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November/December 2019

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Lobbyists increasingly donate to members of the US House of Representatives to push through contested bills.

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Interest Groups in the US Influence Voting Behaviour on Contested Bills

Vote buying your way to a majority: interest groups increase their donation activity to members of the US House of Representatives in order to push through contested bills with a narrow majority. Members who are known to be indifferent or undecided are most likely to be targeted by interest groups. During election years, campaign finance donations from interest groups increase around voting dates of contested bills. These are the results of a study conducted by ZEW together with the University of Basel, the University of St. Gallen, and the University of Bolzano.

The study examines how campaign contributions and legislative decisions are related, and whether campaign donations actually influence the voting behaviour of members of the US House of Representatives with respect to their legislative decisions. The study focuses on bills that were passed or rejected by a narrow margin, i.e. with a yes vote share of just below or just above 50 per cent.

The results are based on data on roll-call votes and campaign contributions in the US House of Representatives between 1990 and 2014. Data on roll-call votes and bills is based on publications of the US House of Representatives, the Library of Congress, and the US Government Publishing Office (GPO). Data on individual campaign contributions was provided by the Center for Responsive Politics (CRP), a non-profit, nonpartisan research group based in Washington, D.C.

In their study, the authors indeed document a link between well-timed campaign donations from interest groups and the adoption of contested bills. Members of the US House of Rep-

Campaign donations by interest groups affect the voting behaviour of members of the US House of Representatives.

Photo: © iStockphoto.com/carterdayne

resentatives are systematically more likely to narrowly pass bills than to narrowly reject them. The researchers considered total daily campaign contributions to members of the House around the time of roll-call votes over a period of four weeks before and after the voting day. Donations to members during this period are, on average, higher for bills passed by a narrow majority than for bills rejected with the same narrow margin. In the four weeks before and after the vote, the daily total of donations is on average about 190,000 US dollars higher around bills narrowly passed than around bills that were narrowly declined. This suggests that the surplus of yes votes is systematically related to the interests of campaign donors.

Interest groups predominantly make donations to members who are still considered undecided

The bulk of donations goes to members who seem willing to pass the respective bills but are still considered undecided. It is above all these indifferent members of the House which interest groups target. Lobbyists therefore need to know as much as possible about the attitudes and preferences of the members of the House to adjust their activities accordingly. If interest groups are well informed about the respective preferences of individual members, they can approach them in a targeted manner. If this is not the case and information is scarce, however, interest groups have to make donations to random members of the House, which can make donations less efficient and leads to a lower impact on voting results.

Activities of interest groups have much greater impact during election years

The study further shows that the activities of interest groups have a much greater impact during election years than otherwise; the difference in donations between barely won and barely lost votes in the four weeks before and after the vote during election years amounts on average to 280,000 US dollars. This is most likely due to legislators being in need of increased financing during their election campaigns. In addition, interest groups have greater access to members of the US House of Representatives during the election years because there are more occasions to meet and enter into contact with them (for instance at fundraising events), which makes it easier for lobbyists to assert their interests.

The authors furthermore observed a time pattern of systematic irregularities in donations around the date of the vote. Donations already react before the voting result can be observed, meaning that precisely timed donations have an effect on the voting regarding contested bills, and not vice versa. Financing activities are most intensive in the period of about ten days before the vote to the day after the vote, as well as the period of 15 to 24 days after the vote during election years. Money could be a motivating factor immediately before the vote and become a reward after it.

If a bill is contested and the result of the vote is likely to be decided with a relatively narrow margin, the vote of a single legislator or a small number of legislators is decisive for the rejection or adoption of the bill. For interest groups this means that the marginal utility of the required 50 per cent rises sharply. So, convincing another member to vote yes via a high donation becomes cost-efficient.

Interest groups tend to financially support members with a similar political position

Interest groups generally provide financial support to members of the House with whom they share similar political positions. Both sides are influencing each other: interest groups support members whose voting behaviour to date has been geared to the political preferences of the interest groups, and the representatives in turn adjust their voting behaviour on the basis of donations from interest groups. This typically makes a clear identification of the causal direction of the relationship quite difficult. The study now presents a new approach of how this problem can be approached.

The complete study is available for download at: *https://www.zew.de/WS51-1*

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Corporate Landscapes in East and West Germany Are Becoming More and More Alike

The corporate landscape of family-run businesses in East Germany is becoming increasingly similar to that of the former West German states. Three decades after the fall of the Berlin Wall and the subsequent reunification of the two German states, the composition of family-run firms in East Germany and the situation in West Germany are growing more and more alike. This is the key finding of a study carried out by ZEW on behalf of the Foundation for Family Businesses.

As the study shows, the share of large family-run companies in the overall number of family businesses experienced a particularly strong growth. In East Germany, the share of family businesses with more than 500 employees rose from seven per cent in 1993 to 18 per cent in 2017 – thereby reaching the same value recorded in the former West German states. The share of family businesses with 250 to 499 employees even climbed from 17 per cent to 27 per cent. For family businesses of the same size that are based in the former West Germany, this share is only 26 per cent.

In addition, the study shows that there is an increasing number of East German family businesses that are run by local families. By contrast, the share of family-run companies whose owners are from West Germany decreased in the period between 2001 and 2017. While almost one third of family companies with at least 250 employees were in the hands of West German business owners, this figure fell to ten per cent in 2017.

