

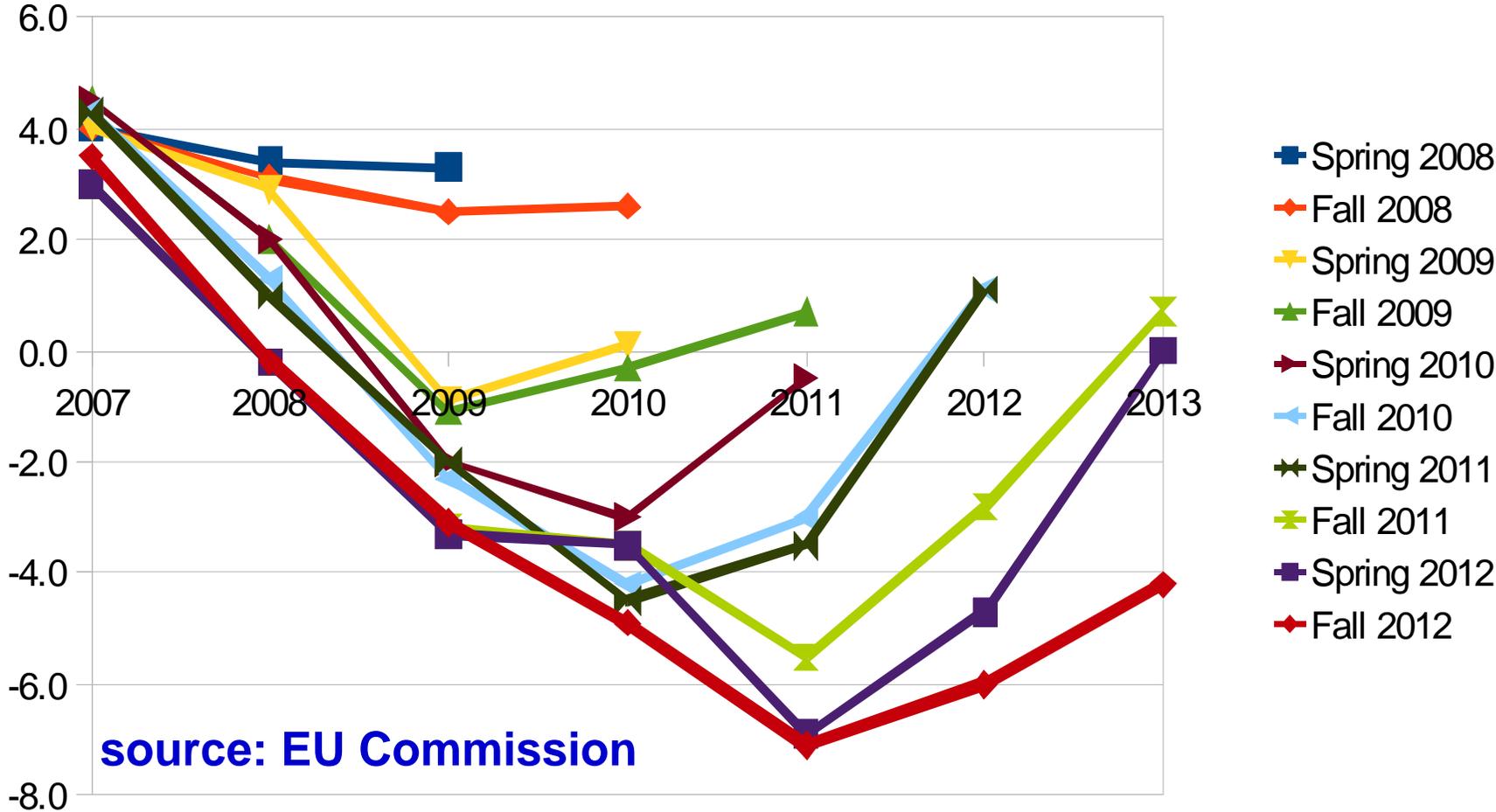
**Mental Barriers to
Macroeconomic Policy Making
The Sad State of
(German) Mainstream Economics**

**Presentation at the Conference
„Trans-Atlantic Agenda for Shared Prosperity“
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How can such stupid things happen? Austerity and GDP forecast revisions: Greece



Overview

- There is a notable difference in macroeconomic sensibility and pragmatism between the US and GER
- The 2005 „Hamburg Appeal“ as a spectacular example of the austerity bias in German mainstream economics
- Has there really been no progress since then?
- How can a change be achieved?



