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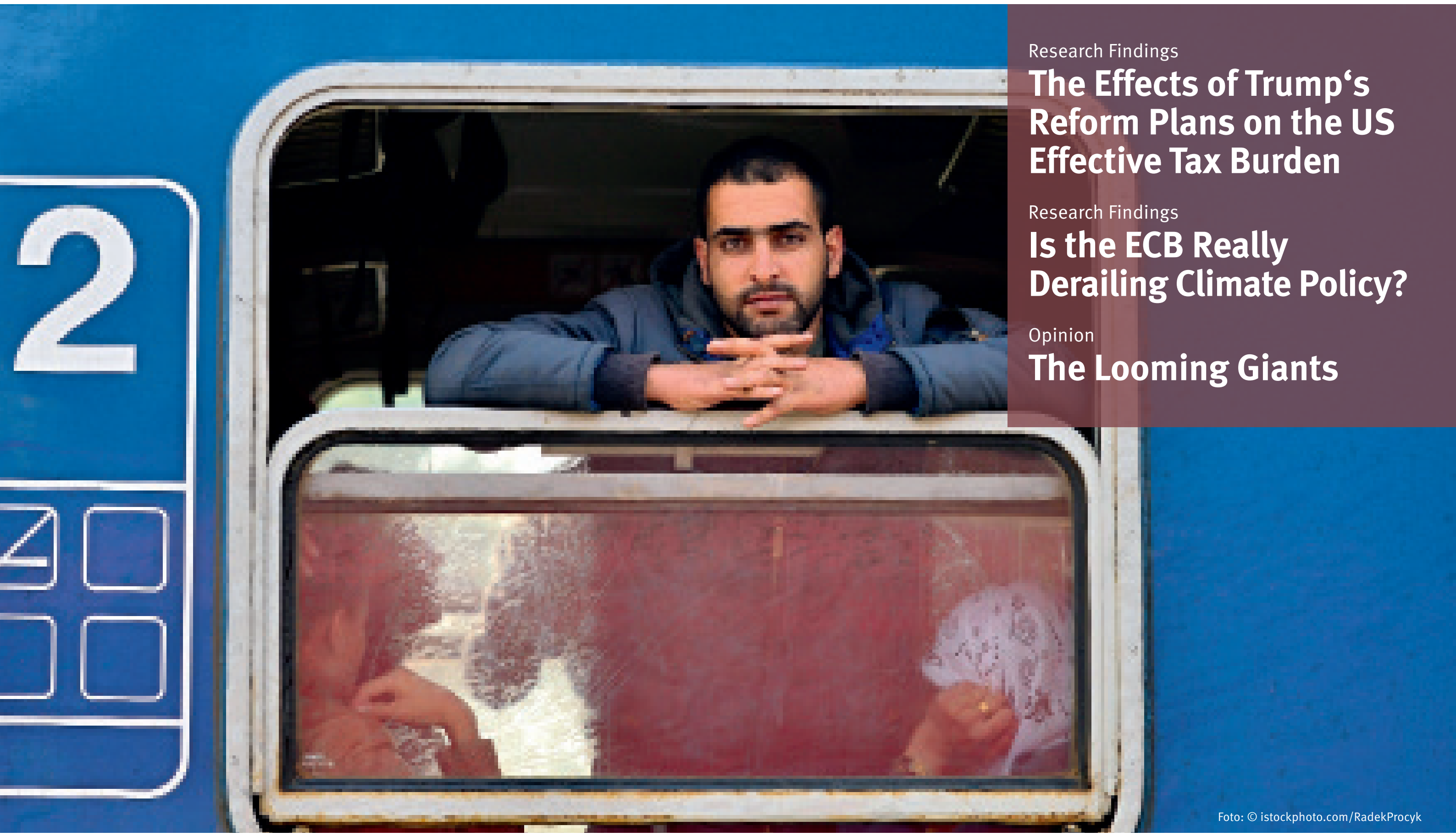

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The Effects of the Influx of Refugees on Jobs, Voting Behaviour and Crime Rate

The effects of the large influx of refugees arriving in Germany have been the focus of intense political and social debate. A joint study by ZEW and the University of Strathclyde has been investigating the short-term effects of this migration on unemployment, crimes rates and voting behaviour in Germany. The results of the study show that increased migration leads to higher unemployment rates among non-German workers in particular. Crime rates experienced only a negligible change. A larger influx of refugees or the existence of an immigrant reception centre in a particular region does not on their own lead to greater electoral success for anti-migration parties in comparison with other regions with no large influxes of migrants or reception centres.

The study is largely based on data from the state ministries on the distribution of refugees and refugee allocation capacity at a regional level between 2013 and mid-2016. The collected data thus provides observations for each region both before and after the refugee crisis.

No impact of unemployment rates among Germans

The study shows no indication that local German-born workers were squeezed out by migrant workers during the time frame in question. There was also no difference evident between states with lower levels of migration and those with higher levels. In fact, total unemployment actually decreased slightly across all regions. There is, however, a link between an increase in the number of migrants and a rise in the unemployment rate among non-German workers. Keeping in mind that asylum seekers are only allowed to enter the labour market once their asylum claim is positively decided, the effect cannot be too large at this point in time. In the first quarter of 2016, for instance, German unemployment statistics recorded an additional 150,000 non-German job seekers. This means that the average unemployment rate among this particular group rises by 1.2 per cent when, for every 100,000 German residents, 387 refugees are added to the population. Rather than replacing native or old immigrant workers, we find that refugees themselfs have been struggeling to find work and register as seeking for employment.

