Emerging Economies Catch up to Developed Countries in Terms of Competitiveness

Irrespective of political tensions and concerns about democracy and the rule of law, recent years have seen Turkey, Russia and China expand their attractiveness as business locations. This was one conclusion of the “Länderindex Familienunternehmen – Emerging Markets” (“Country Index for Family Businesses – Emerging Markets”), a study which ZEW Mannheim carried out for the Foundation for Family Businesses. The study ranks Russia in first place, followed by Turkey and China.

The analysis is based on a large number of quantitative indicators and includes ZEW calculations of the countries’ respective effective tax burden. One index weighted in accordance with the needs of family companies in emerging economies is the attractiveness of a location for business. For the first time in this study, high levels of CO₂ emissions were assessed as a locational risk. With regard to the political factors, it is clear that democratic and rule of law deficits are damaging the attractiveness of economic locations in the long run.

Russia was able to strengthen its position as the most attractive country among the most important emerging markets, offering family businesses access to well-trained workforce. Particularly in terms of energy and infrastructure Russia was able to score outstanding results, while also providing favourable conditions in terms of taxation, regulation and energy costs. As far as financing conditions are concerned, the country achieved somewhat weaker, but still average results.

The greatest weakness of Russia as a business location, however, remains the category “institutions”, in which the country...
ranks second to last due to its autocratic tendencies. Russia also performs comparatively poorly in the areas of legal security and property rights.

A similar development can be observed for Turkey. The country scored at least average in all seven categories. In recent years, Turkey has gone to great lengths to become more attractive for investors and local family businesses. From the perspective of family businesses, the country stands out for its favourable tax environment, very liberal regulatory conditions – at least by emerging market standards – as well as access to a well-trained workforce. However, the institutional framework – similar to Russia’s case – is the country’s greatest shortcoming. China has also improved its competitiveness, with the government aiming to curb crime and corruption while offering good financing conditions. Regarding taxation, infrastructure, regulation and energy supply, China’s performance is average. The greatest weakness of China as a business location is its labour market with its high wages but comparatively low productivity. There are also shortcomings in the level of education. Despite China’s huge investment in education, emerging economies such as Russia and Turkey remain vastly superior when it comes to the qualifications of their workforce.

South Africa, Mexico and Brazil are less attractive for German family businesses

South Africa has experienced the most negative development. The nine-year presidency of Jacob Zuma, who did not step down until early 2018, has left clear marks and led to a considerable loss of confidence among international investors. South Africa’s scores dropped significantly in three out of seven categories of the country index. According to the index, South Africa’s greatest strength as a business location remains the category “institutions”, although the country’s score has clearly deteriorated in this regard. South Africa’s greatest weakness, by contrast, is “energy”, especially since family businesses are exposed to an extremely unreliable electricity supply and comparatively high energy prices.

Mexico has also deteriorated in the country ranking and currently holds fifth place. Regarding location advantages, the country can excel especially in terms of its regulatory environment and energy supply. Mexico’s weaknesses lie in the areas of taxes and infrastructure, but the country scores particularly bad in the “institutions” category.

India ranks sixth, achieving the best results in the “institutions” category. India’s performance is below average, especially in the categories “regulation”, “financing” and “infrastructure”. The country’s biggest weakness is, however, taxation, where India lags far behind the other emerging economies. The least attractive location for family businesses among the seven emerging markets analysed is Brazil, which scores below average in almost all categories. This is mainly due to the country’s comparatively restrictive regulatory framework and its poor infrastructure.

The “Country Index for Family Businesses – Emerging Markets” also highlights the need for reform in Germany. According to the study, the competition from emerging markets for established locations of family-owned companies is growing continuously. The regulatory framework is becoming more business-friendly in important emerging economies and, in most cases, state control over markets is declining.

The study is available to download (in German only) at: https://www.familienunternehmen.de/media/public/pdf/publikationen-studien/studien/Laenderindex-2020-Emerging-Markets_Studie_Stiftung-Familienunternehmen.pdf

