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**Paradigm Change in the Face of the Global Financial Crisis? –
A Comparative Study of the Economic Policy Debates during
Three Economic Slumps in Germany**

Draft Version

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Abstract

In 2008/ 2009, a severe economic crisis struck the world economy. Many macro-economists assumed that the global financial crisis would change the prevalent way of economic thinking. This paper considers this idea and raises the question if a paradigm change in the German debate on macroeconomic policy has occurred. To this end, the paper analyzes and compares the macroeconomic policy recommendations of the most important German macroeconomic reports – Sachverständigenratsgutachten and Gemeinschaftsdiagnose – during the course of three economic slumps, including the 2008/2009 global financial crisis. The comparison shows that – notwithstanding that some minor changes in economic policy took place – there has been no paradigm change in the economic policy debates since the 2008/2009 world crisis. The absence of a significant change in the policy concepts raises the question of why there is such a high stability of the approaches of the two reports. It is suggested that the institutional context in which the expert discourse is embedded contributes to this stability.

Keywords: economic policy, financial crisis, paradigm change

JEL-Classification: E60, A11, A 14

Introduction

The 2008/2009 global economic crisis constituted a severe event in the mindset of economists. In the face of the crisis, many economists supposed that the time had come for a fundamental change in our way of handling and analysing the economy, and some of them already believed to have witnessed a paradigm change in economic policy.¹ Have we experienced a significant change in prevailing economic views? Has the economic crisis led to a crisis of concepts?

Crises, and particularly economic crises, are thought to be conducive for the rise of new ideas.² Severe economic crises create a state of uncertainty which is believed to facilitate a change of ideas and policies: the struggle with uncertainty may result in new concepts gaining prevalence and finally substituting the preexisting ideas. Crises are, however, by no means a guaranty for change. They may even reinforce existing approaches and patterns of action.³

In this article, I want to address the question of whether or not the global financial crisis has led to a significant change in the expert discourses on economic policy: has the global financial crisis stimulated a paradigm change in the ideas of economic experts or has the crisis so far produced no impact, or perhaps, has it reinforced the dominant concepts in the expert discourses about economic policy?

¹ Gustav Horn, for instance, declared in the TV-broadcast, 'Plus Minus', of the public channel 'Das Erste' (14th of October 2008) that the year 2008 would be carved into the gravestone of neo-liberalism: 'Auf dem Grabstein einer neoliberalen Strategie der Deregulierung wird das Jahr 2008 als Todesdatum stehen.' (PlusMinus, 2008). A similar statement can be found in a policy brief published in 2008 by Eckhard Hein et al. (Hein, Horn, Joegbes, van Treeck and Zwiener, 2008). Another example is Martin Wolf's comment published in the 'Financial Times' at the end of 2008: 'We are all Keynesians now. When Barack Obama takes office he will propose a gigantic fiscal stimulus package. Such packages are being offered by many other governments. Even Germans are being dragged, kicking and screaming, into this race.' (Martin Wolf, Financial Times, end of 2008, as cited in Pugh and Garatt, 2009, p. 4) More prevalent were comments questioning the future of capitalism and suggesting an end of the capitalist era: for instance, the front page of the conservative German newspaper 'Frankfurter Rundschau' from the 9th of October 2008 exhibited an image of Karl Marx and was titled 'The Bankruptcy of Capitalism' ('Die Pleite des Kapitalismus').

² Blyth, 2002; Boin and Hart, 2003; Chwieroth, 2010; Hall, 1993; Jessop, 2009; Keeler, 1993; Mandelkern and Shalev, 2010.

³ Boin and Hart, 2003; Boin et. Al, 2005.

I define expert discourse on economic policy as public communication that is emitted by economic experts and consists of comprehensible assessments of the economic situation combined with policy recommendations. These communications often assume the form of economic statements and reports which are released – among other bodies – by economic research institutes. A central function of the expert discourse on economic policy is to provide the public and political sphere with economic knowledge and to advise the decision making process of politicians. Economic experts act in this discourse as advisers translating economic expert knowledge into applicable policy recommendations.⁴ This being said, the expert discourse on economic policy could also be described as the discourse of economic policy advisers.

For the German discourse on economic policy, two economic reports are particularly important: the ‘Jahresgutachten des Sachverständigenrates’ (Yearly Economic Survey of the Expert Advisory Board on Economics) and the ‘Gemeinschaftsdiagnose’ (a semi-annual report of a selected group of economic research institutes). Both reports include recommendations for the economic policy of the state and exert significant influence over economic policy debates in Germany’s public and political spheres. They reflect to a great extent the expert debates regarding economic policy in Germany. This paper will analyze and compare the policy recommendations of these two reports during three economic slumps between 1990 and 2010. The objective of this study is to describe the expert discourse on economic policy in these two reports and to determine whether a substantial change – or paradigm change – in their policy concepts has taken place. Since the majority of policy recommendations in the reports concern monetary, fiscal, labour market and wage policy, the focus of the analysis will be on these policy areas.

The article is structured in the following way: it begins with a brief description of the two reports and the methods of the study. After this, I will summarize the policy recommendations of the two reports during each slump. The following section compares the policy recommendations

⁴ Frey and Kirchgässner, 2002, p. 467; Weingart, 2008, pp. 12.

during the three slumps and addresses the question if there has been, in fact, a significant change in the economic debates. The article ends with a discussion of the results and a potential explanation for the findings. This explanation suggests that the institutional setting in which the expert discourse on economic policy is embedded contributes to its stability.

Methods

This paper seeks to determine if a significant change in the expert discourse on economic policy took place between 1990 and 2010. I explore this question on the basis of the two most important economic reports in Germany's expert discourse on economic policy: 'Sachverständigenratsgutachten' and 'Gemeinschaftsdiagnose'.⁵ It is particularly their remarkable impact which makes these two reports a convenient subject of study for exploring the German expert discourse on economic policy. Due to their enormous influence they can be regarded as representing, to a certain extent, the policy debates of economic experts in Germany.

