



## HANS-WERNER SINN: ‘FALSE PROPHET’ OR SPIRITUS RECTOR OF THE AGENDA 2010?

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### Prologue

“The economy is stagnating, the bad news mounting up. Every month sees a record number of bankruptcies, many companies are stuck in a serious crisis, unemployment is assuming menacing proportions ... Germany is the sick man of Europe, it is bringing up the rear in terms of growth ...” Hans-Werner Sinn (HWS) wrote this description of the German economy in the preface to his legendary book, *Can Germany Be Saved?*, first published in October 2003. As medicine for the ailing German economy, HWS prescribed a ‘6 + 1’ programme, consisting of three labour-market policy and two social-policy components as well as a tax reform proposal and in addition a reform agenda for the new federal states of eastern Germany.

A little more than a decade later, a stock-taking of the German economy looks completely different: for the past several years, Germany has become the growth and economic engine of Europe, its (harmonised) unemployment rate is the lowest in the EU, German companies are holding their own in international competition and public finances are now in surplus.

Was or is HWS doomsayer, a ‘False Prophet’ (*Handelsblatt*, 16–18 January 2015), a ‘Prof. Propaganda’ (*SPIEGEL* 29/2012)? On the contrary, his past analyses and reform proposals have contributed to an economic policy response to a desolate situation, and bold reforms have been implemented. This is especially true with regard to labour-market and social policy.

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### Labour-market and social-policy reforms

Labour markets and social policies were at the heart of the HWS reform agenda for the ailing German economy from 2000 to 2005. Too high labour costs, rigid protection against dismissal, but above all false incentives in the income replacement system of the German welfare state were identified by HWS as the main reasons for the dramatically high and increasing unemployment in Germany at the beginning of the millennium. The recommended remedies were, firstly, a reduction in hourly wages, an extension of working hours (without compensation) as well as flexible opt-out clauses in collective labour agreements. Such clauses are now an integral part of almost all labour contracts. Secondly, in response to the high unemployment especially among low-skilled workers, the Ifo Institute submitted an innovative reform concept – its ‘Activating Social Assistance’ – already in 2002. Both the Academic Advisory Board of the Federal Ministry of Economics and the German Council of Economic Experts – two of the most important bodies of institutionalised economic expertise in Germany – adopted this proposal, with some modifications, and expanded it. The basic idea is as simple as it is convincing: low wages due to low productivity are to be increased by government wage subsidies, so that simultaneously more jobs can be offered in the low-skill segment and incentives can be provided to take up employment in this sector. In essence, these ideas were incorporated by policy-makers in the Agenda 2010 and the Hartz IV legislation, albeit not fully implemented.

Also at the interface of labour market and social policy in the run-up to EU eastern enlargement, HWS and his staff at Ifo drafted a proposal for a ‘selectively delayed integration’ of immigrants from EU countries into the social security systems of host countries. This was intended to address migratory incentives that are purely redistributive by nature by limiting the eligibility for certain tax-financed social benefits during a transitional period. It should be noted that the Academic Advisory Board at the Federal Ministry of Finance in its report ‘Freedom of Movement and Social Security’ (2000) presented quite similar considerations and reform options. The relevance of these

proposals is seen today in the demands put forward in connection with the Brexit referendum by Prime Minister David Cameron of temporarily excluding immigrants from other EU countries from tax-financed social benefits.

Proposals to reform the pension system and for a radical tax reform completed the programme for a new start of the German economy. With the concept of a ‘dual income tax’, the ideas of HWS, the Ifo Institute and Council of Economic Experts regarding an investment and growth friendly tax system were, once again, almost identical.

### **Epilogue**

With a total circulation of more than 110,000 copies, with a series of lectures televised by BR Alpha and an audio book version totalling 15½ hours, *Can Germany Be Saved?* is one of the most successful German business books ever. The impact on his academic colleagues, including those in government advisory councils or the Council of Economic Experts, was enormous. Insofar as the Hartz reforms and the Agenda 2010 adopted key ideas of HWS, the reform agenda at the time left indelible marks in economic policies. Most economists can only dream of successes like these.