The influx of migrants has only had isolated and at least until 2015 rather marginal effects on crime rates. With the exception of migrants breaking the terms of their right to residence or asylum, there is no connection between the number of refugees and the number of criminal offences committed in Germany on a regional level, according to the ZEW study. In general, between 2013 and 2015 the number of criminal offences has only risen marginally in regions which have had to cope with larger influxes of refugees. There is, however, indication of a link between larger refugee reception centres and drug-related crimes and fare-dodging as well as a higher number of non-German as well as German suspects in relation to these crimes.

When it comes to drug-related crimes, there are significant effects associated with refugee reception camps. The average refugee capacity per region of 200 extra beds per 100,000 residents is linked to an increase of around four additional drug-related crimes; that amounts to an average increase in drug-related crime of around 1.4 per cent in these regions. Furthermore, the results suggest that the opening of a reception center results in an increase in drug-related offences committed by both Germans and non-Germans. A possible explanation can be the increased police alertness in this particular area as well as longer waiting periods for asylum claims.

AfD electoral success not driven by local refugee flows

While AfD ("Alternative for Germany") received an overall increase in their vote shares, there is little indication that direct contact with refugees or their placement in a particular region made voters living there more likely to vote for or against anti-immigration parties. "We can not rule out, that the refugee crisis had an effect on the electoral success of AfD. However, by comparing the various regions we can see that a large influx of migrants in a particular region or the presence of a reception centre there is on its own not a decisive factor in the electoral success of the AfD," explains Martin Ungerer, ZEW economist and co-author of the study.

According to Ungerer, the electoral gains of the AfD in constituencies experiencing higher influxes of migrants are no more pronounced than those in constituencies with lower levels of migration. "Our results do, however, show that the incumbent parties on state level – the Christ-Democrats (CDU), the Social-Democrats (SPD) – as well as the Green party were all forced to accept heavier losses in constituencies with greater increases in migrant numbers," states Ungerer. The incumbent parties lost on average 4.5 per cent of their share of the vote for every 387 migrants per 100,000 residents added to the population.

The complete study is available at: *www.zew.de/PU78668*

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Increased migration leads to higher unemployment rates among non-German workers in particular.

German SMEs: Successfully Exploited Market Niches Are No Guarantee for Future Success

Small and medium-sized enterprises (SMEs) in Germany rely on specialisation and finding niches in the market. This continues to be a model for success in the future. Markets and products are, however, subject to constant change. In order to maintain their success, SMEs must maximise their ability to strategize. This is the finding of a new study carried out by ZEW and Prognos, on behalf of the Federal Ministry of Economic Affairs and Energy.

The study, entitled "2025 Innovative SMEs – Challenges, Trends and Recommended Actions for the Business Sector and Economic Policy", presents a breakdown of SMEs into two groups. On the one hand, there are those companies who identify trends early, raise questions and devise medium- to long-term strategies so they are able to go in new directions should circumstances change. They recognise potential in new developments and know how to take advantage of them. These constantly researching and innovating companies also include those businesses labelled as "hidden champions".

On the other hand, we have those companies who tend to innovate on an ad hoc basis and in response to the needs of customers. They view so-called disruptive changes that displace existing technologies, products, processes and services as more of a problem than an opportunity. These companies often lack the tools to assess market and technology trends. Furthermore, they are also lacking in strategies and solution approaches of their own to successfully confront these new challenges and avoid falling behind.

Many businesses lack the ability to strategize and take action

There are currently four trends to which small and medium-sized enterprises are under pressure to respond to: increased competition between companies to innovate, digitalisation, globalisation and demographic change. Successfully filling a niche in the market today is no guarantee for a company's future success in the face of rapidly changing circumstances. Here the inability of many businesses to strategize and take action proves to be the biggest constraint on the development of SMEs and the continuation of the "SME model for success". This is because for small and medium-sized enterprises the following rules apply: without medium-term HR planning these firms will lose out when competing for personnel; without an early succession plan they will be left without direction; and without any kind of digitalisation strategy they will be unable to gear their work processes towards the demands of an interconnected and globalised economy. These are exactly the challenges that innovative SMEs must overcome if they still want to successfully compete in the future.

Market niches have to be examined thoroughly

From the results shown, the study is able to derive a number of recommendations to increase the ability of small and medium-sized enterprises to strategize and take action. One of these recommendations, for example, is to create greater transparency for current and future developments, whether they be for new projects, work processes or staff working hours, and to examine currently occupied market niches thoroughly to determine how sustainable they are for the future. Additionally, it is also extremely important for small and medium-sized enterprises to become more digitally competent and to combat the looming shortage of skilled professionals with staffing policies that anticipate this shortfall.

With regard to governmental innovation funding for small and medium-sized enterprises, the study asserts that the national funding sector provides a wide range of measures and programmes. In particular, the continuity and reliability of these programmes are of great significance. One of the direct rewards of the companies' willingness to innovate, however, would be research funding financed through tax reduction – at this point still non-existent in Germany – since it could open up the possibility for returns to flow directly into the R&D budgets of businesses, thus allowing them to expand their capacities.

The complete study is available at: *www.zew.de/PJ1311*

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IN THIS ISSUE

Donald Trump's plans to reform the US corporate tax system are less radical than often perceived.

Effective Tax Burden for US Businesses Falls to Average European Level

Donald Trump's plans to reform the corporate tax system in the Unites States are less radical than often perceived. If the new president implements the tax reform plans he put forward during his 2016 presidential campaign, the effective tax burden for US businesses would merely fall to the average European level. This may not only prevent US businesses from engaging in aggressive tax evasion; Trump's tax reform might also have significant implications for global tax competition. These are the findings of a recent analysis by ZEW.