East Germany has a higher proportion of family-run businesses than West Germany

With a value of 92 per cent, the share of family-run businesses is higher in East Germany than it is in the states that were formerly part of West Germany. The federal states with the highest shares of family businesses are Thuringia (93 per cent), Saxony-Anhalt, Saxony, Mecklenburg-Vorpommern, Rhineland-Palatinate and Brandenburg (92 per cent each).

In spring 2019, ZEW had already published a study on the economic importance of family businesses carried out on behalf of the Foundation for Family Businesses. In this study, the researchers found that family-run businesses make a decisive contribution to the economic stability and employ almost 60 per cent of all workers in the private sector.

The study is available to download at: *https://www.familienunternehmen.de/media/public/pdf/publikationen-studien/studien/Entwicklung-Familienunternehmen-neue-Bundeslaender_Studie_Stiftung-Familienunternehmen.pdf*

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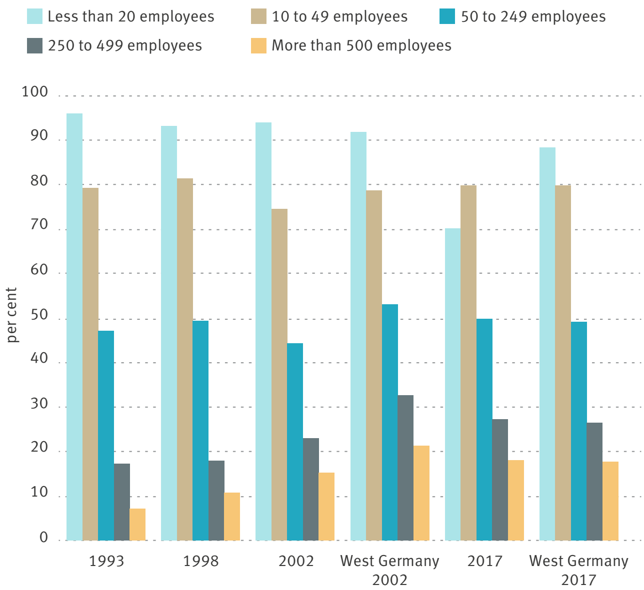
OWNER-MANAGED BUSINESSES IN EAST GERMANY (EXCLUDING BERLIN) AND WEST GERMANY, BY SIZE CATEGORIES



Source: Mannheim Enterprise Panel, calculations by ZEW

IN THIS ISSUE

Q&A: How Do Chinese Executives Approach Germany – and Vice Versa?

"Chinese Executives Want to Learn from German Experts and Firms"

For seven years now, Chinese executives have been attending ZEW's month-long training programme "Fit for Partnership in Germany". The programme, which is funded by the Federal Ministry of Economics and Energy, is overseen by Barbara Hey, deputy head of the ZEW Service Department "Knowledge Transfer and Qualification Programmes", together with her colleague Manuel Lauer. In this interview, she talks about how managers from China engage with Germany and what they expect from their business partners.

Participants in the "Fit for Partnership in Germany" programme attend seminars at ZEW and visit companies on-site. What do the participants learn in the seminars?

In our experience, Chinese managers are very inquisitive and have diverse interests. Participants are perhaps most interested in learning about the German way of doing business and German culture in general. Besides visiting partnering companies, each group attends professional seminars on business management and interpersonal skills. In addition, we provide individualised assistance with specific questions and challenges, such as how to do business with German small and medium-sized enterprises, where to find potential partners, and how to contact them.

At the beginning we were surprised by the strong interest in training related to fundamental business skills, including how to act with confidence and communicate professionally at trade fairs, or how to network with German partners. Ultimately, the participants simply want to feel confident when doing business in a foreign country.


Photo: ZEW

Barbara Hey
is deputy head of the ZEW Service Department "Knowledge Transfer and Qualification Programmes". Having studied business administration and psychology, she is one of the few trainers in Germany who have specialised in the qualification of researchers in the field of soft skills with a focus on presentation, moderation and communication. She has many years of experience in conducting international seminars and coaching sessions, and offers advice not only to academics but also to business experts and managers.

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The programme includes opportunities for Chinese executives to meet managers at local companies. Why is there an interest in German companies?

German companies enjoy an outstanding reputation in China. Chinese managers want to learn from German experts in order to find out what has made the German economy the largest in Europe and one of the strongest economies in the world. Germany is regarded as an attractive sales market for Chinese products – as well as an important source of imports to China. Our participants see German companies as valuable cooperation partners who can open doors to the European Union.

Against this backdrop, we combine classroom instruction with real-world visits to local companies. Participants thus experience first-hand how German small and medium-sized enterprises operate, including how they organises 'dual training', conduct quality management, or select sales channels. Our groups greatly appreciate the opportunity to take a look behind the scenes, and they learn many valuable lessons for their managerial practice back home.

What can German managers learn from their Chinese colleagues – and vice versa?

Chinese entrepreneurs are extremely self-confident; they want to be treated as equal partners and expect their partners to adapt somewhat to their corporate culture. Specifically, this means being more flexible when planning as well as a higher willingness to take risks.

