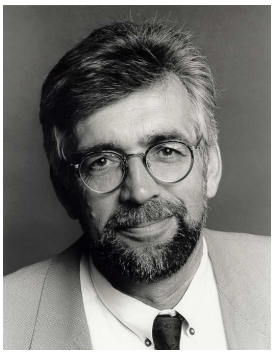
Editorial



Dr Kurt Hornschild,
Head of the "Industry and Technology" Department, asks:

"Who can Germany learn from in the fight against unemployment?"

Reducing unemployment is the central task of economic policymakers in Europe. In this regard Germany's new red/green government led by Chancellor Schröder is under considerable pressure to produce results. Although the government's programme does mark a change of approach in some areas compared with the previous government under Chancellor Kohl, the differences are in most cases only ones of degree. In their Autumn Report the six leading German economic research institutes criticised the lack of courage in implementing radical reforms. Whereas Schröder seems to lean towards a supply-side-oriented policy, as evidenced, for instance, by his intention of appointing a "captain of industry" to the post of Minister of the Economy, his finance minister, Oskar Lafontaine, puts his faith in the instruments of macroeconomic policy and Keynesian recipes. The result is a compromise that has failed to induce a widespread feeling of a "new start", such as followed the election of Tony Blair in Great Britain, for example.

Controversy over theories is similar to controversy over beliefs: such conflicts cannot be solved by means of rational arguments. Rather than getting bogged down in theoretical controversy and relying primarily on the impact of macroeconomic steering instruments – faith can move mountains, as we know – a more pragmatic course should be adopted: first of all analyse the measures taken by economies that have been particularly successful in reducing unemployment, and then implement in Germany the most convincing and most suitable of them.

Some experts explain low unemployment in the USA in terms of the success of monetary policy, while others emphasise the flexibility of its labour market. In the Netherlands an "alliance for jobs" has permitted more flexible provisions on part-time work, so that a given volume of work could be distributed more evenly. It is interesting to note the often overlooked fact that within Germany, given uniform macroeconomic conditions and regulatory systems, the unemployment rates in the two large southern German states of Baden-Württemberg and Bavaria (6.7 and 6.3% respectively) are relatively low. The former pursues an appropriate innovation policy, based on a traditionally highly differentiated and efficient industrial structure, the latter a targeted technology and modernisation policy to attract inward investment.

What can Germany learn from these facts? There is no single way, no one measure to significantly reduce unemployment within a short space of time. The policies of the Schröder government will only be successful if they combine a boost to long-neglected domestic demand with sustained improvements in supply-side structures. Structural deficiencies, not only in eastern Germany, must be overcome, institutions reformed, skills and qualifications, particularly of young people, ensured, and regulatory systems adapted to meet changing needs. The European Single Market, information technology and the arrival of new technologies will only lead to higher output, more jobs and a higher quality of life if the necessary preconditions are established by means of appropriate reforms.