The 'Sachverständigenratsgutachten' (SVR) is a yearly economic report written by five specifically chosen economic experts who are also known as 'the five economic sages'. For the selection process, the German government proposes potential members to the federal president, who makes the final decision on the composition of the SVR. Each 'sage' is assigned for a time period of five years. After finishing the term he can be reassigned. In the time span of this study (1990-2010) most 'sages' stayed for at least two periods in the SVR. Thus, there is a high stability in the composition of the SVR. Many members formed part of the SVR during two of the three economic slumps.⁶

⁵ Subsequently, we will use the abbreviations 'SVR' for the 'Sachverständigenrat' / 'Sachverständigenratsgutachten' and 'GD' for the 'Gemeinschaftsdiagnose'.

⁶ Horst Siebert, for example, was a member of the SVR during the first post-reunification slump in 1992/1993, the long economic stagnation from 2001 to 2005, while Wolfgang Wiegand and Wolfgang Franz were members during the long

The ‘Gemeinschaftsdiagnose’ (GD) is released twice a year and is written by a compendium of at least five economic research institutes. The composition of the compendium changes over time. A compendium of research institutes works for at least three years together. After finishing its term, a new compendium will be formed. Economic research institutes can apply to form part of the new compendium. Their applications are evaluated in a multistage selection process by the German Ministry Of Economics which determines the final composition of the new compendium. Similarly to the SVR, there is a high stability in the composition of the institutes involved in the GD: notwithstanding some minor modifications, the general composition of the compendium did not change significantly over the time span of this study.⁷

The economic reports written by the SVR and GD consist of different parts: they include an analysis of the current economic situation, an economic forecast and recommendations for economic policy which concern generally fiscal, monetary, labour market, and wage policy. Regarding its physical format the SVR represents a much more extensive report of around five hundred pages which includes often expertise about specific topics (e.g. the reform of the health insurance system in Germany), while GD reports range generally between forty and one hundred pages.

This study focuses on the economic recommendations published in these reports. The economic recommendations of each of the reports are normally the product of a consensus of all – or at least a majority – of its participants. In the case of diverging opinions, the reports may include minority votes that are generally opinions from single actors (‘sage’ or research institutes) among the experts participating in the report. Being a minority vote, they do not reflect the general opinion

economic stagnation and the 2008/2009 world financial crisis. While many members formed part of the SVR during two economic slumps, no members remained during the whole period of the three slumps in the SVR.

⁷ Among those economic research institutes that remained in the compendium are the IFO in Munich (Institut für Wirtschaftsforschung an der Universität München), the Institute for World Economy at the University of Kiel (Institut für Weltwirtschaft an der Universität Kiel), the Institute for Economic Research in Halle (Institut für Wirtschaftsforschung Halle) and the RWI in Essen (Rheinisch-Westfälisches Institut für Wirtschaftsforschung).

of the economic experts writing the report. Therefore, the study focuses instead on the general position taken by the experts and will abstain from portraying the minority positions.

The exploration of the policy recommendations in these reports particularly stresses monetary, fiscal, labour-market and wage policy. The recommendations will be categorized in short and long term policy recommendations.⁸ This categorization facilitates the classification of the recommendations and their chronological comparison.

The study explores SVR and GD reports that were published during economic slumps between 1990 and 2010. The analysis of the policy recommendations during the slumps turns out to be opportune since a slump opens the possibility for short term policy reactions. This allows for the analysis of – in addition to long term measures – the kind of short term reactions proposed by the reports in order to deal with the slump. Moreover, since economic crises are presumed to facilitate changes in the economic thinking of economic experts, we can examine if experts do indeed modify or reconsider their economic concepts in the context of crises by studying policy approaches of economic experts during economic slumps.

The real GDP growth rates in Germany, exhibited in *Table 2*, indicate the relevant economic slumps: the relevant economic slumps after the German reunification are the first post-reunification slump in 1992/1993, the long economic stagnation from 2001 to 2005, and the 2008/2009 global financial crisis.⁹

⁸ Short run policy seeks to absorb economic fluctuations and stabilize the economy at its equilibrium state. Thus, in case of slumps, specific fiscal or monetary policy measures may be implemented in order to stimulate the economy and to absorb the slump. Long run policy, instead, is concerned with the long run level of economic growth and is believed to influence the growth path of an economy. Usually, measures of long run policy address the institutional framework of an economy (e.g. regulations, tax system) as well as the level of long term investment.

⁹ Another variable which was applied to identify the relevant slumps was the ‘real output gap’ which is not exhibited here due to space restrictions.