Chinese entrepreneurs are often surprised by German punctuality, as well as by management and training practices. It is difficult for them to accept flat or uncertain hierarchies and they necessarily expect to have the managing director in the room for a meeting, even if, from a German point of view, a lower-ranking specialist would be the best contact person in that case. In this connection, the Chinese could learn from the German focus on proper expertise and efficient organisation.

How successful has the training programme been so far?

The manager training programme by the German Federal Ministry of Economics and Energy is a definite success story. It has existed for 20 years, and more than 30 groups from China have taken part. In our experience, each programme session lays the seeds for numerous partnerships. In some cases, contracts are signed before the four-week programme is over.

For instance, many German small and medium-sized enterprises use the programme as an opportunity to internationalise their activities, a step which would be much more difficult or even impossible to take without external assistance. Overall, the programme has been very successful so far, generating benefits for all sides.

M&A REPORT

German M&A Market in Distress

The number of mergers and acquisitions (M&As) involving German companies has fallen sharply since the beginning of 2019. Signs that M&A activity was cooling off had already become apparent in the summer of 2018. But this year the decline took a dramatic turn. In April, the ZEW-ZEPHYR M&A Index – established in 2005 to measure M&A transactions involving German companies – dropped to 58 points, its lowest level ever. In May, it climbed only two points to a reading of 60 points, which represents the German M&A market's second-poorest showing.

Automobile branch among the hardest hit by decrease in investments

The twelve-month moving average has also tanked since January, dropping 21 points. Never before in its history has the index fallen so far so quickly. In June and July, the index recovered slightly but still remained far below average.

In the first six months of 2019, the largest acquisition involving a German company was construction products maker Knauf AG's purchase of USG, a US competitor in building materials, for almost six billion euros in April. However, the German family-owned company's acquisition of its Chicago-based competitor had been in the works for a while due to months of back-and-forth negotiations, and originated at a time when the economy was still in better shape.

Since the beginning of this year, many corporate decision-makers have been reluctant to make large investments. This also includes investments such as mergers and acquisitions. Among the hardest hit was the manufacturing sector, the automobile branch in particular.

Due to decreased demand in China and the United Kingdom and the lingering effects of the diesel scandal, car sales have declined by 17 per cent since the beginning of the year, which has had strong impact on activities regarding mergers and acquisitions in Germany. Judging by this indicator, it is likely to take some time before the German economy gets back into gear.

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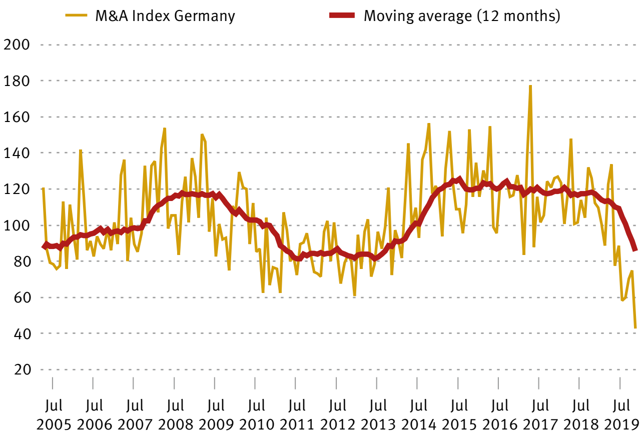
ZEW-ZEPHYR M&A-INDEX GERMANY



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

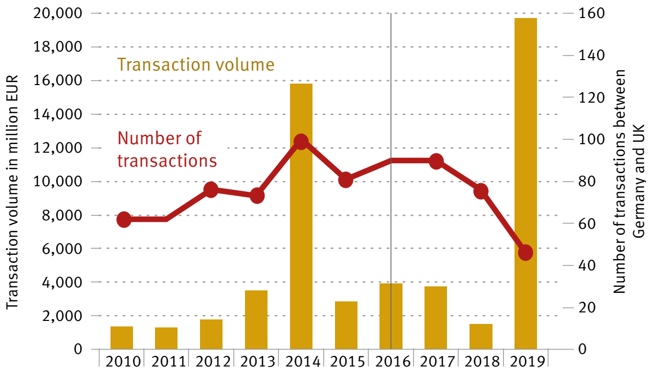
The **ZEW-ZEPHYR M&A-Index** measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international buyer companies are considered, provided that the target companies are active in Germany. The M&A Report is a biannual publication issued by ZEW and Bureau van Dijk. It uses the Zephyr database to report current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated on a daily basis, contains detailed information on over 1.8 million mergers and acquisitions, IPOs, and private equity transactions around the world.

BUREAU VAN DIJK
A Moody's Analytics Company

Brexit Hampers M&A Activity with the UK

Since the Brexit vote three years ago, uncertainty about the future of trade relations between the United Kingdom and the European Union has had a significant effect on M&A activity. Though the total number of transactions with UK companies remained stable in 2017 and 2018, the transaction volume quickly collapsed after the vote. Between 2011 and 2016, the transaction volume of M&A activity rose from under two billion euros to just under four billion euros. The year 2014 was an exception with a volume of about 16 billion euros. The number of transactions started to fall in 2018, when it slipped to 76. Through August of this year, only 46 transactions took place, which coincides with the general decline of M&A activity in Germany. Though this is mainly the result of the economic slump, the Brexit vote has additionally fanned the flames of uncertainty in the business world.

