter would maintain their present relationships with domestic commercial banks. If Ciampi's proposal had been followed, it would have meant the first establishment of a two-stage central banking system in history.

Ciampi's proposal implied three fundamental components: (1) the central institution would have an autonomous balance sheet allowing it to take operational decisions; (2) it would have the monopoly of issuing European Currency Units (ECUs), today called euros; (3) it would control the NCBs' demand for ECUs in credit operations with the latter. "To bring the creation of ECUs … under strict control, the central monetary institution should be given the power to grant member central banks discretional credit in ECUs, in the same way as a central bank refinances commercial banks through open market or rediscount operations" (Ciampi 1989, 228). This meant that the NCBs could not create ECUs but would have been forced to obtain them by delivering good securities to the central institution and depositing there "*compulsory* and *free reserves*" (1989, 228). Unlike Lindahl, Ciampi neither discussed the necessity to differentiate credit nor the need for a strong, central fiscal authority in the EMU.

In Ciampi's ingenious plan, the NCBs would indeed have suffered a severe "loss of monetary autonomy" (1989, 232). The prospective European currency, however, would have thrived. Yet, nothing of this proposed structure of the Eurosystem made it into the Maastricht Treaty or the Statute of the ESCB and the ECB. These documents paved the way for the NCBs' domestic monopoly to issue notes alongside with the ECB in the Eurosystem. The supposedly central bank in Frankfurt am Main, however, has nothing whatsoever in common with a central monetary institution that lay at the heart of Lindahl's and Ciampi's proposals that would have allowed for a differentiation of interest rates for EMU members.

However, the Maastricht Treaty with its weak ECB makes it impossible to perform a monetary policy that is able to smooth over different real rates of interest, because even the NCBs in the Eurosystem are weak central banks. Although they have at their disposal the monopoly to issue banknotes in the main refinancing operations, they are no longer entitled to set interest rates and to determine the amount of central bank money to be allotted to their domestic commercial banks. These decisions are left entirely to the Council of the Eurosystem. The

Table 1

Savings in Interest Payments on Public Debt, 1999-2004

	Public debt in % of GDP		Interest on public debt in % of GDP		Savings in interest expenditures 1999-2004 in € billion (est.)
	1992	2002	1992	2002	
Italy	116	106.3	12.2	5.8	+400
Belgium	131.4	104.4	10.6	5.7	+55
Spain	54.2	67.5	3.7	2.8	+25
Netherlands	77.6	50.8	4.4	2.2	+25
Ireland	101.1	33.8	5.2	0.1	+25
Greece	97.6	98.6	11.5	5.6	+13 (2001-2004)
Germany	41.8	61.3	2.5	2.9	–100

Source: IDW (2003), and authors' estimates.

Council does not only determine the refinancing rate, which is equal to all NCBs, and the amount of liquidity to be allotted in the Eurosystem, but the distribution of central bank money to the different NCBs is also pre-determined by their share in the ECB's capital.

"The euro has robbed Germany of its advantage of lower rates of interest." With this statement, Hans-Werner Sinn (2004, 19) has revealed what the EMU has meant for the German economy: *stagnation*. While Germany since the introduction of the deutsche mark in 1948 always enjoyed Europe's lowest nominal *and* real rates of interest (only surpassed by the Swiss rates), from the start of the euro in 1999 it must bear the highest real rates of interest.

This fact is, of course, a simple consequence of the still diverging inflation rates in Euroland, with Germany having the lowest figures.

"While [in the period 1999-2002] the consumer price level in Germany increased by only ca 6%, it climbed in Austria and in France by ca 8%, [in Italy by 10%], in Spain and The Netherlands by ca 15%, in Portugal by 16%, and in Ireland by over 20%" (Bohley 2004, 571).

In 2003 and 2004 these divergences continued, with inflation rates in Italy by above 3%, in Ireland by above 4%, and again in Germany by 1.2%. Therefore, with a refinancing rate between 2 and 3.5% in this period, Germany, with its low inflation rate, clearly had the highest real rate of interest, while the same rates for Spain and The Netherlands were about zero, and for Portugal and Ireland in the negative.