Prof. Dr. Friedrich Heinemann, friedrich.heinemann@zew.de

STRENGTH/WEAKNESS PROFILES OF EMERGING ECONOMIES

<table>
<thead>
<tr>
<th>Sub-Index</th>
<th>Russia</th>
<th>Turkey</th>
<th>China</th>
<th>South Africa</th>
<th>Mexico</th>
<th>India</th>
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<tbody>
<tr>
<td>Taxes</td>
<td>67.04</td>
<td>83.04</td>
<td>57.02</td>
<td>58.64</td>
<td>35.51</td>
<td>14.89</td>
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<td>67.12</td>
<td>29.77</td>
<td>57.61</td>
<td>58.54</td>
<td>41.36</td>
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<td>Regulation</td>
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<td>49.73</td>
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<td>65.31</td>
<td>41.88</td>
<td>70.35</td>
<td>38.41</td>
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<td>Infrastructure</td>
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<td>55.95</td>
<td>56.55</td>
<td>43.04</td>
<td>35.41</td>
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<tr>
<td>Institutions</td>
<td>29.45</td>
<td>41.98</td>
<td>93.70</td>
<td>69.88</td>
<td>8.56</td>
<td>73.02</td>
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<td>Energy</td>
<td>80.00</td>
<td>42.01</td>
<td>53.99</td>
<td>24.61</td>
<td>67.78</td>
<td>54.37</td>
<td>54.52</td>
</tr>
<tr>
<td>Total index</td>
<td>61.30</td>
<td>59.93</td>
<td>58.03</td>
<td>50.55</td>
<td>47.94</td>
<td>43.77</td>
<td>37.27</td>
</tr>
</tbody>
</table>

The matrix for static analysis shows the scores achieved by the individual countries in each of the seven sub-indices and is coded with a colour scale divided into ten-point steps. Source: Foundation for Family Businesses
Equity as Profitable Old-Age Investment

An equity portfolio with lifecycle rebalancing would be well suited as a default product for funded retirement provision. This is the result of an expert report by ZEW for the Federation of German Consumer Organisations (vzbv). Investing in shares for old-age provision is worthwhile albeit riskier than investing in bonds. Financial crises, however, can lead to significant losses, especially if they occur very close to the time of retirement. A portfolio with lifecycle rebalancing, which gradually reduces the equity component in the years prior to retirement, is therefore recommended.

The researchers simulate the performances of four different portfolios. One is a pure equity portfolio, and the other a mixed portfolio with 50 per cent shares and 50 per cent bonds. A variant adapted to the lifecycle is also considered for both portfolios, involving a shift from shares to bonds at the age of 52. Depending on the investment strategy, such a savings model would, on average, result in quite considerable amounts: between 2,400 and 1,220 euros in today’s purchasing power. The pure equity portfolio achieves the highest return in most of the simulated cases. During a bad market trend, however, the equity portfolio adapted to the lifecycle becomes the more profitable choice.

In order to test the crisis resilience of investment strategies, the researchers simulate a one-year financial crisis comparable to the financial crisis of 2007 to 2009. If such a crisis occurs in the first year of contribution, the total value of the portfolio falls by an average of one to two per cent for all investment strategies. The effects of a crisis in the last contribution year, however, are much greater: the pure equity portfolio loses on average around 30 per cent of its value, the lifecycle model around 16 per cent. For mixed portfolios, losses are lower at 14.5 per cent, and 7.5 per cent for the lifecycle model.

For the pension phase, the researchers consider a withdrawal plan where the portfolios in question remain invested on the capital market even after retirement. Therefore, monthly pension payments fluctuate depending on the chosen investment strategy and prevailing capital market conditions. Financial crises potentially cause the greatest damage during the transition from the contribution to the payout phase, since the capital value of the portfolio is at its highest during this time. The equity portfolio with a lifecycle can counteract such a risk. This is why the researchers recommend it as the default option.

The researchers also included various deviations from their basic model. They considered what impacts payment interruptions due to unemployment and parenting had on the value of the lifecycle equity portfolio. The effects of payment periods of different lengths were also simulated. As a general rule, the later employees start making contributions, the lower the portfolio value at the start of the pension phase. Beginning to save later means giving up interest and compound interest.

The study is available to be downloaded (in German only) at: https://www.zew.de/fileadmin/FTP/gutachten/ZEW_VZBV_Altersvorsorgefonds_2019.pdf

Prof. Dr. Tabea Bucher-Koenen, tabea.bucher-koenen@zew.de
Dr. Jesper Riedler, jesper.riedler@zew.de
Prof. Dr. Dr. h. c. Martin Weber, martin.weber@zew.de

DISTRIBUTION OF REAL MONTHLY PAYMENTS DURING THE WITHDRAWAL PHASE FOR FOUR PORTFOLIOS

<table>
<thead>
<tr>
<th>EXPECTED PAYMENT [IN EUR]</th>
<th>10</th>
<th>20</th>
<th>30</th>
<th>40</th>
<th>50</th>
<th>60</th>
<th>70</th>
<th>80</th>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Equity portfolio (lifecycle)</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mixed portfolio</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mixed portfolio (lifecycle)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tbody>
</table>

Source: ZEW
Gender Norms Influence Salary Information of Men and Women in Surveys

Women’s lives have changed dramatically over the past few decades. Thanks to emancipation they can make self-determined decisions today. Many economic and social science research studies continue to show, however, how deeply rooted traditional gender norms are. They still document a considerable impact of such norms on the behaviour of men and women. This also applies to important labour market decisions, such as in which profession and how much women and men work.