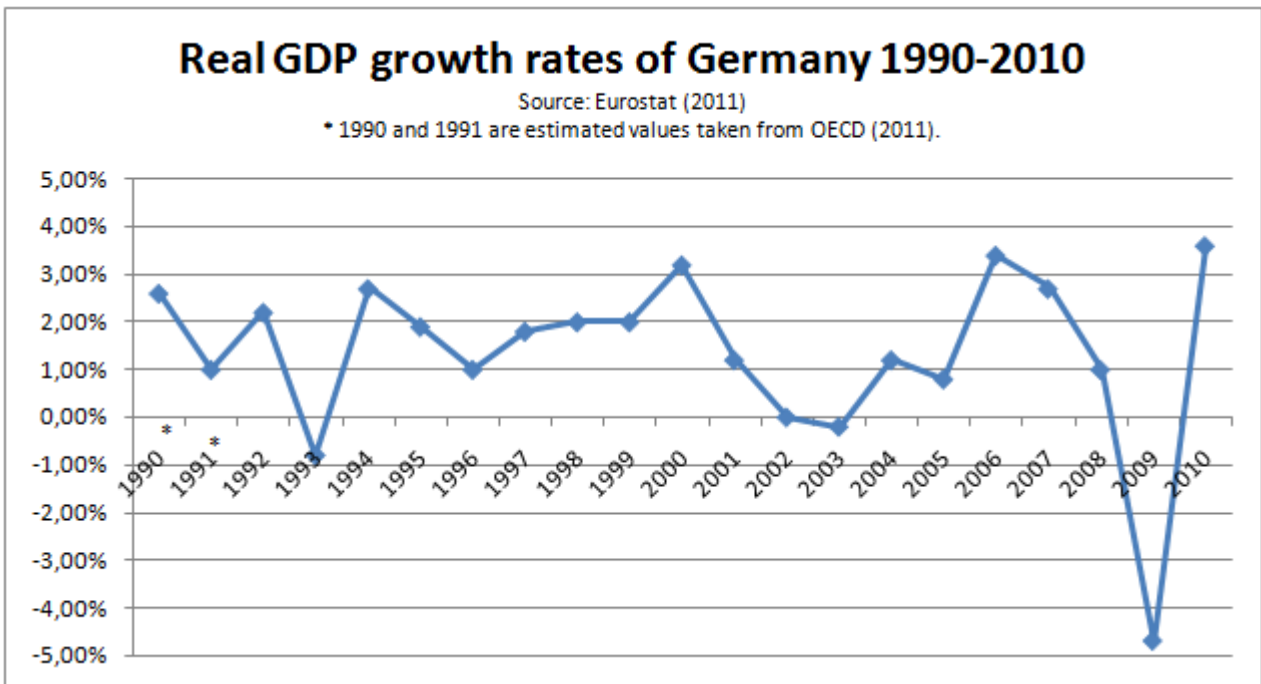


Table 1: Real GDP Growth Rates of Germany 1990-2010, Source: Eurostat (2011), 1990 and 1991 are estimated values taken from OECD (2011).

As we can see in table 1, the 2008/2009 global financial crisis had a significantly higher impact on the German economy than the two former slumps. The massive downturn of the German economy was experienced as a potential threat to its foundations and spurred speculations about a general change in the economic discourse and policy. Therefore, particularly this last slump can be regarded as a potential stimulus for an immediate change in the economic thinking. I will examine whether or not such a change took place by comparing the policy recommendations during the global financial crisis and the two previous economic slumps.

Comparing policy recommendations during the three post-reunification slumps

In this section of the paper I explore the policy approaches of the SVR and GD report during different economic slumps after the German reunification. The following paragraphs briefly summarize the most important policy recommendations of the two reports during the three slumps.

The first post-reunification slump (1992/ 1993)

In 1992/ 1993 Germany experiences the first economic crisis after its reunification. The crisis begins with a harsh decrease of the economic growth in 1992 and turns in 1993 into an economic recession. The two reports comment on the economic slump and recommend different policy measures.

The ‘Sachverständigenratsgutachten’ (SVR) of 1992 advises against any kind of short term measure to stabilize the economic cycle. Neither fiscal policy nor monetary policy should be applied to fight the slump.¹⁰ However, in 1993 the SVR changes its position slightly and approves the easing of the *Bundesbanks*’ monetary policy.¹¹ Nevertheless, price stability should remain at the heart of monetary policy.¹²

The slump is described as being mainly a product of structural problems. According to the SVR, these problems can only be addressed by a long term policy (‘Ordnungspolitik’) which would improve the conditions for economic supply. Thus, the SVR favours a supply side approach. This approach focuses on the competitiveness of the German economy and seeks to increase its appeal for investments in order attract more investments and create more employment¹³. Particularly labour market and wage policy are important domains for the SVR’s supply side approach. Here, the SVR recommends increasing the flexibility of the labour market by easing job protection, cutting regulations on the job market and allowing more flexibility in the assignment of wages.¹⁴ Regarding wage growth, SVR recommends moderate growth of labour wages: the growth rate of wages should lie below the general growth of productivity (plus inflation).¹⁵ Other recommended long term policy measures focus on governmental spending and the state sector. The SVR asks for austerity measures in fiscal policy including a vigorous cutback of subsidies, the reduction of the public

¹⁰ SVR, 1992, p. 182.

¹¹ SVR, 1993, pp. 224.

¹² SVR, 1993, p. 226, p. 229.

¹³ SVR 1992, p. 185, 1993, p. 195.

¹⁴ SVR, 1992, p. 182, pp. 185.

¹⁵ SVR, 1992, p. 23, p. 182, p. 227, p. 231, 1993, pp. 236.

sector, and the privatization of state-owned companies.¹⁶ Altogether, short term policy recommendations cover only a very sparse space in the reports of the SVR, while long term policy recommendations prevail and consist basically of the supply-side approach.

The 'Gemeinschaftsdiagnose' (GD) favours a slightly more active approach in the short run. It suggests an active monetary policy to counteract the economic crisis and criticizes the German central bank for its hesitations in cutting the interest rates. The Bundesbank should decrease interest rates without compromising the price stability.¹⁷ In contrast to its active approach in monetary policy, the GD argues against any type of active fiscal reaction to the crisis: only the automatic stabilisers should take effect, while an active increase of governmental spending is refused.¹⁸ Instead, the German government should implement a credible strategy for budget consolidation.¹⁹

Concerning long run policy, GD also advocates a supply side approach and favours similar measures to those of the SVR.²⁰ Economic policy should create an attractive framework for investments:

In the current, unstable economic situation the economic policy has to be conducted in a way which increases lastingly (permanently) the willingness to invest. (GD, 1992,p. 23)²¹

Only if the economic policy of the German government improves profit outlooks for private businesses, will it succeed in attracting more investments. The key for improving profit outlooks and attracting investments is modest growth rates of labour wages.²² Besides wage policy, fiscal policy is regarded as a central instrument for increasing the appeal of Germany's economy.

¹⁶ SVR, 1992, p. 20, pp. 183, 1993, pp. 199, p. 208, p. 212.

¹⁷ GD, 1992b, p. 31, p. 33.

¹⁸ GD, 1993a, p. 23.

¹⁹ GD, 1992a, p. 26, 1992b, p. 26.

²⁰ GD, 1992a, pp. 23.

²¹ The quote was translated from the German original: 'In der gegenwärtig labilen gesamtwirtschaftlichen Lage müssen die wirtschaftspolitischen Akzente so gesetzt werden, daß die Investitionsbereitschaft nachhaltig gestärkt wird.' (GD 1992a: 23)

²² GD 1992a, p. 24, 1992b, p. 27, 1993b, p. 10, p.22, p. 24.