During his presidential campaign, Donald Trump announced a number of far-reaching changes with regard to corporate taxation. For instance, he announced to reduce the corporate tax rate in the US from 35 per cent to 15 per cent. To compensate for this reduction, tax reliefs are to be eliminated. In addition, foreign corporate profits shall be subject to immediate taxation. Under current rules, US businesses can defer taxation until their overseas profits are repatriated. According to Trump's reform plans, previously generated foreign profits will now be taxed at a rate of 10 per cent.

US tax burden far exceeds the European average

ZEW researchers have calculated the effective average tax rates (EATR) of various countries. On the basis of these calculations, they analysed how the US effective tax burden based on Trump's plans compares to that of other nations, and how the reform affects global tax competition. The research findings have shown that a reduction of the corporate tax rate from 35 per cent to 15 per cent would cause the EATR to fall to 21.2 per cent. With a current EATR level of 36.5 per cent, the tax burden in the US is very high compared to the European average (21.0 per cent). With Trump's reforms, the US would no longer rank among the world's highest taxed countries such as Canada, Japan or France.

Trump's reform plans are not radical

The reduction in the effective tax burden for US-based companies would also incentivise businesses to rethink their global tax strategy. The findings further suggest that Donald Trump's planned reforms, which require businesses to pay taxes on future foreign profits immediately when they are generated, would eliminate current incentives to shift profits offshore. "Compared to European standards, Trump's reform plans are not radical at all," explains Professor Friedrich Heinemann, head of the ZEW Research Department "Corporate Taxation and Public Finance". The reforms constitute a long-overdue adaptation of the tax burden to meet international standards.

"However, Trump is yet to provide an answer to the question as to how he plans to compensate for the imminent tax losses," says Heinemann. The increase in foreign corporate income taxation resulting from the reforms might prompt many US businesses to rethink their choice of location. "As a result, some US businesses might reappear as European or Asian businesses," says Heinemann.

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Prohibition of Booking.com's Best Price Clause Intensifies Direct Marketing of Hotels

In December 2015, the Federal Cartel Office prohibited the online booking portal Booking.com from imposing its best price clause. Against this background, researchers from ZEW in collaboration with external researchers have investigated the impact of best price clauses on the use of different sales channels and on pricing decisions of hotels. The study has shown that in many cases, hotels do not comply with agreed best price clauses. Instead, they set a lower price on their direct channel than on large online travel agents where they also offer rooms. The study has also found evidence that this might be occurring more frequently since the prohibition of Booking.com's best price clause came into effect. In addition, since the Federal Cartel Office prohibited Booking.com from using this clause, the researchers have observed an increase in hotel room offers via direct channels where prices tend to be lower. At the same time, there has been an increase in hotel room offers on Booking.com as well.

Under best price clauses of online travel agents, hotels may not offer better booking conditions and prices on other channels. For the purposes of the study, the researchers analysed data on listing and pricing decisions from several thousand hotels worldwide in the period between January 2016 and June 2016. The study uses data from a travel search engine which compares information from different online travel agents as well as hotel room offers via direct channels.

According to the study, approximately one third of the hotels set their prices lower on the direct channel than on Booking.com. This suggests that hotels prefer to receive bookings through their own website rather than via Booking.com. One reason for this are the comparatively low variable costs associated with an additional booking. By offering hotel rooms via their own website, hotels do not have to pay commission fees charged by online travel agents.

Increased offer of hotel rooms via both direct sales channels and Booking.com

In a second step, the researchers analysed how the behaviour of German hotels has changed after the prohibition of best price clauses in February 2016. The narrow best price clause only impedes hotels from setting lower prices on their direct channels; other online travel agents, however, are excluded from the price parity clause. In the study, the researchers compared German hotels with hotels in other countries where Booking.com's best price clause has not been prohibited. The researchers found that German hotels have increased their use of direct channels in the observed period. In comparison to other European countries, the share of hotels in Germany using direct channels increased by five percentage points. At the same time, the share of hotels offering rooms on Booking.com also increased. In the six months following the prohibition of the best price clause, the share of German hotels using Booking.com increased by approximately 20 percentage points.

More price differentiation

Additionally, the study found that these hotels often set lower prices on their own website than on the online travel agent and that the direct channel was often the cheapest sales channel (with an increased frequency by five percentage points). During the same period, Booking.com itself was more rarely the price leader.

Best price clauses on Booking.com restrict hotels in their pricing decisions.

"These findings suggest that the best price clause imposed by Booking.com restricted hotels in their pricing decision behaviour and possibly also restrained the competition between sales channels," explains Ulrich Laitenberger, ZEW researcher and co-author of the study. The observation that hotels have increased their number of offers on Booking.com after the ban does, however, show that the prohibition of its best price clause might partly also have been beneficial for Booking.com.

The study is available for download at:
http://www.zew.de/PU78348

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Price Increases for the "Last Mile" Increases Demand for High-Speed Broadband Internet

The increase in regulated prices for the last mile causes a demand increase for high-speed, fibre-based technologies among households. Such price increases prompt customers to replace slower, copper-based wire technologies with high-speed fibre-optic connections. Nevertheless, it is not enough for policy-makers to make price adjustments so as to accelerate the expansion of fibre-based broadband technologies and to increase demand for broadband services on a national and EU level. Instead, new instruments need to be introduced, particularly on the customer side. These are the findings of a study by ZEW, which analysed EU-wide access pricing policies for the last mile.