In 2015, a study by researchers from the US showed that there were very few couples in which the woman earned slightly more than her partner, while there were disproportionately many in which the woman earned slightly less or the same amount. According to the authors, this is the result of the “male breadwinner norm”, which stipulates that the man should be earning more than the woman. They thus conclude that couples adapt their labour market decisions to meet this norm.

Noticeable, however, is that there seems to be a large discrepancy between surveys and administrative data: The clustering of couples below the point at which the women would out-earn her partner is much more pronounced in surveys than in administrative data. While survey information only contains figures that the respondents are willing to share, administrative data represent actual earnings. This suggests that respondents misreport to comply with the norm. As a consequence, the gender wage gap, a hot topic in politics, is likely to be overestimated if it is based only on survey information.

Administrative data and survey data diverge when it comes to salary information

A joint study by ZEW and the University of Basel with data from Switzerland shows that many couples still shy away from admitting that the woman earns more than the man. The study combines administrative income data with survey data for the same persons. This enables the researchers to carefully examine whether men actually earn more, or whether couples only declare their income as such in the surveys.

The analyses confirm that there are significantly more couples reporting that the man earns slightly more than the woman if survey data alone is considered. Administrative data for the same couples does not show such a clustering of couples below the point at which the women would earn more. The study shows that the difference is driven by the systematic misrepresentation of incomes in the survey. Men’s incomes are systematically overstated by couples where women actually earn more, while the incomes of women are systematically underreported. The respondents adjust income details both for themselves and their partner. But the overstatement of man’s incomes seems to be the dominant strategy, for both men and women.

Couples where the woman earns more than her partner are inclined to make false statements

Considering survey data alone, one would be inclined to conclude that gender norms influence the labour market decisions of women. It would suggest that women systematically try to earn slightly less, since they would otherwise earn more than their partner. This behaviour, however, is not reflected in administrative data. This means that women aren’t looking for jobs in which they earn slightly less than their husbands, but rather that they are merely inclined to make false salary statements in surveys. The misrepresentation of incomes is particularly pronounced in couples where the true income situation could potentially threaten the male breadwinner identity. Income misreporting is more likely when the woman is just as or slightly less educated than her husband and still earns more, or when the woman has the same or a lower workload but a higher income.

In the study by ZEW and the University of Basel, the gender wage gap falls by nine to thirteen per cent if official data are used instead of survey data. While survey data have long been the only data basis for researchers, the availability of administrative data for research purposes is increasing. The results of the study show that awareness of potential biases is particularly important when analysing answers to questions which might be prone to the influence of social norms.

The study can be downloaded at: www.zew.de/PU81309-1

Dr. Anja Roth, anja.roth@unibas.ch
Dr. Michaela Slotwinski, michaela.slotwinski@zew.de

A similar version of this article first appeared in the “Süddeutsche Zeitung” on 9 December 2019.
Senior managers’ personal histories play a key role in the European Investment Bank (EIB) lending process, with loans for financing large infrastructure projects being more likely to flow into a region where one or more members of the EIB’s Board of Directors come from, while regions not represented on the Board are less likely to receive loans. This is the result of a recent study by ZEW, which has evaluated all EIB loans since its foundation in 1958, comparing them with the respective careers of its Board members.

The probability for a European region to receive a loan from the EIB increases by 17 percentage points if at least one person from that region sits on the Bank’s Board of Directors. The researchers cannot rule out the possibility that this lending practice leads to a misallocation of resources and to economic inefficiency. The observation shows that the beneficiary regions coincide strikingly often with regions where a member of the EIB Board of Directors either currently holds or will hold a position in the future.

Nevertheless, the researchers stress that Board members who tend to favour their region of origin when granting loans should not necessarily be accused of harbouring self-interested motives. It is possible that Board members simply decide in favour of their own region due to prevalent social connections, for example. Exclusive knowledge of the local conditions in the home region could just as well be a decisive factor in their choices, insofar as the staff responsible for granting a loan would have greater certainty that financial support from the EU is necessary and therefore justified. Through this practice, Board members would minimise information gaps between the EIB and beneficiaries, reducing the risk of potential misallocation of European funds.

The researchers have observed, however, that when members of the Board of Directors are in the process of relocating to another region during or after their term at the EIB, they increasingly lend to the region where they will be working. This connection is only weakly pronounced. But it is hard to imagine that they have an information advantage about the new region, because up until now, the respective Board members have not been personally connected to the region. Also worth noting is the fact that this phenomenon of preferential treatment occurs exclusively in connection with very large infrastructure projects. In comparison with small, less tangible measures at a local level, it is highly likely that the overall conditions for large and costly construction projects can be assessed without specific local knowledge.

