The economist as everybody’s headmaster

A very special science: What Hans-Werner Sinn tells us about economics and its capacity to increase social welfare through the search for truth

He is probably the most famous economist in Germany. And not only in Germany, but also abroad, not only in academia, but also in the wider public. Most of his popular books have been translated, including "Cold Start" (1991), "The bazaar economy" (2005) and "The Green Paradox" (2008). There is no issue that moves the world on which Hans-Werner Sinn does not soon express a headline-grabbing view: demography and German unification, environmental policy and the welfare state, migration, casino capitalism and, of course, the euro. Sometimes it's the other way around. An issue bothers him and soon it bothers the world: the Target trap is a case in point.

His permanent presence in the mass media has not been at the expense of his permanent presence in academic journals and professional associations. He is usually on a patriotic mission to make the underrated German contribution heard. His scholarly oeuvre is more than impressive both in terms of quality and quantity. In addition, he has been a major research manager who cared about the internationalisation and rejuvenation of German economics, especially during his four-year term as president of the Verein für Socialpolitik, the German economic association that has charmingly preserved its historical name.

On the recent occasion of his 70th birthday, Sinn made himself a gift by writing a 656-page eulogy on himself and economics. His autobiography is the exemplary description of an economist's life. Economics has put him on the quest for the truth and given him the home of a secular Order. The latter he reveals in the final chapter, where he compares himself with Josef Knecht from Hermann Hesse's "Glass Bead Game". In contrast to the novel's hero, "I did not break with my Order, which still offers me a warm home, theoretical support and brilliant conversationalists." (own translation) This remark gets us back to the beginning, the first chapter, which initiates the Bildungsroman during which Sinn advances to a master of the Glass Bead Game, but soon wants to be Magister Ludi beyond his peers.

So let us enter this warm home of a brotherhood. The latter, because women figure neither as brilliant colleagues nor as advisory board members of the many committees that Sinn is involved in appointing. With a few exceptions, they are the wonderful wives of important colleagues. Even the first and so far only female Nobel laureate in Economics, Elinor Ostrom, finds no place, although we hear about the commons problem, collective goods, and every Nobel laureate with whom Sinn can construct any connection.

The Invisible Hand presupposes a lot

Sinn speaks with authority about and for modern economics, because he has shaped it for thirty years. Here is what we learn about the self-image of an exemplary inhabitant of this home.

First, there is no truth until an economist has pronounced it. Nobel Prizes in economics were awarded for lifetime achievements that reformulate the insights of other social sciences in plainer versions: for instance, sociological research on the gender division of labour in families (Gary S. Becker) or legal and political research in the role of institutions (Ronald Coase, John Williamson). This provides us with insights such as: "Experiments in behavioural economic show that people think too little about the future, do not cope well when probabilities are small, or are mentally inert and
stick to the status quo." (own translation) The Israeli psychologists Daniel Kahneman and Amos Tversky, who showed this for the first time in the 1970s, don't need to be mentioned. Such "important insights" have information value for the economist only once said by one of his peers. After all, his peers thought for a long time that nothing would work without assuming the Homo oeconomicus, the instrumentally calculating, ungrudging and smartly egoist individual.

This assumption is not only sufficient for "clean" economic analyses, but actually superior to realistic alternatives. Homo oeconomicus ensures that economists think clearly and invent non-paternalistic economic policies, provided elected politicians follow the economic advice (unfortunately, they don't as much as they should, but we'll come to that). One might wonder how much of the useful old chap is left after the Trojan horse of psychology, behavioural economics, entered the Order's bastion. But, of course, you can always ban the challenge by simplification.

For one elected decision-maker at the highest level, the ever truthful economist has this profound insight: "The Chancellor should not overlook the fact that Trump is only elected for a limited time. Trump is not America." (own translation) Comparative research on democracies has said one or two things about this, but surely not as clearly as that. The Chancellor will have to think about it long and hard. For instance, whether a foreign policy can improve relations with American presidents when it assumes that their relevance is fleeting and their representativeness questionable. She'll have to do a bit of persuading her diplomats; good thing that she can resort to the economist for good advice.