Therefore, GD requests austerity measures and cutbacks in state expenditure.²³ Despite strongly supporting the supply side approach, supply side recommendations are still less prevalent than in SVR reports during this slump.

Notwithstanding some minor differences between the policy recommendations of the two reports, both reports hold similar policy approaches: active monetary policy in the short run, and supply side orientated policy in the long run.

The long stagnation after the ‘New-Economy-Boom’ (2001-2005)

At the end of 2001 begins a long stagnation phase for the German economy which persists until 2005.²⁴ The stagnation, which is characterized by very low output growth rates and high unemployment, is described by the two reports as a product of structural problems in Germany’s economy.²⁵

The policy recommendations of both reports – SVR and GD – highly resemble each other during this slump. Regarding short term policy both reports support – besides the employment of automatic stabilizers – an active monetary policy by the ECB.^{26,27} The task of short run stabilization is basically assigned to monetary policy, while countercyclical fiscal policy is rejected as a short run policy option.²⁸ Yet, stabilizing the price-level should remain the principle objective of the ECB.²⁹

²³ GD 1992b, pp. 25, 1993b, pp. 23.

²⁴ Since the Germany economy still exhibited a negative output gap in 2005, the duration of the slump was defined as lasting until 2005.

²⁵ GD, 2001a, p. 43, 2003a, p. 32, 2005a, p. 28, p. 70, p. 73; SVR, 2001, p. 2, 2004, p. 2.

²⁶ Concerning monetary policy we have to take into account that the responsibility for monetary policy changed from the German Bundesbank to the European Central Bank (ECB) in 1999. While German Bundesbank’s policy could address the specific situation of the German economy, ECB’s monetary policy responds to the economic situation of the Euro-zone and addresses all participating states.

²⁷ In 2001 the SVR is still reluctant with regard to a countercyclical approach in monetary policy (SVR, 2001, p. 10). In the following reports the SVR changes this position and appears to apply a New Consensus approach by referring to the Taylor-Rule. See SVR, 2002, pp. 310, 2003, p. 6, pp. 405, 2004, p. 68, p. 77, pp. 90. SVR and GD exhibit conformance with the policy of the ECB which is described as expansive. See SVR, 2002, p. 7, p. 311; 2003, pp. 25, 2005, p. 12; GD 2001b, p. 72, 2002a, p. 29, 2002b, p. 35, p.77’, 2003a, p. 73, 2003b, p. 64, p. 66, 2004a, p. 74, p. 86, 2004b, p. 71.

²⁸ SVR, 2001, p. 2, p. 11, 2003, pp. 13; GD, 2001a, p. 75, 2001b, p. 67., 2004b, p. 69.

²⁹ SVR, 2001, p. 7, 2002, p. 7, p. 19, p. 311, 2003, p. 25, 2005, p. 411; GD, 2002a, p. 61.

In the long run, both reports favour supply side oriented policies. They recommend labour market reforms which increase flexibility and reduce job protection.³⁰ Moreover, they strongly request moderate wage growth rates in order to improve the competitiveness of the German economy. The rate of wage growth should stay permanently below the growth rate of labour productivity.³¹ With regard to fiscal policy, the reports demand budget consolidation and the reduction of the public spending ratio by reducing subsidies and tax cuts. The government spending ratio should diminish.³²

Additionally, the reports promote long term state investments in infrastructure and the education system. This type of long term investments is believed to increase the capital stock of the German economy and to facilitate lasting economic growth.³³

Comparing the policy recommendations of both reports, they exhibit only minor differences. The most obvious of these differences is perhaps the emphasis which they place on long and short term policy: the SVR reports are more supply side oriented and stress less the area of short term policy. The GD reports, instead, support the idea of a short run expansion of monetary policy more openly and address the long run supply side measures less emphatically than the SVR.

The global financial and economic crisis (2008/2009)

In the second half of 2008 the global financial crisis strikes the German economy and produces a harsh recession in 2009. The reports perceive the crisis as simultaneously a product of structural problems in the German economy as well as a result of the global financial crisis which affects

³⁰ SVR, 2001, p. 13, 2002, p. 12, pp. 216, 2003, pp. 24, 2004, pp. 506, 2005, p. 23, pp. 204, pp. 193; GD, 2002b, pp. 91, 2002b, p. 79, 2004b, p. 81, pp. 88; 2005a, p. 96.

³¹ SVR, 2001, p. 7, 2002, p. 7, p.11, 2003, pp. 24, 2004, pp. 28, pp. 501, 2005, pp. 193.; GD, 2001a, p. 74, pp. 87, 2002a, p. 30, p. 64, 2002b, p. 79, pp. 91, 2003a, pp. 70, p. 78, 2003b, p. 70, 2004b, pp. 87, 2005a, p. 70, p. 96.

³² SVR, 2002, pp. 16, 2003, pp. 18, 2004, pp. 26, 2005, p. 6, p. 37, pp. 324; GD, 2001a, pp. 75, 2002a, pp. 61, p. 71, 2002b, p. 75, 2003a, pp. 71, p. 82, 2003b, pp. 71, 2004a, p. 74, p. 91, 2004b, pp. 90, 2005a, p. 87.

³³ SVR, 2002, pp. 226; GD, 2001a, p. 80; 2002a, pp. 71, 2003a, p. 72, pp. 80, 2003b, pp. 71, 2004a, p. 74, 2004b, p. 91, 2005a, pp. 83.