The EIB Board of Directors is one of the Bank’s three decision-making bodies and is responsible for strategic management. It is solely responsible for the final decision on granting loans. The Board of Directors consists of 29 full members, each representing an EU Member State and the European Commission for five years. As the new lending decision panel meets only occasionally at the EIB headquarters in Luxembourg, being a Board member is not a full-time position.

A loan is approved by the EIB when at least one third of the members of the Board of Directors vote in favour of it, and when these members represent at least 50 per cent of the capital registered with the EIB. Each country’s share of the EIB’s total capital is determined by the relative size of its gross domestic product (GDP) in the EU at the time of attaining EU membership.

Majority of EIB Board members from economically strong regions

The study examined all EIB loans in terms of volume, purpose, and contract date at the regional level between 1959 and 2015, bringing together up to 5,000 projects with a total loan volume of almost 500 billion euros. The EIB makes such information publicly available on its homepage, while its Board members’ regions of origin can be found in their CVs and annual reports. This way, the researchers collected data on a total of 254 full members and 216 deputy members of the EIB’s Board of Direc-
Digital Tax Poses Risk to Competitiveness and Profitability If Poorly Implemented

Last year, the EU Commission proposed Europe-wide directives for the taxation of digital companies. Capital markets reacted vigorously, causing the market value of many digital companies to plummet in the short term to the tune of billions. In the long term, the proposed digital taxation directives could harm the profitability and competitiveness of digital enterprises. These are the findings of a study conducted by ZEW together with the University of Mannheim.

The study examines how capital providers investing in digital companies react to the planned introduction of a digital tax in Europe. The researchers evaluated data from 222 potentially affected digital companies and examined their stock returns both on 21 March 2018, when the EU Commission published the draft directives, and on the following day. The result shows a significant decrease in the market value of digital enterprises that would be affected by the directive. Due to the proposal, the overall market value of digital companies fell by at least 52 billion euros beyond the normal market movement. Around 40 per cent of the companies affected are based in the USA.

Most affected by the extraordinary market reaction are EU-based companies with higher profits. Capital markets are also reacting more strongly to companies actively engaging in tax avoidance, as well as companies with higher potential for profit shifting. It seems that some digital companies are currently still able to largely avoid taxation in the EU. According to investors, this would probably be much more difficult in the future once the proposed digital taxation comes into force, and this is why they react accordingly.

The EU Commission has proposed two directives for digital taxation. The first – conceived of as an interim solution – introduces a tax of three per cent on the gross revenue of certain digital services. This concerns companies with a worldwide turnover of more than 750 million euros within a financial year and a turnover of more than 50 million euros from digital services within the EU. The second directive seeks a longer-term solution to the digital tax problem, creating a new taxable link for companies with a non-physical but significant digital presence in one or more EU Member States.

Investors are expecting negative effects on the profitability and competitiveness of digital companies. This may also translate into less willingness to invest in digital businesses, which could mean fewer growth opportunities. In light of the current shortcomings in the design of the draft directives and their potentially harmful impact on digital enterprises, the researchers are therefore advising caution when introducing digital tax measures. The latter should be carefully checked in advance with regard to their exact effect.

The study is available to download at: www.zew.de/PU81189-1

Christopher Ludwig, christopher.ludwig@zew.de
Prof. Dr. Christoph Spengel, spengel@uni-mannheim.de

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The figure displays the buy and hold return of an equally-weighted portfolio of all potentially affected firms. The blue line controls for the regular market return. Source: ZEW
Green Debt for the “Green Deal”?  

The new Commission has chosen a compelling leitmotif for its term of office. The “Green Deal” is to kick-off the transition of Europe towards a climate-neutral continent. The objective is highly ambitious and will absorb substantive financial resources. Hence, it is not surprising that the potential role of higher public debt is discussed to provide finance for climate policies. The discussion has started to challenge existing rules and institutions of European monetary and fiscal governance. The ECB is increasingly requested to provide green finance through its asset purchase programmes. In the reform discussion of the Stability and Growth Pact one of the prominent green ideas is to exclude national investments in CO2 emission reduction from the deficit calculation. Similar suggestions are made in national debates, for example, with respect to a possible lenient treatment of ‘climate bonds’ in the German constitutional debt brake.

But does an ambitious climate policy really provide compelling arguments for higher public debt? As plausible as the basic idea of ecological debt sounds, it nevertheless contains several logical fallacies. Its first mistake is to use ethical obligations to justify the accumulation of public debt. The state carries out many functions that society regards as moral imperatives: from health care and poverty reduction to help for refugees, disaster relief, and development aid. But an ethical obligation cannot be served by funding the costs of its fulfilment with debt. We might pat each other on the back today, but others, the future generations, would have to pay for our good deeds. This is not what we would usually call an ethical behaviour.