There are two consequences of these divergences. First, a huge welfare transfer in the form of savings in interest expenditures on public debt during 1999-2004 has occurred (see *Table 1* above). While out of the seven EMU-members presented in the table, six could reduce their interest payments as a share of GDP – even those that, like Spain, increased the public debt – only Germany suffered a higher percentage, with the result that the six made savings between ca € 13 billion (Greece, between 2001 and 2004) and as much as € 400 billion (Italy), while Germany made a welfare loss of about € 100 billion.

Second, the burden of the highest real rate of interest has resulted in a loss of growth in Germany, which the German Ministry of Finance estimates to 1.4% of GDP or ca € 30 billion per year (Wolf-Doettinchem 2005, 34). "Until now [the start of the EMU] the advantage of lower rates of interest was a benefit of investments in Germany. After the introduction of the common currency, Germany has lost this advantage of location" (Bohley 2004, 571). From 1999 onward growth rates in Germany have always been the lowest in the EMU, with a meagre 0.2% in 2002, zero in 2003, and 1.7% in 2004. On the other side, the corresponding figures for Ireland, with the lowest real rates of interest, were 6.9% (2002) and 1.6% (2003). Germany, which in 1989 ranked at the top of GDP per capita in Europe, only surpassed by Switzerland and Luxembourg, reached in 2003 only a little bit above the medium figures in Euroland (see *Table 2* below).

As Germany is still the biggest economy in the EMU, its low growth rates mean slow growth for the Euro-zone as a whole. It reached only 0.9% in 2002, 0.4% in 2003, and 2.4% in 2004, while in 2004 the US growth rate was 4.4% and that of Japan 4.2%. Without a differentiation in the refinancing rate in the Eurosystem according to the different inflation rates in EMU-countries à la Lindahl's proposal, the single monetary policy will continue to be an obstacle to growth. Furthermore, it must be emphasized that the single monetary policy is not only unsuitable for promoting growth by setting a single rate of interest, but also by its rigid

Table 2

EU Member States, EFTA Countries and EU Candidate Countries:
GDP per Capita in 2003 in PPP (EU 25 = 100)

Luxembourg	208	Greece	79
Ireland	131	Slovenia	77
Denmark	123	Portugal	75
Austria	121	Malta	73
Netherlands	120	Czech Republic	69
United Kingdom	119	Hungary	61
Belgium	116	Slovakia	51
Sweden	115	Estonia	48
France	113	Lithuania	46
Finland	111	Poland	46
EU 15	109	Latvia	42
Germany	108	Norway	149
Italy	107	Switzerland	129
Euro-zone	107	Iceland	116
EU 25	100	Romania	30
Spain	95	Bulgaria	29
Cyprus	83	Turkey	27

Source: Eurostat (2004).

rule for allocating the allotment of central bank money to the different NCBs according to their share in the capital of the ECB. In the case of Germany, owing to its lower share in the EMU's GDP, on 1 January 2004, its share in the capital of the ECB was reduced from 29.6 to 27%, meaning that the Bundesbank's share in the Eurosystem's supply of central bank money has been reduced by the same amount.

But Germany needs not only lower nominal rates of interest but also a higher share of that money. However, to achieve this goal, a reform of the Eurosystem à la Lindahl's and Ciampi's proposals would be necessary – a reform which, although highly recommendable, we, however, see politically out of reach.

On the other side, without a reform of the Eurosystem in favour of more centralization, the

EMU will be deemed to share the fate of history's earlier European monetary unions, the Latin Monetary Union and the Scandinavian Monetary Union that, after existing for several decades, broke down in the wake of World War I. However, one does not have to wait until even the EMU falls apart. Countries like Germany, whose economy suffers from the euro, might simply leave the EMU. Joachim Fels (2004, 56), chief economist of Morgan Stanley in London and one of the few euro experts who knows that the euro is issued by the NCBs and not the ECB, has emphasized that, while "leaving the EMU would be costly both politically and economically for the seceding country," "the technical and practical hurdles for reintroducing a national currency are lower than generally presumed": "If a country wants to reintroduce a national currency, it could simply use its existing euro notes and coins as legal tender until the new national money has been minted and printed."