In broadband and telecommunications, the last mile refers to the final segment of the telecommunication access network that delivers the data to customers. In Germany, most of the last-mile technologies are owned by former monopolist Deutsche Telekom, who rents out last-mile technologies to alternative service providers. The prices for these technologies are regulated by national regulatory authorities.

In view of the benefits of high-speed technologies, the EU and the Member States have committed to expanding fast, fibre-based broadband coverage across Europe. To this end, policy-makers will have to motivate households to replace old with new technologies, and at the same time incentivise service providers to invest in high-speed Internet infrastructure. On the supply side, the Digital Agenda for Europe (DAE) gears toward facilitating fast broadband coverage with speeds of at least 30 Mbit/s to all EU citizens by 2020. On the demand side, the DAE aims to ensure that at least 50 per cent of households in the EU subscribe to Internet connections above 100 Mbits/s.

Switching to broadband technology brings price advantages to end-users

The model calculations of the ZEW study have shown that a price increase of one euro for last-mile technologies results in a 1.5 per cent rise in demand for ultra-fast, fibre-based broadband infrastructures across Europe (EU-27). Limiting the analysis to the EU-15 members, the study reveals demand increases of even 2.3 per cent following the price increase. The reason why price increases for last-mile technologies and rises in demand are correlated is that alternative service providers pass a great portion of the price changes on to the customers. This prompts end-users to migrate from old copper-based technologies to new fibre-based connections (business migration effect) since the relative price for old, low-quality technologies increases.

While such a rise in demand due to price increases has been observed among EU-15 countries, this effect does not hold for Eastern European countries. This is primarily due to the fact that Eastern European countries do not have a well-developed copper-based infrastructure which could be replaced by high-speed fibre-based technologies. "This is why pricing policies targeted at last-mile technologies have no significant impact in these countries," explains Wolfgang Briglauer, senior researcher at ZEW and co-author of the study.

EU needs to adopt further measures to promote broadband Internet

Policy-makers should therefore not solely rely on access pricing policies in order to achieve the goals specified in the DAE. In particular, price increases of last-mile technologies have a larger incentivising effect on investments in broadband Internet than they have on the households' adoption of internet services. "This further widens the prevailing gap between supply and demand (take-up rate) for high-speed internet in the EU. If the EU wants to equally promote supply and demand for broadband internet, decision-makers will have to adopt additional measures besides price increases for last-mile technologies; these measures need to be primarily targeted at end-users. One option would be to introduce tax reductions or a voucher system," proposes Briglauer.

The study is based on extensive data sets on the use and expansion of fast broadband technologies in 27 Member States. Sources of data included FTTH Council Europe, Eurostat, EU Digital Agenda Scoreboard, and Euromonitor. The model calculations were made using data from 2003 to 2014.

The complete study is available at: *http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2851337*

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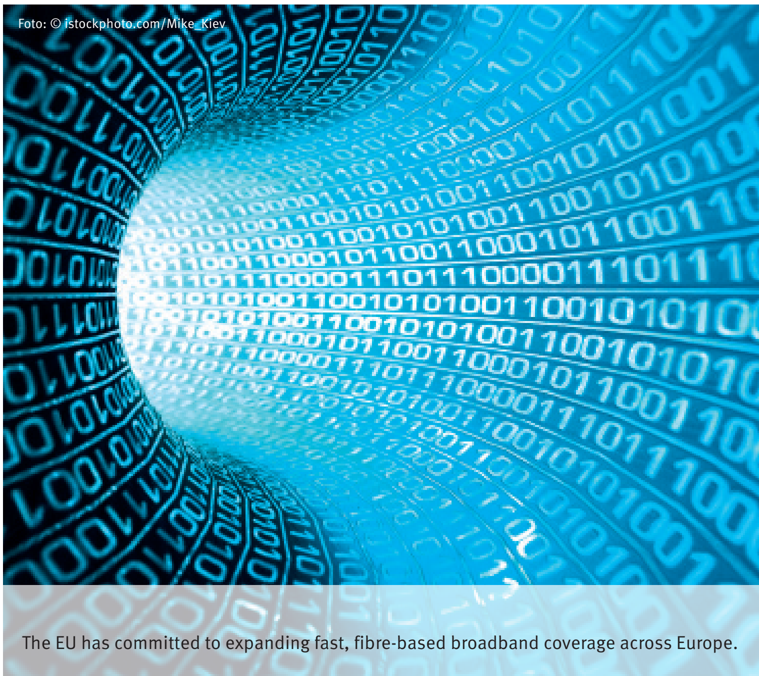

The EU has committed to expanding fast, fibre-based broadband coverage across Europe.

Is the ECB Really Derailing Climate Policy?

Corporate Europe Observatory (CEO) recently accused the European Central Bank of subsidising fossil fuels through quantitative easing. The news got a lot of attention but the NGO's analysis was misleading, says ZEW researcher Claudio Baccianti.

The Corporate Securities Purchasing Programme of the ECB started in June 2016 and is currently holding 49.91 billion euros of corporate bonds of European companies (as of December 2016). CEO found that big corporations in the oil, auto and gas industries directly benefit from bond purchases and argued that they help to "fuel climate change, providing financial support to both oil and gas companies, and car-makers, including Shell, Repsol, Volkswagen, and BMW". However, the CEO's analysis is misleading. Is it possible to reach the conclusion that the ECB programme is detrimental for climate policy, simply by looking at corporate bonds holdings? The answer is clearly not. The ECB is injecting 80 billion euros of liquidity per month (to be reduced to 60 billion in 2017) through the purchase of asset securities. Corporate bonds are a small component, eventually accounting for only 1.6 per cent of total asset holdings. CEO's analysis says nothing about how climate friendly the remaining part of the quantitative easing (QE) is, 98.4 per cent of asset holdings.