Green public debt not necessarily sustainable debt

The second mistake is the idea that measures against climate change are profitable investments that ultimately pay for themselves. It is true that the benefit they produce is the slowdown of global warming and the cost savings that result. But this idea fails to recognise the key problem of climate policy: mitigating climate change is a global public good. While reducing global warming is highly profitable for the world as a whole, an isolated European approach won’t see much benefit from its own action. This is even more true for uncoordinated action of EU Member States. Hence, with respect to its impact on debt sustainability, debt-financed climate policy is hardly more favourable than debt-financed welfare spending. It puts a strain on debt sustainability because the debt increase is unlikely to have a directly positive effect on growth and tax revenues. To some extent, the political debate seems to mix up the morality of public spending with its sustainability. Any debt sustainability analysis must simply ask to what extent future tax revenues will be sufficient to cover public spending. An increase in spending that does not reliably raise a country’s growth rate and tax potential will therefore damage its creditworthiness. This applies regardless of whether the analysis is carried out by monitors in central banks, international organisations or rating agencies.

It is true, however, that Europe’s climate change efforts can be part of a strategy to influence the behaviour of other global players in international climate negotiations. In that case, European efforts to fight global warming may have an indirect impact on the world’s climate and thus yield an indirect benefit that may also be of a fiscal nature. But this calculation is fraught with many uncertainties. If the strategy fails and ultimately ineffective European climate policies are funded by debt, future European taxpayers will face a double burden: additional costs due to climate change and restricted fiscal leeway to adapt to climate change due to a higher national debt.

The profitability argument appears in the debate in another variant. EU Member States have agreed to share and trade the burden of reducing emissions, so that countries that have exceeded their reduction target can sell their excess capacity to countries that have not met their target. If a single country like Germany fails to meet its target, the federal government may have to buy excess capacity for CO2 emissions from other EU partners. From a European perspective, however, this is a zero-sum game. Individual states may have a financial advantage if they exceed their goals. For the EU as a whole, however, burden and relief cancel each other out. Thus, the argument that climate policy is fiscally profitable falls apart as soon as one regards it at the European level.

Overall, fighting climate change is thus hardly a convincing justification to open new loopholes in European debt rules and fiscal or monetary institutions. Today’s generation has the obligation to make sure global warming is limited to a responsible level. And it is precisely today’s generation that has to bear the costs. Everything else is ethically as well as fiscally irresponsible.

Prof. Dr. Friedrich Heinemann, friedrich.heinemann@zew.de

A longer version of this article first appeared in the German business weekly “Wirtschaftswwoche” on 10 January 2020.
Q&A: How Effective Is Nudging in Reality?

“Nudges Are No Substitutes for Classical Economic Policy Instruments”

Policymakers are increasingly relying on behavioural interventions with the aim of improving individual decisions. These interventions have become known as “nudges” following the similarly titled book written by Richard Thaler and Cass Sunstein in 2008. Nudging methods are used, for example, to increase the willingness of individuals to pay taxes. But how effective are these measures in reality? In this interview, Dr. Zareh Asatryan, deputy head of the ZEW Research Department “Corporate Taxation and Public Finance”, talks about his current research on the matter of nudging.

In which policy areas have nudging methods already been applied?

Nudges have become extremely popular in the last decade. They have been used to contribute to healthier eating diets, improve children’s educational outcomes, reduce emissions, encourage savings behaviour, and so on. For instance, automatic enrolment in retirement savings plans can help younger people save more. Simple but targeted reminder letters sent by health authorities can increase the uptake of healthcare screening programmes. Letting consumers know that they are spending more electricity than their neighbours can substantially change their consumption behaviour.

The Organisation for Economic Co-operation and Development (OECD) has counted over two hundred nudge units that have been set up by local, national and supra-national institutions across the world to design and implement behavioural interventions. Some of the most well-known units are the UK’s Behavioural Insights Team, the BIT, or the World Bank’s Mind, Behavior, and Development (eMBeD), among others.

In your recent meta-analysis you deal with the topic of nudging in the area of tax compliance. What is your main finding?

Nudging practices have also become widespread in taxation. The starting point behind these interventions is the presumption that taxpayers pay their taxes not only because of the fear that they will be punished for not doing so but also because taxpayers like to pay taxes voluntarily for moral reasons. Nudges then try to appeal to various moral aspects – such as saying that not paying tax is unfair and reduces the availability of public goods – and social norms – such as saying that almost everyone pays their tax on time – with the aim of increasing voluntary compliance.