Germany particularly through a downturn in exports and a destabilization of its finance sector.³⁴ Both reports describe the crisis as exceptional, and agree that such an exceptional crisis requires exceptional policy reactions. Therefore, both reports recommend countercyclical monetary and fiscal policy measures and support the unconventional short term policy measures undertaken by the ECB and the German government.³⁵ Whereas during former slumps both reports stipulated only countercyclical monetary policy and advised against any type of active fiscal response, the task of stabilization is now extended to fiscal policy.³⁶

Yet, the implementation of active fiscal policy measures is regarded as an extraordinary measure which should only be applied in exceptional situations. Thus, the SVR states that its recommendations should not be qualified as a general plea for an active stabilization policy. Instead, the SVR argues against a general application of fiscal expansions during slumps:

Discretionary fiscal policy is not justified in the case of a “normal” business cycle and smaller shocks. Besides the employment of convenient monetary policy measures it is sufficient to let the automatic stabilizers take effect in these situations. But the severe economic crisis of 2009 had nothing “normal”. Therefore, it would have been wrong to abstain from a discretionary fiscal policy. (SVR, 2009, p. 166)³⁷

³⁴ GD, 2009, p. 37, p. 42, p. 44; SVR, 2008, p- 7, p. 249, 2009, p. 22, p. 257, p. 272, p. 280-281.

³⁵ Both reports still appear to hesitate in 2008 with regard to the fiscal expansion. See for instance SVR, 2008, pp. 247, 260, 2008b, pp. 79. But after the decision of the German government to implement the rescue packages, both reports express their support in 2009. See for countercyclical monetary policy SVR, 2008, p. 9, 24, 195; GD 2008b, pp. 80; 2009a, p. 77, pp. 88, 2009b, p. 66.

³⁶ SVR, 2008, pp. 243, 2009, pp. 166, p. 174; GD, 2009a, p. 89, 2009b, p. 61, p. 67.

³⁷ The quote was translated from the German original: ‘(...) dass bei „normalen“ Konjunkturverlauf und „kleineren“ Schocks eine diskretionäre Finanzpolitik nicht begründet werden kann. In solchen Situationen reicht es neben geeigneten geldpolitischen Maßnahmen aus, die automatischen Stabilisatoren wirken zu lassen. An der schweren Wirtschaftskrise 2009 war aber nichts „normal“. Deshalb wäre es falsch gewesen, wenn auf eine diskretionäre Finanzpolitik verzichtet worden wäre.’ (SVR, 2009, p. 166)

For the case of ‘normal’ economic downturns, an active countercyclical fiscal policy is not considered to be an appropriate policy option. The GD arguments in a similar way: the severity of the crisis is described as the reason for an active short run approach in fiscal policy.

Due to the severity of the disruptions on the financial markets and the depth of the recession there was no alternative to the described strategy in fiscal policy. (GD, 2009b, p. 67)³⁸

Both reports justify their policy approach by the exceptionality and severity of the economic situation. Their argumentation underlines that active fiscal responses are an exceptional policy measures which should be limited to exceptional economic crises. Hence, stabilization policy remains a monetary policy task while fiscal policy is not considered to be a convenient method for stabilization policy in the case of ‘normal’ business cycles.

Due to the strength of the economic downturn, short term policy receives higher attention than in former reports. Nevertheless, policy recommendations for the long run are not absent. The reports recommend combining short and long run measures: the short run fiscal stimulation packages should include mainly long term investments to increase the capital stock of the German economy. Such long term investments are particularly investments in the educational system and the public infrastructure.³⁹

Since active fiscal policy would increase the budget deficit, the two reports argue that the fiscal expansion should also involve a credible strategy for budget consolidation and its rigid implementation after the crisis.⁴⁰ Other recommendations concerning the long term policy are supply side orientated claims to increase the labour market flexibility and to moderate wage growth.

³⁸ The quote was translated from the German original ‘Aufgrund der Schwere der Verwerfungen an den Finanzmärkten und der Tiefe der Rezession gab es zur beschriebenen Grundausrichtung der Finanzpolitik keine Alternative.’ (GD, 2009b, p. 67)

³⁹ SVR, 2008, p. 10, pp. 249, 2009, pp. 1, p. 16, p. 257, pp. 282; GD, 2008b, pp. 79.

⁴⁰ SVR, 2008, p. 10, pp. 254, 2009, pp. 9, p. 174, p. 179; GD, 2009a, p. 91, 2009b, p. 62.

These measures would improve the appeal for investments of the Germany economy. Moreover, with regard to the general tendency of a decreasing unemployment rate, the previously recommended measures concerning labour market flexibility –partly legislated by the German government – are evaluated positively. Despite this success, however, further steps to increase labour market flexibility are portrayed as necessary.⁴¹

Again, the supply side approach shapes the long run recommendations of both reports. Supply side recommendations are, however, more pronounced in the SVR reports, whereas they are less present in GD reports. The GD reports, instead, focus more on short term policy.

Besides the typical supply-side recommendations, the SVR reports address the financial crisis and discuss potential measures to stabilize the financial sector in the long run. The SVR recommends improving regulation of the finance sector by strengthening national and European control mechanisms, and establishing a European financial stability fund to which European finance institutions should contribute in order to privatize – at least partly – the risks of future financial failure.⁴² At the same time, however, the SVR warns against the danger of overregulation and putting the existing system into question.⁴³ Another point which illustrates the reluctance of the reports to question the existing economic framework concerns Germany's focus on exports. Although the crisis strongly affects the German economy by a severe downturn of exports, the problems and risks of Germany's export orientation are not tackled in the reports.

Has there been a significant change in the policy recommendations?

⁴¹ SVR, 2008, p. 13, p. 265, pp. 312, 2009, p. 22, p. 257, p. 272, pp. 280; GD, 2008b, pp. 78.

⁴² SVR, 2008, pp. 164-185, 2009, pp. 12-16, pp. 146-162.

⁴³ SVR, 2008, p. 4. Interestingly, this type of recommendations is absent in the GD reports. Topics such as the regulation of the finance sector remain untouched

Having analyzed the policy recommendations of the SVR and GD reports during the three economic slumps, we can now determine if their policy approaches underwent a significant change. We can make three observations: there is a) a high similarity of the policy recommendations of the SVR and GD, b) a high stability of the policy recommendations over time, and c) a slight variation in the interpretation of the crises.