Smart policies do not reduce emissions by slashing economic growth

The ECB is lowering financing costs for firms, governments and households, but to a very large extent this is done indirectly through bank lending. Cheaper bank loans are financing both low-carbon and polluting projects. Therefore, it is unclear how CEO can reach such a strong conclusion by just screening a very small fraction of asset purchases. Nevertheless, the question of whether or not QE conflicts with climate policy goals deserves attention. There are in fact cases of economic policies that promote pollution-intensive economic growth, such as lower VAT rates on energy products and tax breaks on commuting expenses. Unconventional monetary policy stimulates borrowing in all sectors, including the oil, gas and auto industries. To the extent that QE supports real GDP growth, both clean and dirty industries get a short-term boost. Yet, higher GDP does not necessarily mean the economy gets dirtier: the scale of production rises but the composition is the truly key factor. Smart climate policies do not reduce carbon emissions by slashing economic growth. With the same logic, we should not blame monetary policy for expanding the size of the economy while keeping the status quo in the way we use energy. The CEO analysis asked the right question without giving a proper answer. There is one reason to think that QE is affecting the composition of economic growth, possibly favouring either carbon-intensive or low-carbon activities: by easing borrowing conditions, the ECB policy benefits the most capital-intensive activities.

There are two opposite effects at work here. The European economy becomes more carbon-intensive if heavy industries get a stronger boost than low-carbon sectors, such as services. That might be the case with QE, not only because heavy industries are capital-intensive, but also because the induced depreciation of the euro currency is generally more beneficial for producers of tradable goods. This is a short-term concern.

Most importantly, easing credit conditions supports investment. Capital spending speeds up the installation of more energy efficient technologies, which lowers energy intensity at the firm and household level over time. What about the carbon intensity of investment in the energy sector? According to New Climate Economy, renewable energy investment is more capital-intensive than fossil fuel power generation and therefore is expected to benefit the most from QE. While waiting for further research on this complex issue, it is important to put the debate on the right track. Capital spending is key in the transition towards a low-carbon economy. According to recent estimates of the International Energy Agency, limiting warming to less than two degrees requires massive global investment by 2040: in cumulative terms, 40 trillion US dollars in the energy sector and another 35 trillion US dollars in energy efficiency. The European Central Bank's main objective nowadays is lifting inflation. To reach this goal in the near term, the central bank can't avoid spending on large existing markets like fossil fuel energy goods. Yet, the asset purchase programme of the ECB, if effective, makes it easier to borrow and invest. It is the role of environmental policy to exploit this opportunity and set the right incentives to have capital spending targeting low-carbon projects.

An earlier version of this article is available at: *https://www.euractiv.com/section/climate-environment/opinion/is-the-ecb-really-derailing-climate-policy/*

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Q&A: What Does an EU Unemployment Benefits Scheme Offer the Eurozone?

A Fiscal Insurance Mechanism Must not Lead to Permanent Transfers Between Members

The European debt crisis has set off a debate about deeper fiscal integration in the European Union. For a while now, there have been discussions about introducing an unemployment benefits scheme to stabilise economic development in the eurozone. Dr. Mathias Dolls, deputy head of ZEW's Research Group "International Distribution and Redistribution", talks about the chances and risks for the eurozone associated with a common unemployment insurance scheme.

What would an EU-wide unemployment benefits scheme look like?

There are essentially two models under discussion. In the first, Member States of the eurozone agree on minimum standards for their national unemployment programmes, which are then introduced as part of an EU-wide scheme. Each Member State may pass additional national regulations that go beyond the minimum standards, allowing, say, higher replacement ratios or longer benefit periods. With this approach, the EU unemployment benefits scheme replaces a portion of national insurance programmes. The financing could be provided by social security contributions.

In the second model, a European fund provides back-up insurance for the national systems. This approach has two central differences compared to the first. For one, the national systems remain completely intact. For another, the unemployed will continue to receive benefits from the national systems. These receive backup from the European system only under exceptional circumstances – such as during major economic crises, when the unemployment rate rises sharply.

Regardless of the model, what's the basic value of having an EU unemployment benefits scheme?

The value depends on the extent it can absorb asymmetric macroeconomic shocks – that is to say, shocks in the eurozone that affect Member States with varying degrees of force. Our work at ZEW has shown that in the period between 2000 and 2013, around 10 per cent of income fluctuations in the labour force could have been absorbed by a European unemployment benefits scheme. Its overall anticyclical effect would have helped stabilise the eurozone.

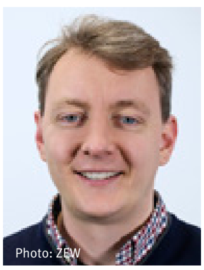
What are the greatest risks to such a scheme and what are some ways to address them?

First and foremost, a fiscal insurance mechanism must not lead to permanent transfers between the Member States of the European Union. Such an outcome would meet with strong resistance in the net contributor countries, making the mechanism politically unviable. Moreover, it is important that support for political reform in countries with structural labour market problems does not weaken. If the collective unemployment benefits scheme exclusively addresses short-term unemployment caused by economic downturns, the majority of the Member States, including Germany, would be net contributors in some years and net beneficiaries in others.