Our paper presents a quantitative review, a so called meta-analysis, of about a thousand treatment effect estimates of nudges obtained from around forty interventions implemented mainly in countries of North and South America and Europe. We find that non-deterrence nudges – i.e. interventions emphasising traditional determinants of compliance such as audit probabilities and penalty rates – are potent catalysts of compliance, the magnitudes of these effects are very small and they are likely to be bound to the short-run.

One has to note, however, that nudges are no substitutes for classical economic policy instruments like taxes, subsidies, and other regulations that aim to change behaviour by altering the underlying economic incentives. Nudging interventions are often fairly easy for policymakers to understand, as opposed to having to dive into more sophisticated and lengthy research-based policy advice, which makes them so attractive.

What’s more, implementing nudges is not too costly for politicians and signals to voters that the government is relying on (behavioural) science to improve policy. With that said, nudging policies may crowd-out efforts going into the design of traditional economic policy reforms. In this respect, we see a risk of too much excitement among policymakers around the idea of nudges.

Do you think policymakers should abandon the use of nudges given your findings?

We claim that nudges do not change the world, at least not the world of taxation. This does not mean that we should abandon all the policy units working hard to come up with new and innovative nudges. Of course, some nudges are more effective than others, but the point is that nudges have very little costs. Sending a message or simplifying a tax form might be an activity worth pursuing if they can help increase compliance even just a little bit.

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What’s more, implementing nudges is not too costly for politicians and signals to voters that the government is relying on (behavioural) science to improve policy. With that said, nudging policies may crowd-out efforts going into the design of traditional economic policy reforms. In this respect, we see a risk of too much excitement among policymakers around the idea of nudges.

Dr. Zareh Asatryan
is deputy head of ZEW’s Research Department “Corporate Taxation and Public Finance” and co-leads the Armenian Economic Association. His primary research interests are public finance, political economics, and development economics. His research uses empirical evidence to help design more effective public policies. The meta-analysis on “Nudging for Tax Compliance” was conducted as a joint study with Professor Armenak Antinyan of Zhongnan University of Economics and Law in China. The study is available for download at: www.zew.de/PU81221
Peter Altmaier Speaking at ZEW: Making a Safe and Affordable Energy Transition

Federal Minister for Economic Affairs and Energy Peter Altmaier believes the energy transition is achievable, but Germany must serve as the leading example of the synergy between climate protection and economic competitiveness. That was one of the main messages he delivered in front of about 220 guests at ZEW during his lecture on “Climate Policy and Energy Transition: Challenges and Perspectives” for the ZEW event series First-Hand Information on Economic Policy.

“Only if we foster and maintain our competitiveness in Germany will other countries be convinced by our climate policy efforts,” explained the Minister. “We’ve taken on the energy transition, and since then our economy has grown, on average, by more than one and a half per cent annually.” These successes have impressed people around the world, he said.

Altmaier also spoke about his trips to China, Indonesia, and Thailand: “Young people there dream of owning a car, a dishwasher, and a computer, and they want to take a vacation in a faraway country. If we show them that all of this is indeed possible with a sustainable energy and climate policy, they’ll engage with it too. Germany is the shining example of the synergy between sustainability and economic success.”

Energy transition must remain affordable

The Minister emphasised that Germany’s energy transition mustn’t scare off any business. “We will only be able to maintain our high levels of health and safety standards if we remain an industrialised nation.” He called for the establishment of battery cell production in Europe, as batteries accounted for one third of the value of electric vehicles. “Germany is a car country, and it must continue to be a car country in the future.”

The federal government is also striving to promote competition between different types of engines, such as utilising hydrogen or synthetic fuels for driving. Mobility has to remain affordable, however, especially for those living in rural areas. “We must therefore not glean from the energy transition merely the idea that everything which creates quality of life ought to be prohibited,” according to Altmaier. “We must rather strive for complete climate neutrality.”

Altmaier puts great importance on market economy principles for the transition to sustainable energies. Because Germany is not yet within the target range for the buildings sector, the federal government has decided to introduce emissions trading, making the country “a leading example for a market economy,” according to Altmaier. Subsidies for renewable energies are now also being tendered, which lowers the price of electricity, increasing Germany’s competitiveness.

Germany becoming completely self-sufficient in just a few years proves unrealistic

In the EU Commission’s Green Deal under Ursula von der Leyen, Germany agreed to be greenhouse gas neutral by 2050, going far beyond the current electricity transition and certainly presenting the country with new challenges. Altmaier is confident that becoming carbon-neutral in Germany is possible. But he cautioned the audience about the illusion that meeting Germany’s entire energy demand was achievable in-country, as in actuality, Germany imports 70 per cent of its energy, including heating materials and fuel. “I don’t think we can manage to become completely self-sufficient in just a few years,” said the Minister. Rather, the aim is to convince the Arab world to help produce green hydrogen using photovoltaics.