4. The German Transfer Problem and the Country's Demographic Crisis as Further Obstacles to Growth

It is one of the greatest ironies in history that the German political class, who was so eager to introduce the euro in 1998 – without caring for the German population's opposition against suspending its beloved deutsche mark –, did not learn the lessons from its own monetary union, the introduction of the deutsche mark in East Germany as effective of 1 July, 1990. With a more than overvalued parity against the East German mark of 1:1, the German monetary union decisively contributed to the breakdown of the East German production system. Given a labour productivity of at best 30% of the West German level, East Germany's restructured companies were not competitive from the union's very start. Although the nominal wages they had to pay were – and still are – below West German levels, this could not compensate for the huge productivity gap. Still worse, the introduction of the West German social safety net in East Germany, with no restriction to the productive power of the new property-based East German economy, has endangered economic development.

In any case, the results are more than depressing. In spite of the huge wealth transfer of € 1.4 trillion (net) from the property-based West to the former socialist, possession-based East between 1991 and 2005, with still 32% of the East's GDP or € 83 billion financed by the

West in 2002, East Germany's per-capita GDP amounts only to 62% of that in West Germany. Furthermore, unemployment, with a rate of around 18%, or 1.5 million in 2002 (with only roughly 55,000 vacancies), is more than double the West's 8% (see Bofinger 2005, 55-59 and 60). "For many years, these transfers have undermined the economic power of the whole country" (Berg *et al.*, 2004, 26). As the net transfer still amounts to approximately € 80 billion per year, or 4% of the West German GDP, growth in the German economy as a whole will continue to be hampered by the East German development also in the future.

As a possible remedy against the East German obstacle to growth, we propose a more drastic reduction of social contributions for employees in the East than in the West because this would contribute to compensating for the still remaining productivity gap. Such a policy may lead to a temporary increase in the net transfer of € 80 billion per year, but in the end, a reduction of the transfers might be possible thanks to the creation of new jobs because of lower labour costs.

Another obstacle to growth in Germany is the low birth rate of 1.3 children per woman (2005; 1.9 in France). This is, of course, not an exclusively German problem. In all countries, with access to free birth control and abortion, the birth rate has fallen below 2.1, the reproduction rate necessary for a stable population. But, with the exception of Austria, Spain and Italy (1.2 in 2005), Germany's birth rate has been so low for already two decades that, even in the case of full employment, the number of pensioners to be financed by the active population (20-64 years) will increase from 1:4 now to 1:2 in 2050 (Sinn 2005, 399). Consequently, there are only two alternatives to solve this problem: either to reduce pensions or to raise taxes (if an increase of the already high social contributions shall be avoided). The new German government has decided to extend the retirement age by two years, from 65 to 67, as to become effective in steps from 2012 to 2029.

Of course, this is nothing but a hidden reduction of pensions. A better reform would be a stick-and-carrot policy like that pursued in Sweden. There, drawing your pension before the age of 65 will cost you 0.5% per month or 6% per year, while continuing to work after 65 will give you a bonus of 0.7% per month or 8.4% per year. Another reform to be recommended would be an immigration policy with the goal to attract, like in the Anglo-Saxon countries, high-skilled workers from abroad. In Germany, about 11 million people have immigrated since the early 1980s, but unfortunately, like in France, up to 90% are unskilled[11] and, thus, form the core of the unemployed who, even with very low wages, could scarcely fill vacancies. It goes without saying that Germany, in this respect, is not far from social unrest as such could be observed in the French "banlieues" during last autumn.

5. Alternative Employment Policies: Japan, Sweden and Denmark

To sum up: We have identified two main causes for stagnation and high unemployment in Germany: (1) the high rate of social contributions of 42% – in the calculation of entrepreneurs a production tax in advance of 72.5% on net wages – which we think is responsible for the decline in private investments, and (2) the high level of the real rate of interest due to the EMU, which is an additional obstacle to private investment. If these problems could be solved – by a drastic change from social contributions to taxes on income and wealth and/or reorganization of the Eurosystem allowing for different nominal rates of interest – the two other obstacles could be eliminated more easily.

At this stage, one may wonder whether the German State should step in to compensate for the decline in private investment, as Keynesians like Parguez and Bliek (2006) propose for France? After all, even the new German government has launched a reflationary programme, amounting to € 25 billion and to be spent during 2007-2010, that is, € 6.25 billion per year.[12] Are such loan-financed public expenditures not self-financing? Yes and no! In the short run, a Keynesian policy would definitely work, but in the long run?