There are some exceptions, however. One way to reduce the likelihood of one-sided transfers and counteract disincentivising effects would be to introduce risk-dependent country-specific insurance premiums. Another important aspect is the harmonisation of national labour market policies. Without it, the danger is large that countries with rigid labour markets will benefit at the cost of countries with flexible labour markets. Hence, participation in collective unemployment benefit schemes should be made conditional on the fulfilment of stability criteria and the passing of reforms.

How can a European fiscal union be implemented in the long term? Europe has already agreed on a stability mechanism and a bank union.

The ZEW plan for a fiscal union includes a sovereign insolvency procedure in addition to the fiscal insurance mechanism. The combination of these instruments should increase market discipline and help cushion major asymmetric shocks. Together with further reforms in the banking sector, they could place the eurozone back on solid footing. Even if these recommendations are not politically viable in the short run, it is important not to lose sight of a sustainable vision for the eurozone.



Mathias Dolls
is Senior Researcher as well as deputy head in the Research Group "International Distribution and Redistribution" at ZEW. He previously worked as a Research Associate at the Institute for the Study of Labor (IZA) in Bonn, Germany, where he is now a Research Fellow. He received his PhD from the University of Cologne in 2012, being a fellow of the Cologne Graduate School in Management, Economics and Social Sciences.
His current research focus is on fiscal policy and the perspectives of fiscal integration in Europe. More broadly, he is interested in empirical public and labour economics with particular reference to the stabilising, redistributive and efficiency effects of tax and transfer systems in an international context.

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ZEW President Professor Achim Wambach welcomed around 300 guests at ZEW's anniversary celebration in Mannheim.

Anniversary Celebration – 25 Years of Excellent Research and Policy Advice at ZEW

In December 2016, ZEW celebrated its 25th birthday. "ZEW has been conducting research at the highest level for 25 years. Alongside this, it also aims to advise, assist and shape economic policy. This combination of excellence and the institute's public orientation is something very special," said Baden-Württemberg Minister for Science Theresia Bauer at the anniversary celebration in Mannheim. Around 300 guests, including friends, patrons and partners of the institute both past and present took up the invitation issued by ZEW's Board of Directors to celebrate a quarter of a century of excellent research and policy advice at ZEW.

Founded as part of a joint initiative between the government of Baden-Württemberg, the economy of Baden-Württemberg and the University of Mannheim in 1990, ZEW opened its doors in 1991. A small group of employees under the leadership of Director Professor Heinz König reported for duty with the mission of making a contribution to the establishment of empirical economic research in Germany.

Today there are around 190 members of staff in nine different research units, supported by around 100 research assistants working on putting ZEW's original mission statement into action. They are carrying out top-level research of practical relevance, training promising young researchers, providing scientifically based economic policy recommendations and making research findings available to the general public beyond the scientific community. "In the past, ZEW has always been involved in social and economic debates. The true value of ZEW can be seen in the way in which its expertise is respected not just among the scientific community, but among the general public as well," said Minister Bauer, who is also head of ZEW's Supervisory Board.

ZEW President Professor Achim Wambach pointed out that, from the very beginning, ZEW has always carried with it an international and above all European outlook. "The very name of our institution obliges us to conduct research into issues affecting both Europe and the whole world. This task is more important than ever in light of pressing problems such as Brexit, the as yet still unsolved debt crisis in the eurozone or the influx of refugees arriving in Europe," explained Wambach.

Alongside Baden-Württemberg Minister of Science Bauer and ZEW President Wambach, both Dr. Alexander Selent, chair of the ZEW Sponsors' Association for Science and Practice, and Professor Ernst-Ludwig von Thadden, President of the University of Mannheim, acknowledged their many years of trustworthy cooperation with ZEW in their welcoming speeches.

The second part of the event was dedicated to the central economic issue of the worldwide downturn in productivity growth. A number of specialist lectures given by the heads of the research units at ZEW as well as a closing discussion dealt with the issue of productivity seen from the perspectives of growth, competition and digitalisation.

Closely associated with ZEW: Friedrich Buttler, Alexander Selent, Wolfgang Franz, Kai Hüschelrath, Irene Bertschek, Georg Licht, Thomas Kohl, Theresia Bauer, Achim Wambach, Ernst-Ludwig von Thadden, Ernst-O. Schulze, Otto H. Jacobs (from left to right).

The closing address of the 25th anniversary ceremony was given by former ZEW President Professor Wolfgang Franz, who headed the institute from 1997 until 2013. In his speech he recalled important moments in ZEW's history and forged a connection between these moments and the current and future challenges the institute will have to overcome.

The event concluded with the Director of Business and Administration Thomas Kohl thanking the long-standing friends of ZEW, the staff, members of the institute's committees, research associates and the Sponsors' Association as well as both the government of Baden-Württemberg and the federal government on behalf of the Board of Directors.

For further information on ZEW please watch our latest corporate video at *https://youtu.be/al0SEg0_SJk*

Kathrin Böhmer, boehmer@zew.de

ZEW Economist Receives Friedrich August von Hayek Award


Photo: ZEW

Dr. Zareh Asatryan, researcher at ZEW's Research Department "Corporate Taxation and Public Finance", was awarded the Friedrich August von Hayek Award for his doctoral thesis by the University of Freiburg. The award honours outstanding doctoral and master's theses submitted at the Faculty of Economics of the University of Freiburg. In his doctoral thesis, ZEW economist Asatryan analysed the influence of direct democracy on local public finances in Germany.