M&A ACTIVITY BETWEEN GERMANY AND THE UK



Source: ZEW

A look at the volume of German purchases in the UK and British acquisitions in Germany shows them to be roughly equal. The high transaction volume in 2019 is largely due to a single deal: Vodafone's takeover of Liberty Global's European cable network for 18.4 billion euros, which included the cable operator Unitymedia.

The number of transactions shows a slightly different picture. Whereas the number of British purchases of German companies was slightly higher than German purchases before the Brexit vote, the situation reversed itself after the votes were tallied, with German companies buying more British firms than the other way around. This may indicate that uncertainty is even greater in Britain than on the Continent.

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Transactions in European Real Estate and Housing Fall Sharply

The number of mergers and acquisitions involving companies in Europe's real estate and housing sector have fluctuated greatly over the past 20 years. From the beginning of the 2000s until the start of the global financial crisis in 2007, the sector saw more than 200 transactions per half year on average. Transactions are defined as mergers or acquisitions with target real estate companies in the EU. This number then dropped to less than 100 transactions in 2009 amid the financial crisis and the subsequent recession. In 2010 and 2011, the volume increased to more than 300 transactions as the European economy recovered. However, by the time M&A activity reached its peak – 510 transactions in the second half of 2013 – economy growth had slowed. 2018 was a mirror image of this incongruity. M&A activity slipped to just under 100 transactions despite a two per cent average growth rate of the EU's real GDP.

The monetary policy of the European Central Bank (ECB) provides some insight into these developments. With its "Whatever it takes" pledge in the summer of 2012, the ECB began to stabilise the yields on the crisis-ridden bond market. At the same time, it gradually lowered the base rate, which eventually reached an all-time low. The low-yield environment and the increased liquidity foregrounded alternative investment opportunities, especially in mergers and aquisitions. This was especially true in the real estate sector, where the promise of steady rental income proved irresistible to many.

The rapidly increasing number of transactions at the beginning of the 2010s included the acquisition of industry jewels by big players with deep pockets. The most important examples were the purchase of the Austrian Immoeast AG by the Austrian Immofinanz AG for approximately 1.5 billion euros and the sale of the London department store Harrods to Qatar Holding for 1.7 billion euros. Beginning in 2012, Germany saw its own share of major deals. In 2012, Deutsche Wohnen AG acquired around 23,500 residential units from the BauBeCon Group for almost 1.2 billion euros. One year later, it purchased GSW Immobilien AG with around 60,000 residential units for 1.7 billion euros. In 2014, Deutsche Annington Immobilien SE acquired 30,000 residential units of the Vitus Group for 1.4 billion euros. Over the next two years, Deutsche Annington Immobilien SE took over SÜDEWO for 1.9 billion euros and GAGFAH SA for 4.3 billion euros. Under the new name Vonovia SE, it is now the largest residential property company in Germany, with around 350,000 units in total.

Though the number of M&A transactions has been declining since 2015, the transaction volume has risen sharply. This indicates that the period of market adjustment to the low-interest environment is coming to an end and the companies that remain are going for very high prices. In 2017 and 2018, the average deal totalled almost 300 million euros, practically double the average between 2012 and 2014, which was 160 million euros. For instance, Vonovia SE acquired the Austrian real estate company Conwert in 2017 for 2.9 billion euros and the Austrian BUWOG AG in 2018 for 3.6 billion euros. Other massive deals in 2018 include the Promotoria Marina's purchase of an 80 per cent stake in the Anida real estate group for four billion euros in Spain and the Covivo Hotels' acquisition of the real estate investor FDM Management for 4.8 billion euros in France. And in Eastern Europe, the real estate fund Rockcastle Global Real Estate acquired New Europe Property Investment for 3.4 billion euros in 2017. The resulting fund, NEPI Rockcastle, is the largest real estate investor in Central and Eastern Europe.

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The European Steel Sector Is Still Waiting for the Next Big Consolidation

In June 2019, the European Commission rejected Thyssenkrupp's bid to buy the Indian steel producer Tata Steel, which would have made Thyssenkrupp Group the second-largest steel manufacturer in Europe. With this deal off the table, European steel continues to wait for the next big step on consolidation.

The industry's last major acquisition took place in 2006, when the Dutch Mittal Steel Company acquired the Luxembourg-based Arcelor for 26 billion euros. By the time the ArcelorMittal Group had absorbed Milan's ILVA in 2012, it had become the world's largest steel manufacturer with 97 million tons of steel produced annually, more than twice the volume produced by the Hesteel Group of China, the world's number two. Thyssenkrupp and Tata Steel are further down, producing 26 and 17 million tons of steel annually, respectively. Apparently, the creation of another dominant player through the merger of Thyssen und Tata was too much for antitrust officials in Brussels.

EU steel makers have been struggling amid declining revenues. The main source of the slump is the poor performance of the automotive industry, which in past years has accounted for half the world's steel deliveries. But the tariffs that Trump has imposed on US steel imports have also put more steel from China and Turkey on the world market, further pushing down prices.