Second, economists' search for truth is unselfish. The contrast to politics could not be greater: "While economists think of general welfare, the perspectives of future generations, economic stability, growth, inflation, secure energy supply or the income distribution - aspects that they can assume to be important to most human beings -- politicians are in the foreground for the next election, the chess moves of their rivals in the political arena, the mood in the party and their media appearance." (own translation)

Now, one may wonder why we do not simply abolish all those restrictions on adopting good policies that care about human beings: elections, the opposition, parties and the media. Maybe the abolition of the media would go a bit too far; after all that would take away a much-used platform from some economists. For the ever striving economist is a people's advisor. This is the view of modern public finance, dedicated to analysing the role of government in the economy. Public finance "not only informs the politicians, but also the voters, who can sometimes make politicians get their act together. Public finance does not assume well-meaning politicians, or at least not necessarily; it only assumes voters who cannot be fooled easily." (own translation)

All very well then. Normally we can assume that voters are not fooled by politicians because they are rationally concerned about their own welfare. Should the lazy or stupid ones among us ever let themselves be fooled, then the economists are there to advise us; astonishingly and luckily, they are not like us and the politicians, but work for our well-being and eternal truth.

Third, the economic truth is free of ideology. Economics is a "world that does not want to concern itself with any ideologies," and its search for truth can be described as an "attack on everything ideological." (own translation) And this is how it goes: General equilibrium theory has shown us that Adam Smith's invisible hand was not just a metaphor, but that "under some ideal conditions, markets are actually capable of best contributing to the welfare of people in every conceivable resource configuration of an economy". (own translation) Unfortunately, ideal conditions are never that easy to fulfil. For example, no one is allowed to trade goods until all - and that means all -
correct prices are found, where the initial endowments find demand in all other voluntary barter exchanges, now and for all contingencies in the future.

There are no such markets for all future contingencies, and if there were money, it would create a lot of indeterminacy in this world of a market economy in general equilibrium. Thank goodness, there is no money in this world. Therefore, general equilibrium theory could also be understood as follows: it has shown, rigorously, that the invisible hand is an incredibly strong assumption and that it is better to abandon it, together with all its claims about optimal social welfare to be brought about by the price mechanism only. But, no, the economist prefers to do a bit of handicraft and produce a model of temporary equilibrium, where some trade can take place at false prices. Too bad that it there is then not much to be said about optimal social welfare in a market economy. You just cannot know.

There is another thing, namely the assumption of the "initial endowments" of the producers (house and field including tractor and cow, or all the stuff that was on Robinson's ship). The unsophisticated reader may think that they do not fall from heaven, rather they were appropriated somehow, someday by somebody. This is of great interest to scholars in sociology and political science, under the heading of distributional contests and causes of inequality. No wonder that the economist finds both disciplines "too ideological". For him, this is a question of efficient resource allocation in production. If everyone gets what their additional effort contributes to the final product, then that's efficient. Obviously, if somebody has special talents, they may get a bit more - but not everyone can play football like Neymar. The question of distributive justice is emphatically not one for Sinn. Efficiency gives us all we want: the largest possible pie and to each the slice we deserve and about which we must not complain.

The "exciting battle" around Target balances
Before we ask ourselves who or what decides whether managers are more like Neymar or like those they manage, a misunderstanding has to be dispelled. Of course, markets run by a benevolent invisible hand do not exist. As the young economist learns early on, "the ideal of markets is not meant as a description of an actual condition, but as a normative reference point for the assessment of market imperfections, just as the doctor needs the idea of a healthy body to recognize diseases." (own translation) It would, of course, be left-wing ideology to object that then the notion of an efficient market economy seems to have the same significance for the economist as does the notion of just socialism for the critics of market economies.

But then, one does not have to make so much fuss about market failure as symptoms of a disease. Instead, market failures are invited to the ambulance of Economics, to be treated there one by one. It is just a bit unfortunate that systemic crises cannot be treated very well in this way. The waiting room is not big enough, and they tend to overwhelm the specialists. But maybe you can assume that systemic crises simply cannot exist? Or that politics is to blame for the design flaws?

This latter is what Sinn has already shown for the European monetary union, notably by discovering the Target imbalances. "For me, not only did [this discovery] represent an exciting battle for the scientifically based truth, but the battle also did not end there, because once I found [the truth], I had to preserve supremacy of interpretation." (own translation) Battling was sorely needed, because unfortunately, many international experts who became so interested in Target balances unmistakably rejected Sinn's interpretations. Among them was an economist from the Federal Reserve Bank in the United States, Alexander Wolman, who was most perplexed. Sinn's assertion that in the United States the annual balancing of payment balances would limit the lending of
regional central banks to one another was simply wrong. In the Target debate, the warm home has become very small and very German-speaking.

But this does not really challenge Sinn. As long as critics of the market economy get upset and politicians do not act the way he tells them, the economist knows he's right. And that is why Hans-Werner Sinn will adhere unselfishly to his, by definition, ideology-free insights. What is to him nothing but the truth, we can see from the outside above all as a constant battle to keep the supremacy of interpretation.

Waltraud Schelkle is an economist teaching political economy at the London School of Economics and Political Science (LSE).