Following the presentation, ZEW President Professor Achim Wambach opened up the Q&A session to the audience, discussing various ideas for solutions regarding the energy transition such as capacity markets for electricity, emission tariffs, or the capture and storage of carbon dioxide (CCS). Altmaier was open for such a bridge technology, stressing, however, that public acceptance was essential for implementation.

The Minister also considered the utilisation of CO2 in the chemical industry (CCU) to be very promising, as brought up by Dr. Georg Müller, CEO of the Mannheim energy supplier MVV and board member of the ZEW Sponsors’ Association. He was against questioning subsidies such as the tax relief for diesel fuel, however. The federal government had instead decided on CO2 pricing for the energy and heating sector, Altmaier explained.

Photo gallery of the event: www.zew.de/AM6985-1

Carola Hesch, carola.hesch@zew.de
Eleventh ReCapNet Conference at ZEW

The eleventh Real Estate and Capital Markets Network (ReCapNet) conference took place at ZEW on 14 and 15 November 2019. Around 40 researchers from all over the world discussed current findings on the subject of real estate asset pricing. Keynote speeches and presentations of research papers focused on questions relating to pricing and the risks of real estate investments. In his keynote speech, Professor Jacob Sagi from the University of Northern Carolina at Chapel Hill addressed the latest developments in research on real estate asset pricing for capital investments in commercial real estate.

In the course of the ReCapNet conference, twelve research papers were presented. The next ReCapNet conference is scheduled to take place on 12 and 13 November 2020 and will focus on real estate markets and their interaction with global trends such as urbanisation and demographic change.

ZEW Researchers Attend AEA/ASSA Annual Meeting 2020 in San Diego

Scientists from ZEW once again attended the ASSA Annual Meeting held in the US in 2020. Taking place from 3 to 5 January in San Diego, the 2020 edition of the event welcomed over 13,000 participants. This makes the ASSA Annual Meeting the most important conference in the world for economists. The conference is jointly organised by the American Economic Association (AEA) and the Allied Social Science Association (ASSA). ZEW researchers presented latest research findings during various sessions at the three-day conference, among which Professor Martin Kesternich, deputy head of the ZEW “Environmental and Resource Economics, Environmental Management” Department, Dr. Dominik Rehse, head of the ZEW Junior Research Group “Digital Market Design”, and Dr. Carolin Schmidt from the “International Finance and Financial Management” Department. The event provides ample opportunity for both renowned professors, including several Nobel laureates, and young researchers to discuss their research findings.

What Europe Can Prepare for – ZEW President Taking a Look at the World Economy

In his first New Year’s Lecture at ZEW Mannheim, ZEW President Professor Achim Wambach talked about which developments will determine the global economy in the near future – and how the EU can position itself to compete with the other two major economic powers, China and the USA. He began his lecture entitled “America First, Made in China 2025 – and Europe?” with a look at the current economic situation. The ZEW indicator of economic sentiment rose in January 2020 to its highest value since July 2015. Wambach explained how international factors were the main causes of the domestic economy weakening in summer 2019, such as the impending Brexit, or the trade conflict between the USA and China.

According to Wambach, US President Trump’s tariff policy is not protectionist in principle, but rather a negotiating instrument. It even has its advantages for the EU: “We actually benefit from trade diversions because the EU now partly supplies the US with products no longer coming from China.” He further pointed out that the EU has been reacting to protectionist signals from the USA in 2019 by negotiating its own bilateral free trade agreements. With respect to China, the particularly challenging question is how Germany and the EU are to deal with a very strong state that doesn’t follow the conventional rules of a market economy. Germany has already reacted to China’s position of power with some measures making foreign takeovers of German companies more difficult. “For the future, an investment agreement with China would certainly help,” said Wambach.
The German Real Estate Finance Index (DIFI) by ZEW and JLL, which reflects survey participants’ assessment of the current situation of and expectations for the commercial real estate financing market, deteriorated again in the fourth quarter of 2019. The index dropped slightly by 4.4 points to minus 15.2 points, the reason being the clearly negative assessment of the financing situation in the past six months despite an improved assessment of financing expectations. Furthermore, experts remain sceptical about economic developments and global uncertainties such as Brexit and various ongoing trade disputes. Survey participants were also asked about the effects of global trends (including urbanisation, climate protection, and digitalisation) on future real estate financing, the result being that according to the experts, climate protection will have a particularly large impact on financing conditions in all asset classes.

