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Article

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HANS-WERNER SINN: A TRIBUTE TO HIS CONTRIBUTIONS TO RESEARCH IN ECONOMICS AND PUBLIC POLICY

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Among his many interests and contributions, Hans-Werner Sinn's work in the area of public finance is perhaps especially noteworthy. His research on the 'welfare state', in particular, is wide-ranging, intellectually deep, and highly policy-relevant.

Take, as a first illustration, his important papers on 'A Theory of the Welfare State' and 'Social Insurance, Incentives, and Risk Taking'. These papers explain how social insurance and tax systems, often seen primarily as redistribution mechanisms that have adverse effects on economic incentives, may also have important favorable incentive effects: although they may *discourage* productive income-producing effort and investment, they may also *encourage* risk-taking activities, notably entrepreneurship, investment in human capital, and innovation. Because it is difficult or impossible for the private-sector to insure people against some of these risks, the welfare state may, in this important respect, promote socially-efficient risk-taking. The important message here is that the welfare state can help to invigorate a dynamic, fundamentally market-driven economy. However, as Hans-Werner observes, the implementation of such policies can be undermined if people who are asked to contribute financially to the working of social insurance programs – the lucky winners in life, among them – are able to escape this burden through migration.

This brings me to my second illustration. Hans-Werner has undertaken an extensive program of academic research and policy analysis dealing with demographic change and its fiscal implications. The critical

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importance of migration, fertility, and mortality for public finances should by now be virtually self-evident. Due to deep and prolonged reductions in fertility rates, native-born populations are aging rapidly in all of the richer countries of the world. Persistent wage and income differentials, and reduced barriers to economic integration give rise to a further persistent demographic trend, namely, increased gross and net migration flows, especially toward rich countries. Barring demographic catastrophes or dramatic changes in policy, these decades-long demographic trends will continue for at least several more decades, inevitably with profound effects on the highly redistributive and heavily age- and income-conditioned fiscal systems rich countries.

Hans-Werner Sinn is one of a comparative handful of economists to pay close attention to these developments two decades and more ago. He has led the way in explaining the far-reaching effects of population aging and economic integration. From his papers from the mid-1990s onward we see not only how perceptively he has anticipated evolving policy challenges, but how constructively he has advanced our understanding of policy options. His essays on the pension system of Germany, written more than a decade and a half ago, show how feasible reforms can distribute, as fairly as possible, the cost of maintaining pension solvency. One way to do so is by raising contributions immediately, by relatively modest amounts. Alternatively, mandatory private savings, subject to public monitoring and regulation, could also build a financial reserve with which to meet future pension obligations. The latter, however, is to be preferred, since, as he writes, one must not overlook 'the covetousness' with which politicians would view such a reserve: "public money is a great temptation". A wise remark from a political economist who recognizes the inevitable role played by imperfect political processes in shaping economic policies. We might hope that politicians – and, even more so, the public – would take these insights to heart, sooner rather than later.

Alas, the window for policy changes does not remain open forever. As discussed in his more recent research, aging societies may become gerontocracies where the

demands of an ever-older beneficiary population intensify the burdens on a shrinking population base of younger workers. Future fiscal crises would at least be mitigated, if only policymakers could make the necessary reforms – which, by now, are long overdue. But perhaps this is asking too much of today's increasingly gerontocratic democracies, a somewhat discouraging thought, however realistic it may be.

Researchers around the world have profited immensely from Hans-Werner Sinn's academic contributions to fundamental economic policy problems. But one must also not neglect his truly remarkable efforts on behalf of the entire profession, notably through the nurturing of CESifo, an institution that has stimulated productive research by economists worldwide and that has made the fruits of their efforts available to policymakers and the broader public.

I recall very well my first visit, one of many, to the newly-founded CES back in 1991, a visit that resulted in CES Working Paper No. 2 – in the exalted company of Richard Musgrave's No. 1, no less! (The working paper count is now well over 5000.) It also resulted in a research collaboration with Dietmar Wellisch, then of Tuebingen, on redistribution and immigration, published first in English, and then, in German, in *ifo Studien* – one example, of a multitude, of the cross-fertilization of ideas that the CESifo group has nourished. Hans-Werner Sinn is one of those exceedingly rare economists who has successfully navigated the broad and sometimes turbulent currents of institutional development, academic and policy research. It is a pleasure to express my admiration and gratitude to Hans-Werner Sinn in recognition of his remarkable career of professional accomplishment!