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Article

From Leftist to Liberal: Hans-Werner Sinn and German Economic Policy

CESifo Forum

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Wößmann, Ludger (2016) : From Leftist to Liberal: Hans-Werner Sinn and German Economic Policy, CESifo Forum, ISSN 2190-717X, ifo Institut - Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 17, Iss. Special Issue, pp. 3-4

This Version is available at:

<https://hdl.handle.net/10419/166674>

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RETIREMENT OF HANS-WERNER SINN

FROM LEFTIST TO LIBERAL: HANS-WERNER SINN AND GERMAN ECONOMIC POLICY

LUDGER WOESSMANN*

Hans-Werner Sinn (HWS) has always flirted with the fact that he is at heart a leftist. He was in a socialist youth group and, like his father, in the SPD. He grew out of this phase while studying amidst the 1968 generation. But the derogatory epithet of ‘Socialist of the Chair’ – as the economists were called that paved the way for the Bismarckian social reforms – he later gladly applied to himself. Without doubt he is a ‘missionary’ economist who wants to improve the living conditions for everyone. But in his academic grappling as to how to achieve this goal, he soon realised that the freedom of competitive markets is an indispensable means to this end. And so most everyone now perceives him as a liberal.

The book *Jumpstart* marked his public coming out in 1991 – the same year in which his Munich Center for Economic Studies was founded. He assumed the presidency of the ailing Ifo Institute in 1999. What followed was an opening for international exchanges at the highest academic level by means of CESifo, and Ifo’s clear focus on international scholarly standards, but also his involvement in any imaginably important economic debate. In 2003 in *Can Germany Be Saved?* HWS clearly realised that a book aimed at the general public was the way to propel arcane academic theory into the public debate, and which made him a household name. Since then he has written a whole series of bestsellers, more than any other economist.

By the time of the evaluation in 2005 at the latest, it was clear that his radical cure had effected a turnaround at Ifo. Both in terms of academic competition and in the economic policy debate, Ifo was ahead of

its rivals. And in the words of two former chairmen of the German Council of Economic Advisors, Wolfgang Wiegard and Wolfgang Franz, “HWS was and certainly is the most innovative and influential economist of the last two or three decades in Germany”.

But what was and is HWS’s position in the economic policy debate? Despite what many of his opponents may think, HWS is not a blind market-fanatic. Actually quite the opposite: he has always been focused on identifying where markets fail and then analysing how governments can intervene to improve the results. If anything HWS is also a state fanatic. In his heart of hearts, he has always remained the classical public-sector economist who analyses the role of the state in the economy. When his colleagues accused him of putting his faith in a benevolent state, he still did not change course precisely because both the state and the market can fail. He is convinced that it is the task of the economist to bring the voice of reason into the public debate – despite policy-makers’ immunity to good advice.

When from the mid-1990s he amicably debated with the President of the Kiel Institute for the World Economy, Horst Siebert (full disclosure: my doctoral supervisor) about the opportunities of globalisation, HWS stressed the dangers of systems competition: precisely because the state is there to intervene when markets fail, market failures can again creep in through the backdoor in systems competition among the states.

HWS’s economic-policy pragmatism is also reflected in his methodological pragmatism. In the controversy over methodology in the German economics profession in the late 2000s, he refused to take sides. He could not agree to a return to the separation of theory and policy: “policy without theory is just as useless as theory without policy implications”. But also a commingling of theory and econometric empiricism is not enough for him because modern economics all too often is lacking in institutional knowledge. For HWS, “economics is most responsible when there is an equilibrium of three elements – theory, institutions and

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econometrics – in order to be able to provide economic policy with sound recommendations”.

Those who know him realise that HWS is at his best when he encounters a headwind. He was initially decried for his remarks on the Target balances, but that only strengthened his resolve – and in the end, even the Bundesbank was willing to examine the problem. Once HWS has penetrated a subject and is sure of his position, nothing can make him change his course. He has been accused of stubbornness, of persevering with his own position despite better arguments. I do not think you can really level this charge against HWS, although we Westphalians are noted for our bullheadedness. But in order to prevail in the policy debate, you need to have stamina – and to be bull-headed.

Despite all stubbornness, HWS is a firm believer in academic freedom – and not only for himself. In my more than twelve years at the Ifo Institute, he never once told me what to do or not to do, what to say or not to say. As a true academic, he was never able to submit himself to a party line or ideology. For this reason he also cannot be pigeonholed in the simple one-dimensionality of the left and or the right. But when it comes to freedom or patronizing, there is no room for doubt: he is definitely a liberal.