Following the wave of consolidation from 2006 to 2008, M&A activity on the European steel market weakened sharply. By 2016, the number of transactions had fallen to 86, less than half the number in 2007 and 2008. The same goes for the transaction volume in the steel industry, which has been at a very low level since 2009. The European Commission's recent rejection of the Thyssenkrupp-Tata deal means that no major acquisitions are likely in the near future, either.

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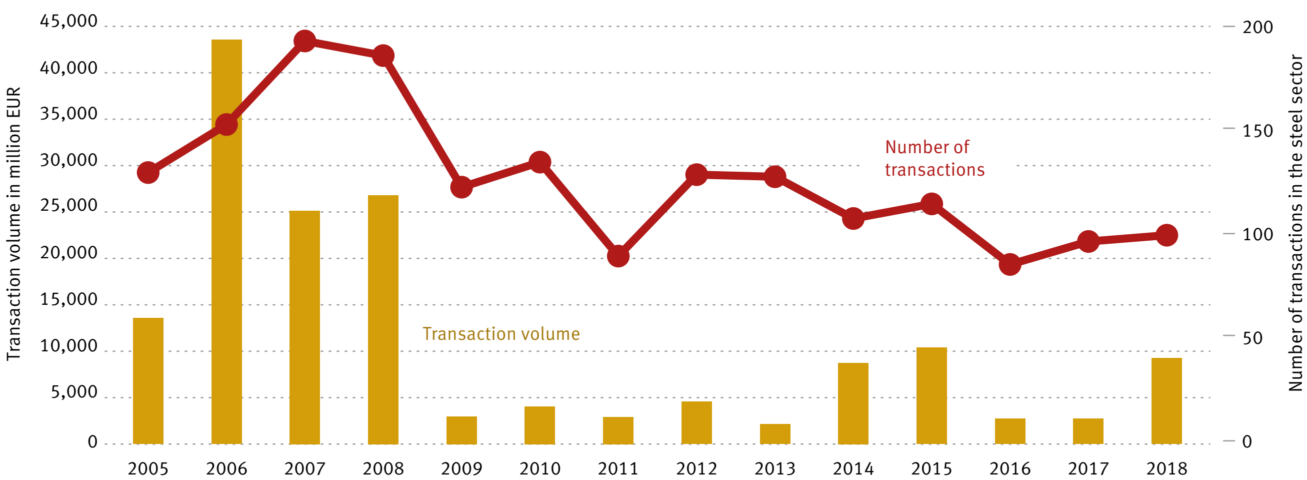
M&A ACTIVITY IN THE EUROPEAN STEEL SECTOR



Source: ZEW


Photo: © iStockphoto.com/ BraunS

Refugee Children Attending Daycare Centres Helps Mothers Integrate Better

If children from families that have fled to Germany attend an early childhood education and care centre, their mothers better integrate into German society. In particular, they become more fluent in German, have better prospects of employment, and are less homesick. Overall, refugee mothers with children in daycare are 42 per cent better integrated – as measured by an overall index of integration – than refugee mothers whose children do not attend daycare.

This is the result of a study conducted jointly by researchers from ZEW Mannheim and the German Institute for Economic Research (DIW Berlin). Representative data from the IAB-BAMF-SOEP Survey of Refugees in Germany from 2016 and 2017 were examined for the study. It was found that children's attendance in a daycare centre has a positive and substantial impact on the integration of refugee mothers, as measured by an index appositely constructed to capture the integration of recently arrived refugees. Information about the benefits associated with attending a daycare centre should therefore be more widely shared with refugee families, along with sufficient places being made available for them.

The analyses show that the successful integration of mothers and fathers is – as expected – also linked to other characteristics, such as their education background or time since their arrival in Germany. But even with those factors taken into account, having the children attend daycare remains relevant; the integration index was found to be 24 per cent higher for parents whose children attend a daycare centre. In particular, mothers with a child in daycare integrate more successfully than mothers of preschool children not attending daycare. For them, the effect of daycare is much stronger (42 per cent) than for fathers (11 per cent).

The possibility that the mothers' children attending daycare produced only a "spurious effect" on integration could be ruled out. Although the proposition that already better integrated mothers tend to send their children to daycare is conceivable, further calculations clearly show that this could be excluded as the driver of the uncovered effects. The influence of the child's daycare attendance on the mother's integration remains substantial and statistically significant, with the influence becoming stronger the longer children are enrolled.

However, compared with other children in Germany, refugee children attend daycare less frequently. In 2017, around 90 per cent of all three-year-olds in Germany were enrolled in a daycare facility, compared to 60 per cent of three-year-olds from refugee families. Daycare centres can thus offer untapped opportunities to better integrate refugee families. Having their children in daycare offers parents good opportunities to use German and increase their exposure to the language of their new country. Furthermore, it relieves parents from caring activities, freeing up time to actively engage in the integration process. The willingness of daycare centres to take on children from refugee families may be also perceived as a welcoming sign, which not only increases parents' efforts to integrate, but also their positive outlook on integration prospects.

Daycare centres clearly contribute more to integration than is conventionally thought

Integration is a decade-long, complex process influenced by many factors. While early education and care centres alone cannot solve all integration problems, the findings suggest that they clearly contribute more than is conventionally thought.