A living example is the case of Japan. After the country's heavy financial crisis in the late 1980s, unemployment rose by 100% (from 3 to 6%) and a severe depression with deflation threatened the economy. Therefore, the Japanese government lanced the biggest Keynesian employment program ever seen in history, with public deficits from 6 to 8% per year between

11 In Britain, only 25% of the immigrants are unskilled, and in Canada even zero per cent!

12 The government estimates that the programme will induce private investment of at least € 125 billion, that is, five times its amount. However, of the € 25 billion budgeted, only € 16 billion are intended for State investment (in infrastructure and research), while the remaining € 9 billion mean State consumption, for example, tax deductions and transfers to parents for the first year of newborn children.

1991 and 2005 and supported by a so-called "easy" monetary policy, with record low rates of interest: 0.5% since 1995 and 0.1% since 2001 (see Koo 2003 for details). These policies were successful in so far as depression and deflation were avoided, and unemployment could be reduced to at present 4.7%. On the other hand, Japan suffered a period of 15 years of stagnation before something like self-sustained growth could be perceived since the middle of 2004. However, this is not a happy ending, because the price was high: a record high level of public debts, which, in 2006, is as much as 175% of the Japanese GDP. It might be objected that after World War II, also the United States and Great Britain, with roughly 130% of their GDP, suffered similar levels of public debts, which these countries could, however, bring down to a level of under 50% as early as during the 1950s. Admittedly, during these years, both countries had a rising population, while Japan, with its low birth rate of 1.2, already now has a heavy demographic problem.

Like Japan, also Sweden suffered from a severe financial crisis during the early 1990s, with double-digit rates of inflation, a fall in the GDP between 1.1 and 1.8% in the course of three years, unemployment rising from 2.6 to 12.5%, the public budget changing from a surplus of 4.2 to a deficit of 12.3%, implying a rise in State debts from under 42 to over 65% of GDP which, in the face of Sweden's high foreign debt, was aggravated by the devaluation by 30% of the Swedish crown (see Trautwein 2001, 227-229, for details). The Swedish government, however, did not urge for a Keynesian policy. On the contrary, it reduced social benefits considerably (although only temporarily) and raised the already high taxes once more. As early as in 1995, the GDP started to rise again and has been continuously rising until now, with average growth rates of 2.7%. Unemployment has been reduced to now 5.9%, the inflation rate to 1.5% and, with an average surplus of the State budget of about 1%, State debts have been reduced to currently 49.4% (see von Lucius 2006, 12, for details). This success would not have been achieved, however, without maintaining the high share of employment in the public sector: as many as 35% of the Swedish labour force are employed by the State,[13]

[13] The record high share of State employees explains the much admired high participation rate of females between 16 and 65 years in the labour force which amounts to as much as 80% and which is even higher than the corresponding figure for the male population: 75% of the active Swedish women are employed in the low paid public sector and many of them work only part-time.

while the corresponding figure in Germany is only 17%. Again, also such a mix of supply-side and high-tax policies has its price: while employment and growth are thriving, net wages for those who have a job are low, lower than in Germany, especially in the public sector. And even low-income earners have to pay at least 50% in social contributions[14] and taxes.

Last but not least, a few thoughts must be given to the economic example of Denmark praised by Parguez and Bliek (2006, 3 f.) for its high growth rates, absence of State budget and debt problems, low rates of inflation and interest, generous unemployment benefits and, one should add, complete absence of social contributions. What the authors, however, do not inform their readers about, is the price for the Danish model: low net wages because of high taxes of at least 60%. But Parguez and Bliek are, of course, right in their admiration of the Danish example: unlike in France and Germany, people feel happy in this country, for example, as consumers they do not hesitate to run into debt because they do not have to fear unemployment. In spite of the abandonment of all legal protection against dismissal, which caused so much trouble in France during this spring, the Danes and their trade unions accept that one out of three persons each year gets unemployed, because they can rely on the solidarity of the taxpayers to pay compensations equalling 85% of the last wage for up to four years, with the possibility to reject up to three offers for new jobs presented by the State employment agency. And in spite of their heavy load, taxpayers do not protest, because the history of the Danish labour market has demonstrated that this policy of so-called “flexicurity” has been so successful that meanwhile Denmark is “importing” unemployed people from Germany.

