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**Article**

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## HANS-WERNER SINN, CASSANDRA AND THE ARISTOTLE'S LESBIAN RULE

HAROLD JAMES\*

Hans-Werner Sinn has been by far the most influential German economist of the past twenty-five years, and it is a pleasure to pay tribute to his substantial positive effect on economic debates in Germany and on German politics. He has made a unique contribution in a number of areas – notably on the costs of German (re)unification in the 1990s, of the German economic and industrial structure, of the attempt to reduce carbon dioxide emissions, and most recently of the European monetary union. His approach is based on solid economic reasoning and consequently a rigorous application of logic. But often he appears as a highly coherent Cassandra, a prophet whose warnings are not taken seriously.

In part, this is because the Cassandra logic falls naturally to economists: their task consists in constructing a credible and simplified framework of analysis that allows an identification of a major problem. In Hans-Werner Sinn's case, that framework consists in a calculation of implicit liabilities, and often also in the analysis of the cumulative logic of transfers: a common outcome is thus an identification of a 'trap'. Germany was snared in a trap by the decisions that occurred, in particular in respect to wage determination, in the territories of the former GDR; or the announcement of CO<sub>2</sub> targets; or the payment settlement system TARGET2 within the Eurozone leads to a trap in which core countries are locked into continuous fiscal transfers if they do not want the value of their claims to be jeopardized.

Analysis of traps is inherently unpopular, politically and intellectually, because it seems to demand radical (and potentially costly) action to break the trap.

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Politicians like to muddle through, and they have a tendency to avoid tough decisions that will inevitably alienate some share of their electorate. In the academic sphere, political scientists tend to kick back against Cassandra presentations: if anything, they have a tendency to be Dr. Pangloss, and think that all is for the best in the best of all possible worlds, or to put in Hegelian terms, that the actual is real.

It is also the case that the historical track record of economists who have succeeded in persuading large numbers of their peers to sign large scale public declarations announcing the presumed lessons of their discipline have not had that much luck. Probably the most famous economists' declaration ever, the 1,028 US economists who had their opposition to the 1930 Smoot Hawley tariff entered into the congressional record, had no obvious policy impact. No serious economist would really deny the soundness of the general argument for freedom of trade. In retrospect, the consensus of economic historians is that the tariff should not be held responsible for the spread of the Great Depression. Other famous statements of collective economists' wisdom, like the 364 British economists who signed a letter to the London *Times* condemning Margaret Thatcher's deflation or austerity policy look much more questionable in hindsight, and indeed several of the signatories have admitted that a disinflationary regime shift was indeed what Britain then needed. The German appeals of 2012 of 160 and 172 economists against the European rescue measures may well appear similar – logically correctly presented, but irrelevant to the question of how in the threat of a financial collapse confidence could be returned to a situation that risked tipping into a disastrous equilibrium.

Fixing on a single large problem – that can be summed up in a big statement – is often a less powerful way of influencing political debate than debating and presenting wide ranges of options. Debate and discussion revolves around careful nuances between the multiplicity of approaches. Hans-Werner Sinn rightly thinks in terms of a secure framework of rules to contain moral hazard, and to enforce the principle of responsibility. In this regard, he takes up the core mes-

sage of the German Ordo-liberal tradition, even though he is a pragmatic thinker. But there is an old problem, already identified by Aristotle. In the *Nicomachean Ethics* (5x), he set out the logic of looking for a malleable rule: he thought as an analogy of the lead (rather than iron) rule that sculptors on the island of Lesbos used: “when the law speaks universally, and a case arises on it which is not covered by the universal statement, then it is right, where the legislator fails us and has erred by over-simplicity, to correct the omission-to say what the legislator himself would have said had he been present, and would have put into his law if he had known”. It may well be that instead of creating a trap, the careful negotiation of sustainable flexibility – Aristotle’s Lesbian rule – can offer a way out of traps that are constituted by rules that have become too rigid.