A number of challenges remain. First, the allocation of refugee families in different areas of Germany does not take into account the availability of daycare services. Yet, it is beneficial for the integration of both parents and children to ensure that families with young children have access to this type of service. Second, daycare centres could be equipped with more resources to provide broader family support, helping create hubs where parents meet and overcome isolation, irrespective of their background. Third, while daycare centres are in general not designed to offer tailored support to refugee families, measures to increase the culture-sensitivity of daycare staff could be broadly beneficial, helping refugee parents feel welcome. Community resources are critical ingredients in positive integration, and daycare centres should be considered as a key resource in this process.

The study is available to download at: *www.diw.de/documents/publikationen/73/diw_01.c.694593.de/dp1828.pdf*

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Specialisation Helps to Avoid Job Losses

Digital change is a highly dynamic process that affects Europe's labour markets. Polarisation and inequality are two of the greatest challenges to be tackled. It is therefore important to make and keep people fit for the job market of the future through targeted training and further education. These were the key messages of the most recent ZEW Lunch Debate on 23 October 2019 at the Representation of the State of Baden-Württemberg to the European Union in Brussels.


Photo: © FKPH

On the podium (from left): Ignacio Doreste, ZEW economist Melanie Arntz, moderator Ralph Sina, Andrea Glorioso and Patrick Schwarzkopf.

The ZEW Lunch Debate started with the reassuring statement by Dr. Ulrich Zierahn, senior researcher in ZEW's Research Department "Labour Markets and Human Resources", that not so much the number of jobs but rather the nature of individual tasks will be subject to change in the course of digitalisation. In a keynote speech to around 80 experts from associations, companies, civil society and EU institutions, the ZEW economist outlined the consequences of digitalisation for the labour market.

Zierahn referred to the results of a recent ZEW study, which showed that automation processes have so far created more jobs than they have destroyed. However, not all professions are equally affected by the consequences of digitalisation. "While activities involving interactive and analytical skills will be able to withstand change, routine tasks are particularly in danger of being automated. This increases the risk of growing inequality," said Zierahn. According to him, it must be the task of politicians and companies to prepare the working population for this transformation process by providing training and targeted support. The debate on digitalisation in Europe should focus less on job losses and more on how to cope with technological change.

Despite of the chances, fear prevails among workers

This was the focus of the subsequent panel discussion, moderated by Ralph Sina, head of WDR's radio studio in Brussels. Ignacio Doreste of the European Trade Union Confederation agreed with the results of the study and did not deny the chances of technological change. However, he argued that fear would prevail among workers. "We fear that the European market will become increasingly polarised in terms of wages and skills, with low skilled workers on the losing side, and medium- and high-skilled workers on the winning side," Doreste explained.

Andrea Glorioso of the Directorate-General CONNECT at the EU Commission admitted that the DG had to take these concerns seriously, but also stressed that the European Member States should not evade responsibility: "The best way to cope with digital change is to share the tasks of mastering the labour market transformation among the Member States. Meanwhile, at the European level we need to take care of the coordination and transfer of knowledge."

According to Professor Melanie Arntz, deputy head of the ZEW Research Department "Labour Markets and Human Resources" and co-author of the study presented by Zierahn, it is the flexibility of employees that counts: "Digital transformation does not mean that we all have to learn how to code now. Instead, it is more important to obtain interdisciplinary qualifications in areas where technology is not advancing." Politicians must ensure that people across all age groups and qualification levels are able to keep pace with the transformation process.

Patrick Schwarzkopf, board member of the International Federation of Robotics (IFR) and director of Robotics at the Brussels-based EUnited – European Engineering Industries Association, believes that a hybrid division of labour offers solutions: "The skills of machines and humans are complementary, meaning that they have the potential to enhance one another. They should work hand in hand instead of competing with each other." An ideal area of application is the care sector, in which there is currently a shortage of personnel. However, human care and personal contact are enormously important.

In the subsequent Q&A session, moderator Sina also involved the audience in the discussion. The audience posed numerous questions and provided interesting solutions, such as the introduction of a tax on robots, on the basis of which further training programmes and retraining could be financed and social security systems for employees in Europe could be improved. The EU Commission under Jean-Claude Juncker already worked hard on this matter, emphasised Glorioso.

Melanie Arntz, on the other hand, criticised that taxes could slow down the transformation process. Instead, the ZEW labour market economist argued in favour of strengthening workers' rights. Furthermore, Ignacio Doreste also considered it feasible to reduce working hours while keeping wages at the same level. The coming years will show which solutions policymakers and employers in Europe will ultimately opt for.

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ECJ Advocate General Kokott Addresses New Challenges for Europe's Judiciary

The European Court of Justice (ECJ) strives to safeguard the rule of law within the EU, all while harmonising its own jurisdiction with that of the Member States – a complex task that is not without obstacles, as Professor Juliane Kokott, Advocate General at the ECJ, described during the lecture series First-Hand Information on Economic Policy, which took place at ZEW on 17 October 2019. Some 130 guests came to hear Kokott speak in her capacity as public rapporteur within the EU judiciary on current cases which reflect the conflict-prone state of Europe's rule of law caught between the EU and national levels. In her lecture, which was part of the Leibniz ScienceCampus MannheimTaxation, she focused on recent and highly delicate infringement procedures against Hungary and Poland. According to Kokott, the increased focus of both her own activities and those of the EU's supreme judicial body on matters relating to the rule of law is a relatively recent development. Since the rule of law, basic rights and democracy are so intimately connected, none of the pillars could be a matter of national sovereignty exclusively. Following her presentation, Wambach and Kokott had a lively debate on the procedures for the appointment of judges in democratic states as well as the fact that the ECJ's function and role goes beyond the mere application of EU legislation, reaching the bounds of normative action. The questions from the audience took a similar turn: Does the ECJ advocate the principle of subsidiarity in Europe, particularly in light of the current monetary policy? Does the ECJ's principle of unanimous decision-making lead to deadlock situations in practice? If the discussion is anything to go by, the issues are certain to remain hotly debated.