Photo: ZEW

ZEW in the city of Mannheim has achieved a rating of very good to excellent as part of a regular external evaluation by the Leibniz Association.

Evaluation – A Top Rating for ZEW

The Mannheim Centre for European Economic Research (ZEW) has achieved a rating of very good to excellent as part of a regular external evaluation to which all institutions within the Leibniz Association must submit themselves at least once every seven years. On the basis of this result, the Senate of the Leibniz Association has made the decision to recommend further federal and state funding for the institution. In the words of the Senate, "ZEW's work deals with the conditions of many high-functioning markets and institutions in Europe. Using a wide variety of methods, the institute conducts research into current and relevant issues. In doing so, it draws upon, among other things, an impressive bank of empirical data compiled by ZEW itself, which the institute makes accessible through an accredited research data centre. Based on its research results, ZEW is also able to provide comprehensive, high-quality economic policy advising."

ZEW had already been scored well in the previous evaluation in 2009. Since that time, the institute has shown excellent further development, according to the judgement of the Leibniz Association based on the results of the assessment team's evaluation. ZEW has managed to improve its research findings in terms of both quality and quantity and is valued as a highly competent economic policy advisor by ministries, parliaments and institutions as well as the EU Commission and the business world.

Every institution within the Leibniz Association is subject to regular external evaluations. Internationally renowned experts assess the structure and achievements of every institution by way of written documents and an on-site visit.

2017 ASSA Annual Meeting Proves Successful for ZEW

ZEW's attendance at the Annual Meeting of the Allied Social Science Associations (ASSA) proved a success. The world's most important conference in economics offered everything a top class scientific event needs: high-level scientific exchanges, presentations on recent research findings, the opportunity to network with leading economic researchers and new impulses for future research projects. With no less than 11 contributions, the research institute was strongly represented at this year's annual meeting in Chicago – a testament to ZEW's top-level scientific work.

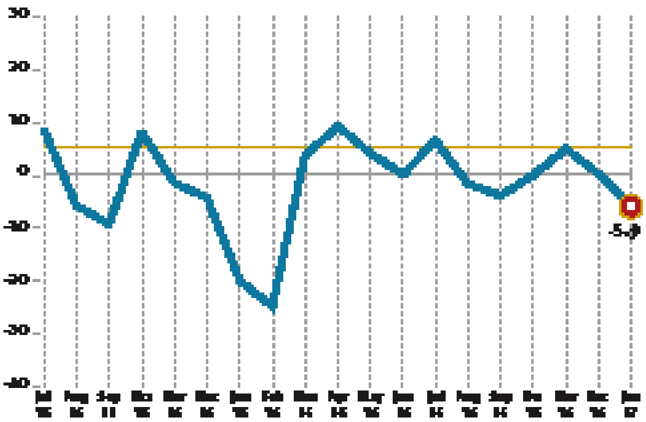
Photo: ZEW

As in previous years, ZEW's information stand served as a contact point for researchers from all over the world.

As in previous years, ZEW had its own information stand at the conference, which served as a contact point for researchers of all career levels who wanted to find out about ZEW, its research areas and potential cooperation opportunities. ASSA participants who visited the ZEW stand showed particular interest in financial issues, research regarding migration and labour market policies as well as current European issues, such as Brexit as well as the future of the EU and the eurozone.

The three-day conference, organised annually by the American Economic Association (AEA), provides a platform for researchers from all over the globe to present and discuss their papers on economic issues. The 2017 ASSA Annual Meeting featured 520 scientific sessions and boasted around 14,000 participants, including numerous Nobel Prize winners. Given the importance of the event, ZEW has, of course, great reason to be back again for next year's annual meeting in Philadelphia.

Weaker Business Expectations for Chinese Economy



Balance of the symmetrically weighted positive and negative assessments regarding the macroeconomic environment in China in twelve months. Survey period: 03 – 17 January 2017. Source: ZEW/Fudan University

In the most recent January survey (conducted between 3 and 17 January 2017), business expectations for China have declined. The CEP Indicator, which reflects the expectations of international financial market experts regarding China's macroeconomic development over the coming twelve months, has dropped by 10.9 points compared to November 2016 to a current total of minus 5.9 points. This falls far below the current long-term average of 5.1 points. The assessment of the current economic situation is more positive: at 2.4 points, the corresponding indicator is currently 7.6 points higher compared to November 2016. Although business expectations continued to fluctuate quite markedly over the past year, a downward trend in the responses is nevertheless distinguishable. This trend is reflected in the point forecasts. However, the surveyed experts do not currently seem to see any greater dangers to the Chinese economy.

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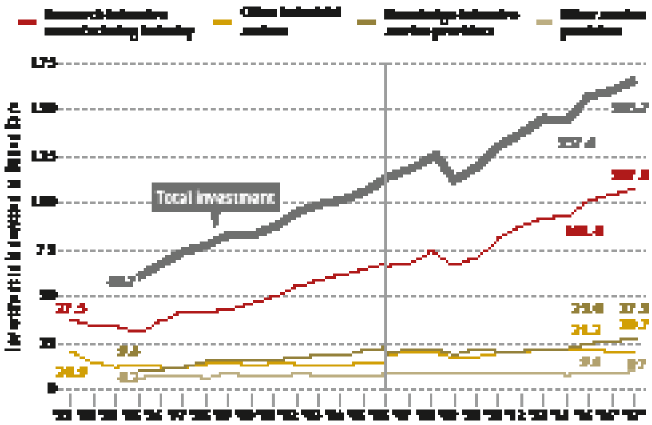
German Businesses Intensify Investment in Innovation