- a) The analysis of the SVR and GD reports during the three crises shows that their policy recommendations differ only slightly from each other. Both reports share the same short and long run policy approaches. The main difference is perhaps that the GD tends to support more openly short run economic measures. Another difference is that the SVR exhibits a high emphasis on long run policy, while in GD reports the proportion of text dedicated to short and long run policy reports is more balanced. Despite these differences, there appears to be a general consensus about the appropriate economic policy during each slump.
- b) The policy recommendations of both reports exhibit a high stability over time. Only in the short run policy there has perhaps occurred a small shift which led to a more active approach in monetary policy. Monetary policy becomes the instrument assigned with the responsibility of stabilizing the economy in the case of shocks – and, of course, to stabilize monetary value. While we can observe a small shift in the short run approach, recommendations concerning long run policy remain stable during the three economic slumps. Both reports, during each of the studied time periods, call for supply side policy measures which are presumed to improve the competitiveness of the German economy and its appeal for investments. Typical supply side recommendations are the cutting of public spending, the reduction of the public debt as well as the claims for more labour market flexibility and moderate wage growth.
- c) There exists a small degree of variation in the interpretation of the crises' origins. The first post-reunification slump and the long period of stagnation following the 'new economic

boom' are interpreted as the product of structural problems in the German economy. In the case of the financial crisis, the definition of the crisis is different: the crisis is treated as an exceptional economic event that originates not only from the typical structural problems but also from the global financial crises affecting Germany's banking sector and exports. The exceptionality of the crisis enables the reports to deviate slightly from their typical policy framework.

Was there a paradigm change in the policy approaches of SVR and GD? Considering the previous observations, we may answer this question negatively: the policy approaches of the two reports have not experienced a significant change since their main policy recommendations remained stable during the studied period of time. Yet, we have to take into account that the global financial crisis has stimulated at least a short term deviation from the 'normal' policy approach of the two reports. In the context of the crisis the economic reports recommend measures which constitute a partial deviation from the policy recommendations during the previous slumps and are described as exceptional. The crisis is treated by the reports as an exception which calls for exceptional responses. This assessment allows the reports to recommend policy measures extraneous to their general approach without being obligated to abandon their general conceptual framework. The exceptional character of the global financial crisis renders a revision of the prevailing views about economic policy unnecessary. Thus, the general concepts are maintained without further questioning. Regarding this approach to the crisis, we can hardly speak of a "paradigm change" in the policy approaches of the reports.

New-Keynesian economics as the implicit policy paradigm of the expert discourse

Despite the severity of the global financial crisis and the general claim that crises facilitate a change of ideas, there has been no mayor change in the policy concepts of the two most important economic reports in Germany. Their approaches have not experienced a significant change: on the contrary, there is a high uniformity and stability in the policy recommendations of both reports. There appears to be a standardized, implicit approach behind the recommendations which seems to easily resist the uncertainty produced by the global financial crisis.⁴⁴ The dominant policy approach in both reports involves long-term supply-side policy and short-term active monetary policy. These recommendations correspond to New-Keynesian economics.⁴⁵ Although there is no full consensus among New-Keynesians regarding macroeconomic policy, prevalent policy recommendations can be identified. New-Keynesian economics asserts the possibility of difficulties arising in the self-stabilizing capacities of the economy over the short term which can lead to increased economic fluctuations.⁴⁶ Therefore, short term policy measures appear as a useful instrument to facilitate the re-adjustment of the economy in the case of a fluctuation. The two instruments of short term stabilization policy are monetary and fiscal policy. Most approaches in the New-Keynesian school favour monetary policy over active short run, fiscal policy.⁴⁷

⁴⁴ In analogy to Boyton and Deissenberg's (1987) study about the implicit economic model in the media, the reports follow an implicit model of the economy. However, in contrast to this study, this paper does not seek to reproduce the implicit model by identifying its elements and relating these elements to each other into a comprehensive model. Instead the paper identifies the implicit model by comparing the recommendations of the reports with policy approaches in current macroeconomic models. This comparison suggests that the reports follow a New-Keynesian approach.

⁴⁵ Although the policy recommendations during the first post-reunification crisis appear to correspond to a New-Keynesian approach, New-Keynesian economics is still developing during the time of this crisis. The emergence of New-Keynesian economics is frequently dated back to the early 1980s (Galí and Gertler, 2007, p. 26, Gordon, 1997, p. 478, Snowdon and Vane, 1997b, p. 454). A milestone in its development is marked by the 1991 publication of "New Keynesian Economics" edited by Mankiw and Romer (1991).

⁴⁶ These difficulties in the self-adaptation arise, for instance, from wage rigidities and/or sticky prices. See Blanchard and Galí 2008, 2010, Espinosa-Vega and Russel, 1997, Galí and Gertler, 2007, Gordon 1997, Mankiw, 1990, 2008.

⁴⁷ Galí and Gertler, 2007, Mankiw, 1997, p. 448, Snowdon and Vane, 1997a, p. 469. One eminent example is the Newconsensus theory which is currently one of the most popular approaches among New-Keynesians. Newconsensus focuses solely on monetary policy and disregards the possibility of short run fiscal policy to stabilize the economic system. Monetary policy should stabilize the economy around the middle run equilibrium and the price level around a target inflation rate. Therefore, Newconsensus provides a monetary rule. The monetary rule determines an interest rate which will push the economy to the target inflation rate and the equilibrium output. According to NewConsensus approaches, monetary policy should be conducted through the alteration of interest rates (Arestis, 2003, 2007, Clarida, Galí, and Gertler., 1999; Woodford, 2003, 2010). Although current New-Keynesian approaches tend rather to promote countercyclical monetary than fiscal policy, New-Keynesians do not exclude fiscal policy from the range of potential

For the long run, New-Keynesians favor a neoclassical supply side policy.⁴⁸ Supply side policy seeks to increase the economy's appeal for investors. Policy options to improve investment conditions are labor market reforms and a moderate income policy. Supply side policy supports a relaxation of legal regulations on labor markets, a lessening of labor protection and the restraining of income growth rates.⁴⁹ Additionally, the consolidation of the state budget ('austerity measures') is regarded as crucial since the public debt is believed to diminish the capital stock of economy.

In short, New-Keynesians advocate an active short-term stabilization policy and support long-term neoclassical supply-side policies. This framework widely corresponds to the policy recommendations of the reports during each of the three crises. Even the global financial crisis has not led to major deviations from this framework.

