

hand, Friedman argues that politics often interferes with the implementation of appropriate monetary policy. He also contends that time lags make it difficult to carry out monetary policy in a timely manner. The result is monetary policy that increases business cycle fluctuations rather than moderating the cycle.

A favorite aspect of the book is that the author provides throughout the book sketches of the economic thought of famous economists. Although some of these ideas have been examined earlier in this review, here is one last retrospective. We look back on the price-specie flow mechanism of David Hume. We see the Fisher Equation, where Irving Fisher ties together the nominal interest rate, the real interest rate, and the expected rate of inflation. Fisher also provided us with an early version of the equation of exchange. As a result of the Keynesian revolution, economists developed the Keynesian monetary transmission mechanism. The monetarists contributed the classical (monetarist) monetary transmission mechanism. A noted monetarist, Milton Friedman, presented a monetary theory of the business cycle, a critique of Keynesian monetary policy, and the monetary rule. Economists of the Austrian school argued that the value of money should be determined in the market place like any other commodity, and they favored a return to the gold standard. These contributions give us a broad view of the diverse nature of monetary economics.

William Gerdes has written an interesting book on the economics of money. His treatment of the subject is thorough and comprehensive. The book provides an enjoyable and educational reading experience. It would be suitable as a text in Money and Banking or Monetary Theory. It would also serve as valuable reference for those who teach monetary economics.

FREDERICK M. JUNGMAN

*Northwestern Oklahoma State University*

***The German Economy: Beyond the Social Market.*** By HORST SIEBERT.  
Princeton, NJ: Princeton University Press, 2005. Page ix, 403.  
\$60.00.

Horst Siebert's book is an informative, if somewhat pessimistic analysis of the German economy. Much of the book's focus is on the post-1990 reunified nation, but stops before the recent implementation of the "Hartz

IV” labor market reforms. Beyond this, the book gives insight into the working of the European Union (EU). Siebert is a professor at Johns Hopkins’ Bologna campus, and was formerly president of the Kiel Institute for World Economics.

The central theme of Siebert’s tome is that institutional arrangements in Germany make it difficult for market forces to correct that country’s economic problems. The institutional arrangements are part of Germany’s “social market economy” that attempts to balance equity and economic growth, on the one hand, with efficiency on the other (discussed in Chapter 2). In particular, Siebert argues in Chapter 4 that labor market “malfunctioning” is “at the heart of Germany’s economic woes” (p. 69), and one of its two major structural problems. He notes that wages are not set by the market, but by sector and regional negotiations between unions and employer associations. Codetermination (discussed extensively in Chapter 14) gives unions legally a significant presence on firms’ boards of directors. Although only twenty percent of the workforce belongs to a union, almost seventy percent are covered by collective bargaining, creating a “wage cartel” (p. 91). Because it is expensive in Germany to lay off workers, firms are reluctant to hire workers during economic expansions. Furthermore, there is not much wage differentiation, which has led to unskilled workers increasingly being priced out of employment. However, generous unemployment benefits create a high reservation wage among job seekers.

Chapter 5 examines Germany’s social security system, encompassing pensions, unemployment compensation, and health care; Chapter 6 looks at its aging population. Siebert believes the country’s pension system is the other major structural problem facing Germany. Germany’s pension system is a “pay as you go system,” but has (as of 2004) very little in reserves. Under the current system, a worker can retire as early as age 58. The author writes that “... the pension system has been used to reduce the labor supply and, thereby, supposedly, solve the unemployment problem” (p. 120). However, almost half of the gross wage income goes to the income tax and social security contributions (p. 132). Maybe more so than in the United States, there is a growing concern over financing pensions with an increasingly elderly population. Siebert notes that private pension options have recently been introduced in Germany.

Siebert discusses immigration in Chapter 7. He reports that ten percent of Germany’s population is foreign. Most are concentrated in larger cities and are not well integrated into the German labor force.