What can be learned from the three examples discussed is that there exist, indeed, alternatives to the failing unemployment policies in France and Germany. But when praising these models, one must not forget to mention the price to be paid: high rates of State debts (Japan), high social contributions and taxes (Sweden), or high taxes (Denmark). Needless to add that none of the countries’ employment policies discussed were flawed by membership in a monetary union. Denmark and Sweden were wise not to enter the EMU.

On the other side, it goes without saying that there does not exist an easy way out of the

[14] Until the early 1990s, Sweden, like Denmark still today (see below), had financed its social safety net exclusively by taxes. However, when reducing the marginal State tax rate on personal incomes from 85 to 60%, Sweden was forced to introduce social contributions. At present, they amount to 30% of all forms of income.

struggle of how to fight unemployment and stagnation – nowhere!

Appendix: « L'euro doit aussi se réformer »

Emmanuel Garessus[15]

L'euro devrait profiter d'un vent hautement favorable au second semestre. Les malheurs de Louisiane et la perspective d'une politique monétaire plus laxiste affaiblissent le dollar. Parallèlement, l'actualité politique soutient la monnaie européenne. Les élections allemandes permettront à Angela Merkel de préciser son profil libéral et ses projets de réforme. Ceux-ci pourraient dynamiser l'Europe. « L'euro gagne ou perd avec L'Allemagne, de loin sa principale économie », explique avec raison la *NZZ* [*Neue Zürcher Zeitung*] de samedi [3 septembre 2005].

Mais le consensus en faveur de l'euro est trop vaste pour être durablement correct. Il méconnaît les Etats-Unis. Habitués à souligner la vulnérabilité et les déséquilibres américaines, les analystes oublient leur qualité première, leur capacité à se relever très vite d'une mauvaise phase.

If faut aussi savoir qu'une épée de Damoclès menace l'euro. Le *non* français et néerlandais à la Constitution européenne n'a pas fait chuter l'euro puisque les perspectives économiques n'ont pas été modifiées. Mais l'effet du *non* ne sera visible qu'à l'occasion d'un test économique grandeur nature, un choc pétrolier ou financier, par exemple.

L'euro a-t-il répondu aux attentes ? Le rêve du gouvernement allemand d'avoir un digne successeur au mark ne se réalise pas. L'euro, contrairement aux promesses, n'est pas un soutien à la croissance. Les poids des taux d'intérêt réels élevés qu'il fait subir à l'Allemagne réduit son PIB de 1,4%.[16] Depuis l'introduction du mark en 1948, l'Allemagne avait toujours connu les taux nominaux et réels les plus bas d'Europe, à l'exception de la Suisse. Depuis l'introduction de l'euro la première économie européenne souffre des taux réels les plus élevés de la zone.

---

[15] Source: see Garessus 2005.

[16] *« The Four Achilles' Heels of the Eurosystem », Dieter Spethmann and Otto Steiger, International Journal of Political Economy, été 2005.*

En outre, la BCE, aussi surprenant que cela puisse paraître, n'a pas le rôle central normalement attribué à une telle institution, comme indiquent Spethmann et Steiger.[15] Pire, elle n'est pas soutenue par une autorité fiscale forte, puisque Bruxelles n'a le contrôle que sur 1% du PIB européen.

C'est le Conseil européen qui, en 1988, décida ses statuts. Carlo Ciampi chercha en vain à accroître le pouvoir de la BCE au détriment des banques centrales nationales.

L'organisation décentralisée de l'euosytème laisse les banques centrales nationales responsables de la supervision des banques paneuropéennes. La Bundesbank a bien compris le danger. En 2000, elle a proposé à d'étendre à l'ensemble de l'Europe les responsabilités de sa propre institution de prêteur de dernier ressort. Mais la tentative a échoué. Résultat, si une grande banque allemande est en crise, rien ne peut forcer Paris à aider la Bundesbank.