Discussion

The objective of this article was to determine if there has occurred a significant change in the expert discourse on economic policy in Germany. This question was studied by taking the example of the two most important economic reports in Germany: the SVR and GD report. The policy recommendations of the two economic reports were compared during the last three economic slumps in order to identify a potential change in their policy approaches.

Comparing the policy recommendations during the three slumps, it turns out that no significant change in the policy approaches of these two reports has taken place. The global financial crisis has so far stimulated only a slight and temporary deviation from the existing

policy instruments. Nevertheless, the views about fiscal policy differ. For instance, during the financial crisis differences between optimistic (Romer and Bernstein, 2009) and rather critical (Cogan et al., 2009, Mankiw, 2008) views on fiscal stabilization policy become evident.

⁴⁸ Carlin and Soskice, 2006, pp. 108, p. 125, p. 387; Snowdon, Vane, and Wynarczyk, 1994, p. 327; Truger, 2005, pp. 255-61.

⁴⁹ Moreover, the public sector is conceived of as wasting economic capacity which can be deployed more efficiently in the private sector. Therefore, the public sector and its expenditure should be reduced. Mussel and Pätzold, 2008, pp. 11; Peters, 1995, pp. 245.

approaches but not a substantial change. Instead, the policy recommendations of the two reports show a high stability over time. Long run policy recommendations remain within the neoclassic supply side concept, favouring low wage growth, labour market flexibility and an austerity regime. A slight shift has occurred in the short run policy recommendations in which policy experts tend toward a more active, New-Keynesian approach.

Despite the severity of the global financial crisis which nurtured the conviction of many commentators that economic discourses would change, there was no modification in the policy approach of the SVR and GD reports. This conclusion, however, does not preclude the possibility of a future change which could be facilitated by other unprecedented economic events. Yet, change is not the only possibility in the case of crisis. Instead, crises can also lead to a reinforcement of the existing policy concepts. This may be the case for the 2008/2009 global economic crisis.

The absence of a significant change in economic policy concepts raises the question of why there is such consensus and perseverance in the policy recommendations of the two reports. Peter A. Hall's (1993) approach to paradigm change in governmental economic policy may help to explain the stability of Germany's expert discourse on economic policy. Hall distinguishes between first- and second-order changes as opposed to third-order changes. While first- and second-order changes are adaptations which take place within the framework of an existing paradigm, a third-order change refers to a radical change – a paradigm change – in thinking. Crises and anomalies can be the starting point for such a third-order change, since they may undermine the credibility of the prevailing paradigm. Nevertheless, according to Hall's analysis, a crisis is not the only condition for a paradigm change in policy discourse. Another crucial factor is the institutional context in which the policy discourse is embedded. This institutional context is marked – among other factors – by the power constellations and discourses in social spheres (e.g. the media, voters, political parties) which are related to the policy discourse. A paradigm change can occur when powerful actors in these social spheres strive for a change in the prevailing policy concepts and promote a new

paradigm for policy discourse.⁵⁰ As a consequence, whether a crisis leads to a paradigm change depends not only on the crisis itself but also on the institutional setting in which the policy discourse is embedded. In the case of Germany's expert debate on economic policy, the institutional context appears to favor stability over substantial transformation of the policy discourse. Various elements in this context contribute to this stability.

First of all, we can consider the impact of social spheres that are closely related to the expert discourse on economic policy. In times of crisis in which uncertainty prevails, the influence of these spheres on the expert discourse will increase and thus may potentially contribute to a paradigm change.

It can be assumed that the most important social sphere shaping the expert discourse on economic policy is the academic sphere of macroeconomics.⁵¹ However, this sphere seems to have a rather stabilizing impact on the expert discourse. As argued above, there is a standardized policy approach in the reports that is applied during each of the slumps. This standardized approach corresponds to New-Keynesian economics which constitutes the most popular approach in the academic discipline of macroeconomics.⁵² Both reports appear to selectively follow this mainstream paradigm. That said, the academic mainstream in macroeconomics seems to be an important factor for shaping the policy approaches of the two reports and may – at least partly explain – the stability of the policy concepts in both reports.⁵³ If this is correct, than a change in the policy discourses can

⁵⁰ Hall, 1993; see also Jessop, 2009, p. 347.

⁵¹ Within the academic sphere of macroeconomics, policy experts will focus particularly on comprehensive frameworks with policy implications, because only these frameworks are relevant for policy discourse. For this reason, many of the recent developments in macroeconomics will not have an impact on the expert discourse on economic policy, since they do not imply comprehensive policy approaches.

⁵² The dominant position of New-Keynesianism is, for instance, illustrated by its prevalence in bestselling textbooks on macroeconomics.

⁵³ The opinions of SVR and GD on economic policy seem to be largely guided by the mainstream economic thinking of the academic field. The function of expert debates on economic policy as a translator of academic expert-knowledge into political debates contributes to this dependency. Economic experts with their economic reports are in a position (function) to translate the knowledge from the academic field through the channel of economic debates into politics (Frey and Kirchgässner, 2002, p. 467; Weingart, 2008, pp. 12). This strong dependency of experts' policy debates is also guaranteed through the convergence of social actors in both spheres: experts who get assigned for reports like SVR and GD have to exhibit a strong academic background. Those who adhere to mainstream economics are more likely to

only be introduced by a prior change in the academic field of macroeconomics.⁵⁴ In the aftermath of the financial crisis, calls for a change have been raised within macroeconomics. Cabellero (2010), for instance, calls to turn from the complex and precise but rather irrelevant macroeconomic modelling towards creating more realistic and useful approaches. Yet, it is unclear if these pleas will lead to substantial changes within macroeconomics.

Besides the academic field of macroeconomics, other social spheres may have an impact on the reports. One sphere that has a direct impact on the reports is national politics. The assignment procedure for the SVR and GD provides an example of this impact: the participating institutes and experts of both reports are assigned by national politicians. These politicians may have an interest in the experts' policy concepts coinciding with their own political agenda. Therefore, their selection may be biased out of political interest.⁵⁵ Also in this case, there prevails a stabilizing effect on the expert discourse.