Dr. Carolin Schmidt, carolin.schmidt@zew.de

This month’s special question included in the ZEW Financial Market Report regarding German economic growth 2019–2021 reveals that the experts’ average expectations for 2020 have risen slightly. According to first calculations by the Federal Statistical Office, the price-adjusted growth rate of the German economy in 2019 was 0.6 per cent. Due to international trade conflicts, experts repeatedly revised their forecasts downwards in the course of 2019, with the median forecast for the economic growth rate in 2019 falling from 1.4 per cent in January 2019 to 0.6 per cent in October 2019. For 2020, the respondents expect a median growth rate of 1.0 per cent, 0.1 percentage points higher than in the October 2019 special question. In January 2020, however, the experts are slightly more pessimistic about the outlook for 2021, the median forecast being 0.1 percentage points lower than in October 2019 and currently standing at 1.1 per cent.

Frank Brückbauer, frank.brueckbauer@zew.de

### Social Mobility and Economic Performance

ZEW will host an international workshop that will bring together scholars contributing to the growing literature on social mobility and its relationship with economic performance. Contributions exploring the causes and consequences of changes in the intergenerational transmission of economic status are particularly welcome. We also encourage submissions related to social mobility, the geography of intergenerational mobility and/or mobility in a cross-country perspective. Researchers are invited to submit a paper to socialmobility2020@zew.de no later than 15 April 2020. More information: www.zew.de/VA3064-1

### ICT Conference at ZEW

ZEW is pleased to announce its 18th ZEW Conference on the Economics of Information and Communication Technologies on 2 and 3 July 2020. The objective of the conference is to discuss recent scientific contributions to the economics ICT and the economics of ICT industries. Theoretical, empirical and policy-oriented contributions are welcome. There will be invited and contributed sessions. The deadline for submission of full papers is 10 March 2020. Please submit a paper in PDF or MS Word format to ict-conference@zew.de. Further information is available at: www.zew.de/VA3018-1
Germany Needs a More Efficient Climate Policy

At her recent annual New Year’s address, the German Chancellor Angela Merkel renewed her commitment to climate action, stating that “I will do everything in my power to ensure that Germany does its part – ecologically, economically, societally – to get climate change under control.” Climate policy is becoming increasingly important in Germany. In September 2019, the Cabinet rolled out a new climate bill, which provides for carbon pricing in the transport and heating sectors through a national CO2 emissions trading system. The system is a sensible way to induce companies, public institutions and private individuals to reduce emissions. Enacting ambitious climate policy is very expensive, which is why policymakers must steer clear of inefficient measures and abandon existing measures that have proven ineffective.

This is all the more reason to ask why Germany’s climate bill reduces the value added tax (VAT) for long-distance train travel. Trains run largely on electricity, whose production, insofar as it comes from coal or gas power plants, is subject to the EU ETS. Deutsche Bahn’s competitors – airlines, bus operators and drivers – all in one way or another foot the bill of the CO2 they produce. Hence, the preferential treatment that the VAT reduction gives trains can no longer be justified on the grounds of climate protection. A better approach would be to promote the expansion of railway infrastructure because high CO2 prices are very likely to increase train use.

Another measure that is ineffective with regard to CO2 emissions is the promotion of renewable energy. In 2018, direct remuneration to the operators of renewable energy installations reached 32 billion euros, an all-time record. However, European electricity generation is part of the EU ETS. A country that produces additional electricity from renewables needs fewer certificates for electricity generation. But since the total number of allowances is fixed, the use of fewer allowances in one area entails the use of more elsewhere, which means that more CO2 is emitted in other sectors or elsewhere in Europe. This undermines the argument that the state promotion of renewables serves climate policy. This is not to say that more renewable energy is undesirable, of course. As CO2 prices rise, renewables are likely to hold their own on the market even without subsidies. Instead of funding renewables, the government should make it easier for private companies to invest in the expansion of wind power plants and electricity grids.

The effectiveness of many of the “small” climate measures also seems doubtful in light of the EU ETS and carbon pricing. For instance, the recent discussions about imposing a speed limit of 130 km/h on German motorways were held with much enthusiasm. But while such a measure could perhaps be justified on the grounds that it lowers the risk of accident, it is not an effective climate measure. Diesel, petrol and electricity for cars are either already included in the EU ETS or will soon be subject to national carbon pricing and national emissions trading. But the resulting CO2 prices are enough to change behaviour. If someone still wants to drive at 180 km/h or own an SUV, he or she should be free to pay for it – perhaps by forgoing a flight to Spain. In a market economy, the freedom to decide which environmentally harmful behaviours to forgo should lie with the individual. CO2 prices and emissions trading ensure that these decisions collectively result in an adequate reduction in emissions.