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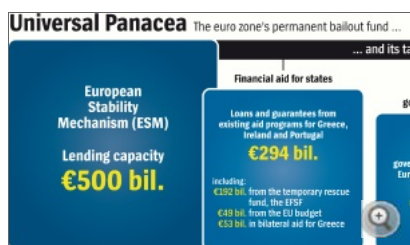
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## Professor Propaganda

## Is German Economist Exacerbating Euro Crisis?

By Sven Böll



dapd

Critic of German economist Hans-Werner Sinn: "If this is the contribution of German economics to the euro crisis, I'm seriously concerned about our profession."

## Part 2: 'Intellectual Despotism'

Sinn doesn't consider the notion that speed often trumps thoroughness in public relations to be a problem, but rather an incentive. When the euro countries hastily agreed to a bailout fund in May 2010, one that the German parliament, the Bundestag, was expected to ratify only a few days later, Sinn wrote a harsh critique of the plan overnight. Even before the vote, the members already had his damning review in their mailboxes.

Sinn used to say that he had once wanted to be a missionary, to which his wife reportedly responded: "But Hans-Werner, that's what you are."

The desire to convince others of one's insights is part of an economist's job description. With Sinn, the problem is that he shares with missionaries the belief in eternal truths and infallibility, especially his own. But economics just happens to be a social science, not a natural science.

In early June, a few Ifo employees were discussing the next economic forecast with their boss. After prolonged analysis, the experts concluded that Germany would continue to do rather well, as long as the euro crisis didn't escalate. Sinn was skeptical and interjected: "I simply don't believe that."

The discussion continued in this vein for a while, until the head of the economics department reminded Sinn of a similar discussion they had had a few years ago: "We wanted to predict that things would soon be going uphill in Germany again, but you didn't. In retrospect, we were right." Sinn acted surprised. Then he told his employees that they had also wanted to predict an upturn for other countries, while he hadn't. "I was right," he said.

An institute employee who is on good terms with the president calls this behavior Sinn's "intellectual despotism," and says that he is simply determined to convince others. "The boss isn't truly satisfied until everyone has agreed with him."

It is mainly this claim to absoluteness that makes Sinn's euro campaign so questionable. At a time when economists are running up against the limits of their science more than ever before, Sinn insists on being in the possession of unassailable certainties. Economists all over the world are indulging in a new modesty, while the head of the Ifo embodies the hubris of economics. "Sinn is like a motorist who always leaves the highway three exits too late," says one economist, who otherwise views him as a brilliant colleague.

A look at the recent past shows that Sinn's theories, like those of others, have often been wrong. The Hartz series reforms to the social welfare system and long-term unemployment benefits undertaken by former Chancellor Gerhard Schröder of the center-left Social Democrats, which Sinn viewed as insufficient, are now considered to be a key building block of the labor market miracle of recent years.

And the growing integration between German industrial companies and low-wage

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foreign producers, which Sinn so effectively ridiculed as a "bazaar economy," hasn't weakened but has actually strengthened Germany's export industry.

In the current euro debate, Sinn prefers to focus on pithy statements. When it comes to the scope of euro liability, for example, he adds everything to his list that he can drum up: the [bailout package](#) for Greece, the euro bailout funds, the European Central Bank's [purchases of government bonds](#) and the German Bundesbank's [claims](#) against the European Central Bank system. Using this approach, he comes up with almost €800 billion (\$983 billion) in liability for Germany alone. "The euro system is in the midst of an explosion," he then proclaims, with his arms held high.

### Comparing Apples with Oranges

As gigantic as all of this sounds, it has little actual meaning. His calculations include money that has already been spent -- like funds for Greece. But this money also includes amounts that are primarily intended as a deterrent -- like the money in the permanent bailout fund, the ESM. Finally, it includes items for which collateral has been furnished or interest is being paid.

Sinn is comparing apples and oranges. And what makes his apocalyptic calculations even more questionable is the fact that he withholds the costs of the alternatives. In a worst-case scenario, the euro zone would collapse if politicians heeded his advice. The fiasco could cost the Germans €3.3 trillion, according to a recent report by the German Council of Economic Experts.

At the same time, the Ifo president has also made many positive contributions to the euro debate. He was the first to draw attention to the dangerous imbalances in the central bank balance sheets of the euro system, the so-called target balances. And, more than anyone else, he recognized early on that there is ultimately [no way around bankrupt Greece's withdrawal from the monetary union](#).

### Playing with Fire

But when it comes to the fundamental questions of whether the euro should be preserved or abandoned, Sinn is playing with fire. There are no easy answers in the euro debate, even if the Munich professor believes he has them. It's no surprise that the number of Sinn's opponents is growing in the dispute among economists over the banking union.

Michael H  ther, the head of the Cologne Institute for Economic Research, said caustically: "If this is the contribution of German economics to the euro crisis, I'm seriously concerned about our profession." Bert R  rup, a former member of the German Council of Economic Experts, is also critical of Sinn's anti-rescue rhetoric. "It isn't enough to sharply criticize current policy and emphasize its risks," he says. "You also have to point to the alternatives, complete with their costs and consequences."

Paul Welfens, an economist at the University of Wuppertal, goes even further, characterizing Sinn as "part of the euro crisis." Welfens argues that Sinn, with his alarmist approach that pays too little attention to the facts, is only serving to make people nervous.

Sometimes it seems as if the controversial economist recognized himself that his recommendations are hardly sufficient to overcome the euro crisis.

Sinn is sitting in his favorite restaurant in Munich's English Garden, eating a plate of schnitzel and fried potatoes. He is talking about what he would do differently if he were chancellor. He is asked what concrete mistakes Chancellor Angela Merkel has made.

Sinn reflects for a moment, and then he says: "Is Merkel doing something wrong? If she is, I don't think it's serious." Then, after a pause, he adds: "I wouldn't want to be in her shoes."

*Translated from the German by Christopher Sultan*

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**Part 2:** 'Intellectual Despotism'

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