



ON THE YOUNG SINN, THE POLITICAL ECONOMIST, THE ENTREPRENEUR AND THE FRIEND

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For many among us “life is a succession of tasks, rather than a cascade of inspiration, an experience that is more repetitive than revelatory, at least on a day-to-day basis. The thing is to perform the task well and find reward even in the mundane” (Roger Cohen). This definitely cannot be said for Hans-Werner Sinn! He does not find rewards in the mundane and repetitive tasks at all. Sinn has been a great source of inspiration to me over the last thirty years. What impressed me the most is how he almost single-handedly succeeded in breaking down bureaucratic rigidities in German academia.

The young Hans-Werner Sinn

In his doctorate dissertation at the University of Mannheim, Sinn dealt with economic decisions made under uncertainty. Spinning off from the axiomatic analysis of decision theory, he turned to the more policy-oriented analysis of risk decisions under limited liability, in parallel to the ground-breaking analysis of Stiglitz and Weiss at the time; he independently developed similar ideas. He subsequently applied work on limited liability to the theory of bank regulation. His later work focused on the stimulating effects of accelerated depreciation and the various components of capital income taxation on inter-temporal, international, and inter-sectoral allocation. This research is a gold standard in the field of public finance and squarely positioned Sinn as a major league policy-oriented researcher.

Sinn also contributed to the scholarly debate over the German pension, arguing that the low returns on statutory pension insurance based on the pay-as-you-go method only has an apparent, but not a real efficiency disadvantage compared to a capital-market funded pension insurance.

Hans-Werner Sinn’s positions on economic policy

In 2003 Sinn saw Germany’s attractiveness as an investment location endangered by excessively high labour costs and called for structural reforms of the labour market. These reforms included escape clauses from collective wage agreements, the abolition of dismissal protection laws and longer working hours without wage compensation. He also criticised the negative effects of the German wage replacement system on employment. As an alternative, he developed the model of activating social welfare in 2002. His policy recommendations influenced the Agenda 2010 reforms.

Sinn has referred to the German economy as a ‘bazaar economy’ due to the rising share of input from abroad in German industrial production. He argues that Germany has inflated the value added component of its exports too strongly at the expense of its domestic sectors, and at the same time, placed too much emphasis on the final stages of production; leading to a pathological export boom.

The global 2008 crisis was rooted, according to Sinn, in the abuse of liability limitation by US investment banks. The lack of capital reserve requirements encouraged financial intermediaries to gamble. In addition, the lack of personal liability for homeowners similarly created an exaggerated willingness to take risks, and thus led to the housing bubble in the United States. As for German reforms, Sinn has called for considerably higher capital reserve requirements, the balancing of offshore business and a return to the accounting principle of lower cost embodied in the German Commercial Code (HGB).

Based on his scholarly work on the Green Paradox, Sinn criticised the Greens of pursuing environmental

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protection policies with unsuitable means, and of ignoring the economic laws of European emissions trading. In his book, *The Green Paradox*, he argues for including all of the world's countries in a post-Kyoto, joint emissions trading system.

Hans-Werner Sinn's first-rate academic entrepreneurship

I first met Hans-Werner Sinn at a conference in Kiel on capital income taxation. I immediately saw in him a rising academic star: passionate about debating economics and clever. He invited me to CES, which was a start-up institution back then. German academic institutions were isolated from the rest of the world at that time. Hans-Werner Sinn recognised that academic isolation breeds scientific stagnation, did not like what he saw and was determined to modernize German academia. Two and a half decades later, thanks to pioneering efforts by Sinn (and a few others), the German academic world is now unrecognisable. It features a US style graduate student curriculum, various economics department research seminars, publications in top journals by young faculty members, and great deal more.

Sinn took over the presidency of Ifo and completely transformed the institute. He did so through several initiatives: by recruiting first-rate policy-oriented economists, writing policy papers on major pan-European policy issues, and creating CESifo, which became a leading European scholarly center for debates on economic policy issues.

Hans-Werner Sinn – a friend

Hans-Werner and Gerlinde are a major reason why I always enjoy coming to Munich. Whenever I visit the city, they invite me to their charming home. There – often with other invited guests – I have often enjoyed frank discussions of policy topics in a relaxed, informal setting. The Sinns are wonderful hosts and I deeply cherish their friendship.