Nominal values; 2006 break in the time series, preliminary values for 2015. *Planning figures for 2016 and 2017, estimated by companies in spring 2016. Source: ZEW

In 2015, German businesses increased their investments in innovation far more than previously planned. They invested a total of 157.4 billion euros in innovation – more than ever before. Compared to the previous year (2014: 145.0 billion euros) expenditure on innovation has increased by 8.8 per cent. The research-intensive manufacturing industry spent a total of 101.2 billion euros, which represents almost 60 per cent of all expenditure on innovations, a 9 per-cent increase compared to the previous year. Knowledge-intensive service providers increased innovation expenditure by 12 per cent (25.0 billion euros), while other service providers increased their spending by 20 per cent (9.4 billion euros). According to a new survey on the innovation behaviour of German businesses, only companies in other industrial sectors bucked the trend, experiencing a slight decrease of minus 0.2 per cent, reaching a total of 21.3 billion euros.

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Conference on the Economics of Information and Communication Technologies

ZEW is pleased to announce the 15th Conference on the Economics of Information and Communication Technologies, taking place in Mannheim from 23 to 24 June 2017. The objective of the conference is to discuss recent scientific contributions to the economics of information and communication technologies (ICT) and the economics of ICT industries. Theoretical, empirical and policy-oriented contributions are welcome. Topics of interest are among others software and Internet industries, ICT and innovation, telecommunication and new media, Internet services, intellectual property rights, ICT outsourcing and more. The deadline for submission of full papers is 1 March 2017. Please submit papers to *ict-conference@zew.de*.
For further information please visit www.zew.de/ict-conference

ZEW/MaCCI Conference on the Economics of Innovation and Patenting

ZEW and the Mannheim Centre for Competition and Innovation (MaCCI) are pleased to announce their 7th conference on the Economics of Innovation and Patenting. The goal of the conference is to present new research and to stimulate discussion between international researchers conducting related empirical and theoretical analysis. Theoretical, empirical, and policy-oriented contributions from all areas of the economics of innovation and patenting are welcome. A non-exhaustive list of topics is drivers of innovation, financing innovation, intellectual property rights, knowledge production and technology transfer. Interested researchers are invited to submit a paper or an extended abstract in PDF format to innopat2017@zew.de. *For further information please visit http://ftp.zew.de/pub/zew-docs/veranstaltungen/CfP_InnoPat2017.pdf*

The Looming Giants

A recent article in The Economist raised concerns about the disproportionate economic power wielded by giant global corporations. Earlier this year, in April, the US Council of Economic Advisers (CEA) published a study about the worrying rise in the market concentration of the most powerful American companies. In 1994, the hundred largest companies generated 33 per cent of US GDP; by 2013, that figure had risen to 46 per cent. In response, President Obama ordered that the CEA report to him every six months with recommendations on actions that eliminate barriers to competition. The situation in Germany paints a somewhat different picture.

The German Monopolies Commission, an independent expert committee that makes policy recommendations on German competition law, has submitted biannual reports on corporate concentration in Germany since 1978. During this time, the share of Germany's GDP generated by the hundred largest companies declined from just under 20 per cent to 16 per cent. The German economy has always been geared towards medium-sized businesses, and that focus has only intensified in recent decades. Moreover, corporate ties among the hundred largest companies have also diminished, both with regard to inter-corporate shareholdings and to the number of persons with associated positions in multiple corporate supervisory boards. The number of corporate links involving multiple board memberships of CEOs has been reduced from 186 instances in 1996 to 45 today. The days of "Germany, Inc." are no more.

Does this mean that Germany has a healthy level of competition? Unfortunately, this does not appear to be the case. For starters, the most powerful American companies operate globally, which means they are active in Europe generally and in Germany specifically. Competition regulators in the EU have been vigilant, as court cases in Brussels (against Google) or in Germany (against Facebook) show. The enormous rise in corporate concentration in the United States constitutes an international problem.

Another phenomenon that has the potential of curtailing competition was mentioned in the most recent report of the German Monopolies Commission: the growing share of institutional ownership in multiple companies in a given economic sector. Institutional investors – e.g. insurance companies, investment funds, pension funds, private equity firms – typically hold minority stakes in companies. For instance, BlackRock owns seven per cent of Bayer and more than eight per cent of Merck. The problem is that it is not necessarily in the interest of BlackRock (to stay with our example) if Bayer poaches customers from Merck. What is gained on the one side is lost on the other.

Institutional investors are often more interested in the performance of an entire sector than that of individual companies. As a result, they have reason to embrace less competition in a branch. And evidence exists that when one and the same investor holds stakes in several companies from the same market, competition decreases and prices rise. A US study found that after BlackRock acquired Barclays Global Investors, fares increased on several air routes. Why? It turned out that, through the purchase, BlackRock now owned shares in multiple airlines servicing these routes.

Though it is still unclear how much of a problem institutional investment poses in Germany, concern is warranted. The global assets manged by institutional investors totalled just under three billion US dollars in 1980. By 2007, it had climbed to 48 billion dollars; by 2014, more than 85 billion. Institutional investors now own more than 60 per cent of the shares issued by DAX-listed companies. This is why Germany's competition regulators must keep a careful eye on ownership concentration going forward. Consider the planned merger of Bayer and Monsanto. Institutional investors such as BlackRock, Vanguard, and Deutsche Bank already own significant shares in both these companies, along with several of their competitors. It is not only giant corporations that influence market concentration and competition. Giant investors do as well.

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