L'eurosystème est étrangement conçu. Il ne fait nulle mention du concept de prêteur de dernier ressort.[15] L'objectif de la BCE, c'est la stabilité des prix. Un point, c'est tout. La stabilité du système financier n'est même pas mentionnée. Même le FMI est d'avis que le premier objectif de la Fed est d'assurer d'abord la stabilité financière et ensuite de gérer la stabilité monétaire. Un deuxième gros problème réside dans le fait que les statuts accordent le monopole d'émission de l'euro aux banques nationales. La BCE n'est pas une banque d'émission, avec le contrôle de la monnaie que cela implique.[15] Elle est exclue des principales opérations de refinancement. A ses actifs, on ne trouve nulle trace de prêts aux banques centrales nationales. Jusqu'en 2001, la BCE était la première banque centrale de l'histoire à ne pas avoir de billets à son passif. La banque dut changer ce fait troublant, mais on ne lui alloue que 8% du total des billets en circulation. Pourtant la crise des années 30 aux Etats-Unis aurait dû faire réfléchir. La Fed avait pris des mesures destinées à centraliser les processus de décision. La loi de 1935 donnait toute autorité au Comité de L'Open market (FOMC). Elle lui confiait une majorité permanente, réduisait la représentation des banques de réserve et assignait un pouvoir crucial de protection du système à la Banque de réserve de New York.

Ce manque de centralisation, selon Spethmann et Steiger, se retrouve dans l'absence de centrale européenne de supervision des marchés financiers. Ce défaut est illustré par la Traité de Maastricht qui stipule qu'en cas de crise, c'est l'Ecofin qui peut suspendre la fuite des capitaux hors de l'euro. La Bundesbank a tenté de réagir. Au conseil des gouverneurs européens du 11 septembre 1998, elle a cherché à adopter le système de la Fed. Mais elle n'a pas pu convaincre ses pairs.

Ces défauts structurels resteront sans effet si la conjoncture est favorable. Mais ils risquent de faire très mal en ces cas de problème. Plutôt que de se satisfaire du statu quo, l'Europe ferait bien de s'attaquer aux faiblesses endémiques de sa monnaie. Après l'échec de la Constitution, on voit mal l'Europe politique prendre l'initiative. Par contre, la Bundesbank ne restera pas les bras croisés.

References

Bohley, Peter. 2004."Euro: Eine Bremse für das deutsche und europäische Wirtschaftswachstum" [The Euro: A Brake to Economic Growth in Germany and Europe]. *Wirtschaftsdienst: Zeitschrift für Wirtschaftspolitik* 84, no. 9 (September): 568-575.

Bofinger, Peter. 2005. *Wir sind besser, als wir glauben: Wohlstand für alle* [We are better than we think we are: Welfare for everybody]. Munich: Pearson.

Ciampi, Carlo A. 1989. "An Operational Framework for an Integrated Monetary Policy in Europe". In *Delors Report*, 225-232.

Delors Report. 1989. (1) Report on Economic and Monetary Union in the European Community; (2) Collection of Papers Submitted to the Committee for the Study of Economic and Monetary Union, Brussels: European Commission: 11-42 and 47-232 respectively.

De Grauwe, Paul. 1992. "The Theory of Optimum Currency Areas: A Critique". In *An Open Macroeconomics Reader*, ed. Ugur, 363-386.

Dettling, Warnfried. 2006. "Halbierte Modernisierung" [A halfway modernization]. *Die Tageszeitung* (Berlin) (June 22): 9.

Eurostat. 2004.*GDP per Capita in 2003: Expressed in Terms of the EU 25 Average*. Luxembourg: The Statistical Office of the European Communities (Eurostat) (December).

Fels, Joachim. 2004. "The Euro: Coming of Age or Coming Apart?" *The Economist* (August 14): 56.

Garessus, Emmanuel. 2005. "L'euro doit aussi se réformer." *Le Temps* (Genève) (September 7).

Heinsohn, Gunnar, and Otto Steiger. 2006a. *Eigentumsökonomik* [Property economics]. Marburg: Metropolis.

———. 2006b. “Interest and Money: The Property Explanation”. In *A Handbook of Alternative Monetary Economics*, eds Philip Arestis and Malcom Sawyer, forthcoming. Cheltenham, UK and Northampton, Mass.: Edward Elgar.