Photo: © Erich Dichiser EDM

ZEW President Professor Achim Wambach and Advocate General Juliane Kokott discussing the challenges for Europe's judiciary

Conference on Knowledge Transfer Between Industry and Science

Strengthening the exchange of knowledge and technology between universities, public research institutes and firms is a key policy priority in Germany. At the same time, indicators on the extent and content of transfer processes between the two sectors are largely missing. How to proceed on this challenge was at the centre of a conference that took place on 11 October 2019 in Berlin. Jointly organised by ZEW and Stifterverband and supported by the Federal Ministry of Education and Research, the event provided an opportunity for intensive exchange to its more than 130 participants. In four panel sessions, high-ranking representatives of companies, associations, research institutions and politics delved into the depths of technological and knowledge transfer. One of the panel discussions featured ZEW department head Dr. Georg Licht and focussed on disruptive innovations, which by replacing previous products and services have the potential to cause abrupt and fundamental renewals of long-standing, established systems.

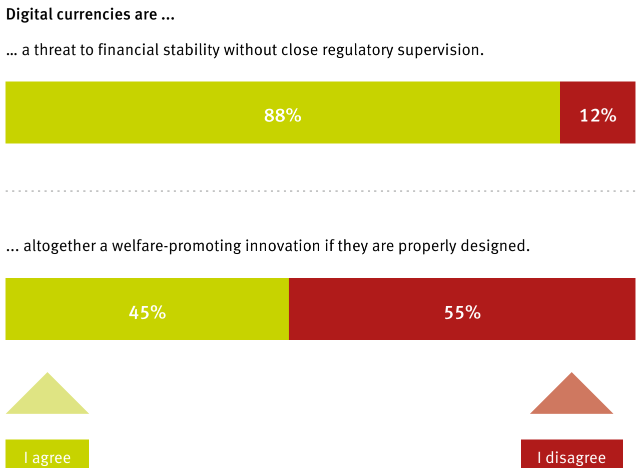

Photo: UIBE

ZEW Research Associate Andreas Löschel during his lecture

ZEW Researchers on Mobility Issues in Beijing

ZEW Mannheim, the University of International Business and Economics (UIBE) in Beijing and the Alexander von Humboldt Foundation jointly organised this year's Beijing Humboldt Forum (BHF) in the Chinese capital on 21–23 September 2019. The BHF was held under the motto "Green Economy, Cultural Heritage, Artificial Intelligence". As part of the event, ZEW hosted a session on "Climate Change Mitigation, Air Pollution Control and the Mobility Sector", during which ZEW researchers engaged in a discussion with international guests regarding the role of environmental, energy, and innovation policies in the development of an emissions-reduced transport sector in the EU and China. Moderators for the session included ZEW Research Associate Professor Andreas Löschel (University of Münster), together with ZEW Research Associate Professor Bodo Sturm (HTWK Leipzig), and Professor Ou Xunmin from Tsinghua University in Beijing. Professor Martin Kesternich, deputy head of the ZEW Environmental Research Department, discussed the role that anxiety plays in decision-making when purchasing electric vehicles, given their limited range. Based on data from daily driving performances in Germany, he showed that more than 80 per cent of current combustion engines could in principle be replaced by an electric car without having to limit the current daily driving performance. The next forum is planned for 2020 in Brazil.

Financial Market Experts: Digital Currencies Without Strict Supervision Dangerous

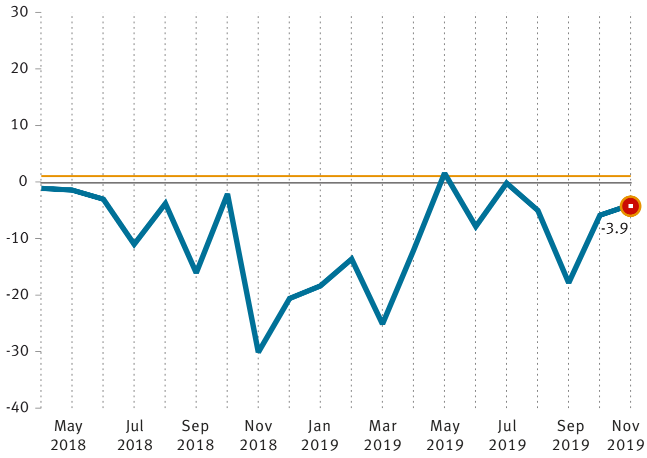


Source: ZEW

Introducing and issuing digital currencies such as Libra, as planned by Facebook, or Bitcoin without strict legal requirements is viewed critically by most financial market experts: around 88 per cent believe that the use of digital currencies without close regulatory supervision poses a threat to financial stability. This is the result of a special question included in the October 2019 issue of the ZEW Financial Market Report. Even assuming that a correct regulatory structure adapted to market conditions would be in place for digital currencies, only 45 per cent of survey participants see a welfare-increasing innovation in them. This rather pessimistic assessment is reflected also in the expectations of financial market experts regarding the use of digital currencies for 2020 and 2030, respectively. For the end of 2020, the experts consider the prevalence of everyday payment options with a digital currency to be unlikely in Germany.