Another important factor for explaining the stability of the expert discourse is the absence of an alternative paradigm in the position to challenge the prevailing paradigm. One example of an alternative policy paradigm could be, for instance, postkeynesianism.⁵⁶ However, postkeynesianism

be successful in the academic field.

⁵⁴ Even a paradigm change in mainstream macroeconomics would not necessarily imply an immediate change in the expert discourse since the expert discourse may still adapt its thinking very reluctantly and selectively to the new developments. Nevertheless, changes in the mainstream politically relevant macroeconomic discourse remain the most probable source of radical innovations in the expert discourse on economic policy.

⁵⁵ At the same time the analysis of economic experts may also be biased by their political preferences as Saint-Paul (2011, 2012) shows.

⁵⁶ Postkeynesians emphasize the imperfections and flaws of the economy. From its imperfections and instability arises the general necessity of interventions into the economic system. Thus, Postkeynesians are strong supporters of interventions and control mechanisms (Arestis, 1996, p. 128; Pätzold and Baade, 2008, p. 39). They do not necessarily share the distinction between the short and long term with mainstream macroeconomics, and they promote a short to long term demand management. Above all, fiscal policy is in charge of this demand management. Fiscal policy should stimulate the demand side through public expenditure. The objective of this demand policy should be to achieve full employment (Hein and Stockhammer, 2007, p. 3; Arestis, 1996, p. 118; Arestis and Sawyer, 1998, p. 187). Some postkeynesian approaches suggest that monetary policy should maintain interest rates low to stimulate investment and preserve the distribution of income (Hein and Stockhammer, 2007, p. 24). With regard to the labour market, postkeynesian approaches usually argue against supply side reforms which aim for flexibility. Instead, they tend rather to advocate inflexibilities in the labour market – regulations and labour protection. Labour income is seen as a demand factor. Therefore it should grow in correspondence to the productivity of the economy. Low labour income growth may weaken the demand and cause low output growth rates (Snowdon, Vane, and Wynarczyk, 1994, pp. 372; Hein and Stockhammer, 2007, pp. 25; Arestis and Swayer, 1998, p. 190; Heise, 2009, pp. 392).

clearly lacks the powerful support necessary to constitute a serious alternative. The postkeynesian approach occupies a rather marginalized status in the academic and political debates.⁵⁷ To become a serious policy alternative, powerful actors from influential spheres must support the new paradigm and successfully promote it towards the expert discourse on economic policy. However, powerful alternatives which would pose a serious threat to the prevailing policy paradigm are not yet in sight.⁵⁸

Finally, there exists a high degree of stability within the SVR and GD report arrangements. There is little change in the staffing of the two reports: most experts in the SVR and institutes in the GD get reassigned during the studied time span. In the case of the GD, the majority of economic research institutes involved in writing the reports remained the same during the time span of our study. Also in the case of the SVR there is high stability: most of the experts get reassigned and participate during two periods – ten years – in the SVR reports. Thus, the absence of change in the composition of SVR and GD may have a stabilizing effect on the concepts supported by these reports. Moreover, the reports show tendencies to validate their approaches by evaluating previous recommendations in light of current developments as positive.⁵⁹ This type of auto-validation will increase attachment to the underlying paradigm.

Due to this strong attachment to the dominant policy model, alternative concepts appear to be outside the scope of the reports. Instead, the reports adhere to the existing model as practically taken for granted. Nevertheless, holding to the paradigm does not exclude small-scale adjustments. In order to deal with the anomalies of the global financial crisis, they undertake small-scale

⁵⁷ Apart from some labor union representatives and macroeconomists who sympathize with this paradigm, there barely exists a lobby for this approach.

⁵⁸ Moreover, the economic development after each of the crisis supports the dominant policy approach. The positive development of Germany's economy is attributed to the government's policy which usually matches many of the recommendations from the expert reports. From this perspective, an alternative policy approach appears as needless due to the perceived effectiveness of the prevalent approach. The positive development of Germany's economy after the financial crisis is, for instance, often attributed to the active policy approach of the Merkel government as well as to the neo-liberal reforms of the "Agenda 2010" conducted by the Schröder government from 2003 until 2005. Many of the reforms in the context of the "Agenda 2010" coincide with the policy recommendations of the economic reports.

⁵⁹ One example are the recommendations concerning labour market flexibility which have partly been legislated by the German government. The decreasing unemployment rate is perceived as the outcome of their implementation.

adjustments. First- and second-order changes are carried out: the SVR recommends an improvement of bank regulation, and both reports support the rescue packages of the German government by emphasizing the peculiar nature of the crisis. These adjustments do not imply an abandonment of the underlying (New-Keynesian) policy paradigm. In contrast, the adjustments enable the reports to maintain their attachment to the prevailing policy paradigm. To what degree these (first- and second-order) changes can be extended without threatening the pillars of the existing paradigm and approaching a third-order change is at this point still an open question.

In sum, Germany's expert discourse on economic policy seems to be embedded in a context marked by the stabilizing influence of the academic discourse and politics, the absence of a powerful alternative, and a high stability in the arrangements of the reports. This context contributes more to the entrenchment of the prevailing policy model than to its renunciation and tends to protect the model against the unsettling impact of unprecedented crises. From this viewpoint, a paradigm change appears unlikely. Particularly the absence of an alternative paradigm which is promoted by powerful actors – as an important precondition for a paradigm change – renders a significant change in the policy discourse unlikely. One lesson that we may draw from this is that unprecedented and puzzling crises are by far no guaranty for substantial changes in policy discourse. Material and/or ideological crises do not directly translate into a paradigm change. Irrespective of the policy failures of the paradigm, it may survive due to an institutional setting which contributes to its preservation. Not crises or policy failure but the institutional setting may be the central variable for significant changes in policy discourse. Yet, in order to understand the role of the institutional setting which frames the dynamics of these discourses, further research into the internal and external factors shaping economic policy discourses will be needed.

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