IDW. 2003. *Deutschland im Globalen Wettbewerb: Internationale Wirtschaftszahlen* [Germany in the Face of Global Competition: International Economic Figures]. Cologne: Institut der Deutschen Wirtschaft (IDW).

Koo, Richard C. 2003. *Balance Sheet Recession: Japan’s Struggle with Uncharted Economics and Its Global Implications.* Singapore: John Wiley & Sons (Asia).

Lindahl Erik. 1930. *Penningpolitikens medel* [The Means of Monetary Policy]. Lund: C.W.K. Gleerup; abridged translation from the Swedish original as “The Rate of Interest and the Price Level.” In Erik Lindahl, *Studies in the Theory of Money and Capital*, 139-268. London: George Allen & Unwin, 1939.

Lucius, Robert von. 2006. “Länderbericht: Schweden” [Country report: Sweden]. *Frankfurter Allgemeine Zeitung*, no. 1 (January 2): 12.

McKinnon, Ronald. 1963. “Optimum Currency Areas.” In *An Open Macroeconomics Reader*, ed. Ugur, 354-362.

Mundell, Robert. 1961. “A Theory of Optimum Currency Areas.” In *An Open Macroeconomics Reader*, ed. Ugur, 342-353.

NN [Schneider, Friedrich]. 2006. “Acht Millionen ‘inoffizielle’ Jobs” [Eight million ‘illicit’ jobs]. *Weser-Kurier* (Bremen), no. 146 (June 26): 6.

Parguez, Alain, and Jean-Gabriel Bliek (2006). “Vive le plein emploi!” [Long live full employment!]. Paper prepared for the *Sénat Conférence Internationale on “Quel modèle de croissance pour la France? Étude des modèles de croissance des pays étrangers pour établir les principes d’une politique de plein emploi pour la France”* [Which model for economic growth in France? A study of growth models in foreign countries to establish the principles of a full employment policy for France], org. Alain Parguez and Jean-Gabriel Bliek. Paris: Sénat de la République française (June 30).

Pwe. 2006. “Die Deutschen konsumieren wieder mehr“ [The Germans are consuming more again]. *Frankfurter Allgemeine Zeitung*, no. 120 (May 24): 12.

Sinn, Hans-Werner. 2004. “Wie die Globalisierung Länder auseinander reisst.” [How Globalization Pulls Countries Apart]. *Neue Zürcher Zeitung* (June 26-27) (International edition): 19.

———. 2005. *Ist Deutschland noch zu retten?* [Can Germany still be saved?]. Berlin: Ullstein.

Spethmann, Dieter, and Otto Steiger. 2004 (2005). “The Four Achilles’ Heels of the Eurosystem: Missing Central Monetary Institution, Different Real Rates of Interest, Nonmarketable Securities, and Missing Lender of Last Resort.” *International Journal of Political Economy* 34, no. 2 (Summer 2004, published 2005): 46-68.

Steiger, Otto. 2006. “Property Economics versus New Institutional Economics. Alternative Views of How to Trigger Economic Development.” *Journal of Economic Issues* 40, no. 1 (March): 183-208.

Steinbrück, Peer. 2006. “’Erhebliche Fliehkräfte’“ [“Considerable centrifugal forces”: Interview on the deficiencies of the Maastricht Treaty]. *Der Spiegel*, no. 1 (January 2): 26-28.

Trautwein, Hans-Michael. 2002. “Sozialdemokratische Angebotspolitik: Das Beispiel Schweden” [Social democratic supply-side policy: The example of Sweden]. In *Weniger Arbeitslose – aber wie? Gegen Dogmen in der Arbeitsmarkt- und Beschäftigungspolitik* [Less unemployed – but how? Against dogmatism in labour market and employment policy], ed. Detlev Ehrig and Peter Kalmbach: 217-244. Marburg: Metropolis

Ugur, Mehmet (ed.). 2002. *An Open Macroeconomics Reader*. London and New York: Routledge.

Wolf-Doettinchem, Lorenz. 2005. ”Der Euro macht uns kaputt” [The Euro Is Exhausting Us]. *Der Stern*, no. 23 (June 2): 24-36.