Dr. Dominik Rehse, dominik.rehse@zew.de

Economic Sentiment for China Continues to Rise Slightly



Source: ZEW/Fudan University

In the most recent survey for November, economic sentiment for the Chinese economy has increased slightly by 1.9 points. The CEP (China Economic Panel) Indicator, which reflects the expectations of international financial market experts regarding China's macroeconomic development over the coming 12 months, is currently at minus 3.9 points. The point forecasts for real GDP growth were slightly lowered, however. Growth over the course of the current year is now expected to be 6.1 per cent. The forecast for 2020 was lowered more strongly, from 6.0 per cent in the previous month to a current estimate of 5.8 per cent. Rather striking, the indicators for economic development and property prices in Hong Kong fell by 42.4 points and 58.9 points, respectively. Future economic development in Hong Kong, with a current indicator value of 1.6 points, is nevertheless still rated better than that of the other six major economic regions in China.

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ZEW Public Finance Conference

ZEW is pleased to announce its 2020 Public Finance Conference, which will take place on 7–8 May 2020. The conference is held on an annual basis and aims to cover all fields of public economics and political economy. The 2020 conference focuses on advances in local public economics and features two keynote lectures on this subject. Submissions related to this topic – whether full papers or ongoing projects – are particularly welcome. Interested researchers are invited to submit their paper no later than 15 February 2020. Acceptance decisions will be communicated by early March. More information: *www.zew.de/VA2939-1*

International Labour Market Conference

ZEW is pleased to announce the conference "The German Labor Market in a Globalized World" on 23–24 March 2020. The conference focuses on technology, trade, and demographic changes and the ways they interact with employment, wages, and participation in the labour market, with a particular emphasis on the role of institutions. Interested researchers are invited to submit empirical and theoretical contributions on these topics from all areas of economics and sociology with a focus on labour, education, health, or human resource management no later than 20 December 2019. More information: *www.zew.de/VA3003-1*

The Legacy of Mario Draghi

On 31 October 2019, the term of office of Mario Draghi as President of the European Central Bank ended after eight years, having shaped the ECB like no one before him.

One phrase is associated with him more than any other: 'Whatever it takes'. He made this statement during a July 2012 speech in London to underline the ECB's firm resolve to preserve the euro. At the time, long-term interest rates in Greece had skyrocketed to almost 28 per cent, while 10-year government bonds were hovering around 10 per cent for Portugal, Spain and Italy. A collapse of Italy's economy in particular would have brought the eurozone to its knees. After Draghi's speech, long-term interest rates quickly returned to sustainable levels. Draghi successfully managed the crisis by finding careful language that could soothe nervous financial markets. With Draghi at the helm of the ECB, market communication became a strategic component of monetary policy.

His influence did not stop there. At the end of 2011, the deposit rate was 0.25 per cent. Since then, it has fallen to minus 0.5 per cent. In March 2016, the interest rate at which banks can lend money from the ECB fell to 0 per cent and has not moved since. Due to an extensive asset purchase programme, the ECB balance sheet grew beginning in March 2015 from 2.6 billion euros to almost 4.7 billion euros.

Were these drastic interest rate cuts and bond purchases needed to manage the financial crisis? This question was widely debated at the time, and continues to be today. Though few academic economists doubt the necessity of these measures, the recent interest rate cuts of the ECB, together with its internally controversial decision to resume bond buying, show that these instruments are nearing their limits. There's scarce room for the deposit rate to fall any lower, and bond-buying programmes are unlikely to have as much effect today.

During Draghi's presidency, the ECB's monetary policies came under increasing fire and doubts grew about its independence as an institution. This growing loss of confidence in the ECB is problematic and the central bank must work to restore people's trust in its independence. There's a good reason why monetary policy is delegated to an independent panel of experts; otherwise, a government could drive up inflation by allowing the money supply to grow too quickly. Of course, it didn't help matters that the ECB joined the EC and the IMF to form the European troika, where it made the implementation of austerity measures the condition of financial aid for Greece – actions that clearly exceed the remit of monetary policy.

Going forward, it is crucial that the ECB become more transparent. One way to do that is to publish the minutes of its meetings, as the Fed does, for instance. This would, at any rate, be more expedient than the current process, where opinions and disagreements in the Governing Council reach the public via interviews with individual members.

As a former investment banker, Mario Draghi understood how to communicate with markets and steer them in troubled times. His successor, Christine Lagarde, now has the task of convincing both politicians and the public at large that the ECB is ready for the years to come. Lagarde, who previously held ministerial posts in the French government, is the right person for the job. So is Isabel Schnabel, an economics professor and recent appointee to the executive board of the ECB. Her economic expertise will certainly come in handy for her work at the ECB – and help convey its policies to the German public.

President of ZEW, Prof. Achim Wambach, PhD

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