The ‚trans-atlantic divide‘ in economics

“The real divide [...] is not political but philosophical; it's not Karl Marx vs. Adam Smith, it's Immanuel Kant's categorical imperative vs. William James' pragmatism. What the Germans really want is a clear set of principles: rules that specify the nature of truth, the basis of morality, when shops will be open, and what a Deutsche mark is worth. [...] In an environment where deflation is more of a threat than inflation, an obsession with sound money can be a recipe for permanent recession”
(Krugman 1999)



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“Hamburg Appeal“ in 2005:

- more than 250 German university professors of economics signed the appeal in pre-election times
- The appeal was massively promoted by the „Initiative New Social Market Economy“ sponsored by *Gesamtmittel*, the federation of German employers' associations in the metal and electrical engineering industries
- Ads in leading German newspapers appeared referring to the Hamburg Appeal as:

„250 professors – 10 theses – one opinion“



“Hamburg Appeal“ in 2005:

„The economic policy debate in Germany is increasingly being coined by conceptions, that show **an alarming lack of economic expertise**. This is all the more reason for concern as Germany is in the midst of a **deep structural crisis**, that calls for **drastic and painful reforms**. Precisely in pre-election times the willingness to **bring this fact home to citizens with the necessary clarity** will be small“



“Hamburg Appeal“ in 2005:

„As **academic teachers of economics** we vividly caution against producing illusions thereby undermining the acceptance of necessary reforms. We appeal to the elected representatives‘ sense of responsibility to **resist the temptation of easy solutions and to instead give non-sugarcoated answers to** the pressing economic questions.“



“Hamburg Appeal“ in 2005:

„6. ... The **uncontrollably growing German government debt is quite correctly being perceived as future tax burden**. The same is true for the underfundedly growing payment obligations of the social security systems. Therefore, anybody who undermines the incentives to consolidate the government debt on the national or international level will damage the German interest. **Any expansion of government debt will weaken domestic demand**, because structural imbalances will be reinforced instead of cured, so that citizens and firms will have to act with increased caution. **The (mass) purchasing power argument against saving oneself to death in times of economic stagnation may be convenient, however, it is**



“Hamburg Appeal“ in 2005:

„7. Therefore, responsible fiscal policy must be strictly stability oriented. The consolidation of government finances calls for far reaching cuts in all areas of public spending. There can be no exception for the social security systems. **Anybody claiming anything to the contrary will not do justice to the economic challenges for Germany or he/she will mislead citizens in a populist manner .“**

(translation: A.T.)



“Hamburg Appeal“ in 2005:

Where did the 250 professors draw their uniform opinion from? What is the „theory“ behind the Appeal?

- if there is any, it must have something to do with non-Keynesian effects (NKE)

But were the non-Keynesian effects that uncontroversial?

- Macroeconomic Textbooks? The NKE story is mentioned there as a (not very probable) possibility, but not as a dominating position!
- Empirical Studies for Germany? At the time there were at least three (Leibfritz et al. 2001; SVR 2003; Plötscher et al. 2005): All of them mention the possibility of NKE, but they come to the conclusion that in the short run Keynesian effects dominate in Germany.



→ **Professors were giving advice that was plainly in contradiction to textbook knowledge and to the relevant**

“Hamburg Appeal“ in 2005:

„However, Germany must be willing to undertake the necessary adjustments in **order to achieve competitiveness in ways similar to those that e.g. Great Britain, Finland and Ireland have successfully chosen.** An economic and social union with France would be more akin to the **marriage of a lame with an invalid.** Instead, we need flexibility, readiness to innovate, entrepreneurial initiative and the courage for change“

(translation: A.T.)



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How can a change be achieved?

It is very unlikely that the change will come from within the system.

Therefore:

- German economic discourse should be observed much more closely from the outside, e.g. from the other side of the Atlantic!
- Politics has to regain an interest in the development of economics as a scientific discipline
 - No direct intervention in academia!
 - ask more critical questions, finance different projects and institutes, multi-paradigmatic approach



Thank you!