They experience above average unemployment rates, which Siebert attributes to falling demand for unskilled workers. The “free movement” of European Union citizens, allowing them to work anywhere in the EU, may complicate this.

Siebert discusses product market regulation in Chapter 8 where he notes that regulation (along with immigration) is increasingly being influenced by EU standards, not just German ones. However, the author contends that regulation in Germany has led to a “less innovative environment” (p. 184). Rental housing is rent controlled, reducing its attractiveness to investors. Siebert cites one estimate that around fifty percent of the Germany economy is “heavily regulated” (p. 186). He notes that some attempts have been made at privatization and deregulation in certain markets. He covers Germany’s environmental policies in Chapter 9. Subsidies have been introduced to promote “alternative energy,” and an “eco-tax” was imposed starting in 1999 on petroleum-based fuels and natural gas. However, Siebert notes that the German coal industry is still heavily subsidized.

Capital markets and “bank based” corporate management are the focus of Chapter 10. Siebert concludes that firm financing in Germany relies much more heavily on bank financing rather than equity and bond financing that is more common in the United States. Lending banks (“house banks”) in turn have seats on their borrowers’ boards of directors. No distinction is made between commercial and investment banks. At the same time, publicly owned and controlled “savings banks” control over a third of the banking system. Siebert reports that German bankers are facing increasing competition from nonbank providers.

Siebert discusses Germany’s educational system in Chapter 11. He is very critical of the country’s university system, which enrolls few students from lower income households. Until recently, the German government aimed at achieving a “uniformity of quality” across higher education institutions, rather than fostering competition and specialization. Most university students graduate between the ages of 25 and 27. Siebert argues that Germany’s “compressed structure of wages” discourages individuals from seeking to add to their human capital. Siebert is more supportive of Germany’s apprenticeship program of vocational training, noting that it has provided a source of entrepreneurs. However, the apprenticeship system has been slow to accommodate to occupational changes, such as the rise of the information technology sector.

Siebert covers fiscal policy in Chapter 12. The country's public sector "absorbs half of GDP" (p. 261), including Federal, state and local government spending. The two major tax sources are the income and value-added taxes; however, tax revenues since 2001 have been below forecasts. Personal and corporate income tax rates were lowered in 1998; however, by international comparisons, German firms still face high taxation. There are no taxes on long term capital gains, however. Since 1991, the government debt-to-GDP ratio has doubled, to 64 percent. In several recent years Germany has violated the euro-zone constraint that budget deficits cannot exceed three percent of GDP. Chapter 13 focuses on monetary policy, especially issues arising from the common currency. It is expected that the euro will enhance price and cost competition in the EU. Coupled with the international mobility of capital, and thus German employers moving plants to other EU countries, German labor markets may have to become more market-responsive.

Chapter 15 outlines some of Siebert's suggestions to revitalize the German economy. He contends that there has been a consensus in Germany not to have protectionist barriers, and thus international competition, principally from other EU countries, may force reforms in Germany. In addition, Siebert argues that Germans need to redefine their definition of "equity," in particular, it should "not be defined just from the perspective of the incumbents" (p. 367), and should focus more on equality of opportunities rather than outcomes. He advocates increasing the retirement age to 67 and making reforms to the educational system.

Siebert's view of the German economy is rather pessimistic, although he feels that EU competition may result in that country's economic resurrection. The Hartz IV labor market reforms, which rolled into force in 2005, are intended to make the labor market more flexible, especially for hiring younger and unskilled job seekers. In early 2007, German economic performance was improving over earlier years.

Still, Siebert's book is a "good read" for economists and others interested in Germany and the European Union. He draws a number of comparisons between Germany and the United States, as well as other countries. Beyond that, the book will be informative to labor economists interested in examining the functioning of labor markets outside the United States, as well as other social scientists interested in comparative political economy.

MARK JELAVICH

*Northwest Missouri State University*