

with M&A Report

Immigration Barely Affects Approval for Government Unemployment Assistance

Ideally, the welfare state should strengthen social cohesiveness. Yet at the same time, the state is fundamentally built upon political consensus, which requires a certain degree of existing cohesion. Particularly in Anglo-Saxon countries, there has been considerable discussion in recent years about whether immigration weakens social cohesiveness, thereby reducing political support for the welfare state.

The influence of immigration on approval for the welfare state in Germany has not been studied empirically to date. A recent ZEW study (Discussion Pa-

tus, marital status and place of residence, the SOEP survey polls individual attitudes about unemployment insurance. The data from the SOEP survey

lable in the two surveys for this group. Individuals were asked whether the government or individual should be responsible for providing a financial safety net in the event of unemployment. The trend among those surveyed was to accord a major role to the government: about two thirds of the respondents assigned responsibility to “the government alone” or “primarily the government”.

The study then examined whether this affirmation of the government’s role was weaker regionally as a function of the share of foreigners among unemployed persons. While the share of foreigners among the unemployed averages at 13 percent across all regions, there is significant regional variation. In Baden-Württemberg, for example, foreigners account for 24 percent of the overall low unemployment rate, while in Brandenburg, the corresponding figure is only one percent.



Even with a rising share of immigrants among the unemployed, approval among native Germans for government unemployment insurance remains high.

per No. 10-008) fills part of this gap in our knowledge. It explores whether a higher share of foreigners among the unemployed impacts approval among native Germans for government unemployment assistance.

The study evaluates data collected in 1997 and 2002 by the Socio-Economic Panel (SOEP) survey. Besides collecting information on employment sta-

were combined with official statistics about the proportion of foreigners among persons registered as unemployed at the state, regional and county levels.

The study focuses on individuals with German citizenship who were born in Germany. Depending upon the statistical model used, there were between 25,000 and 30,000 observations avail-

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RESEARCH FINDINGS

The study shows that there is indeed a negative correlation between the regional proportion of foreigners among the unemployed and the affirmation of native Germans for government unemployment assistance. However, other factors had a greater impact upon the attitude of German citizens towards unemployment insurance, including family background, gender and their personal

employment status. Thus, women, individuals with a low income and persons from Eastern Germany especially tended to endorse government responsibility for assistance to the unemployed.

If one considers these and other intervening variables in the analysis, it is clearly apparent that in Germany, immigration has a very weak impact on the fundamental approval for govern-

ment unemployment assistance. Even based on the highest coefficient found in the study, one would predict that a one percent increase in the proportion of foreigners among the unemployed would result in only a 0.014 point reduction in the rate of acceptance for government unemployment assistance as measured on a scale between 0 and 5.

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Reformation of Bank Supervisory Boards

According to a survey of over 200 financial market experts conducted by ZEW, the supervisory boards of Germany's banks performed poorly in their role as overseers in recent years and bear partial blame for the financial market crisis. It is therefore essential for the government to enact new legislation that improves the supervisory board structure of Germany's banks, the experts said. In particular, higher requirements should be placed on the qualifications and experience of supervisory board members, and limitations established for the number of positions that a board member can hold. Furthermore, the right of the supervisory board to obtain information from the executive board should be strengthened.

The executive boards of Germany's banks have been subjected to a great deal of criticism in connection with the financial crisis. Yet in Germany's two-tiered board system, bank supervisory boards have drawn much less flak, despite the fact that they are responsible for overseeing management and preventing risky business practices. According to 88 percent of the financial

market experts surveyed by ZEW, the supervisory boards of Germany's banks have neglected their duties, and, as a consequence, are partially responsible for the financial crisis. To address this oversight failure, nine out of ten survey participants voiced their support for considerable changes in the supervisory board structure of Germany's banks. In the opinion of the surveyed

experts, the placement of higher requirements on the qualifications and experience of supervisory board members is the best way to improve supervisory board oversight of bank executives. 94 percent of those surveyed considered such a measure "appropriate" or "very appropriate".

Strengthening the right of the supervisory board to obtain information from the executive board is an appropriate means for improving oversight authority, according to 89 percent of the experts. Furthermore, more than 80 percent agreed that limitations should be established concerning the number of positions that a supervisory board member may hold, and greater requirements placed on the experience of board members. In order to avoid conflicts of interest, 71 percent also advocate establishing a temporary freeze-out period so that departing executive board members may not be directly appointed to the supervisory board.

Financial market experts viewed the placing of limits on the number of supervisory board members with much greater skepticism. The majority of polled analysts also reject performance-based compensation for supervisory board members. Nearly 20 percent view such a measure as totally inappropriate for improving the ability of supervisory boards to oversee executive management.

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Reform of Banks' Supervisory Boards

How effective are the following measures to reform banks' supervisory boards?

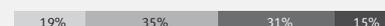
Limitation of supervisory board seats a person can hold



Limitation of supervisory board members



Performance-based compensation



Higher qualification requirements



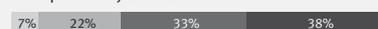
Higher experience requirements



Strengthening the right to obtain information from executive board



Waiting period between change from executive to supervisory board



Legend:
 very ineffective (lightest gray)
 ineffective (light gray)
 appropriate (medium gray)
 very appropriate (darkest gray)

Source: ZEW

RESEARCH FINDINGS

SMEs a Stabilising Force in the Crisis

German small and medium-sized enterprises (SMEs) were hit hard by the crisis in 2009. Yet on the whole, they have proven to be a stabilising force for the economy. Large German companies are more active in export markets and, as a result, have seen their fortunes decline in the crisis to a greater extent than Germany's SMEs, which are predominantly focused on the domestic market. These are the findings of the 2010 MittelstandsMonitor, an annual report on cyclical and structural issues pertaining to German SMEs conducted by KfW Bankengruppe in collaboration with Creditreform, IfM Bonn, RWI Essen and ZEW in Mannheim.

The 2010 MittelstandsMonitor shows that the willingness of many SMEs to invest has only declined to a limited extent, despite the weak turnover resulting from the crisis. Many companies are planning to at least make replacement and rationalisation invest-

ers. An analysis conducted by the German Socio-Economic Panel (SOEP) shows that the working conditions offered by SMEs are not necessarily worse than those offered by large companies. Particularly at small companies (< 20 employees), employees ranked wor-

labour market. Business start-ups by entrepreneurs who were previously unemployed account for a considerable share of all start-up activity in Germany. Around one-fifth of all business founders were unemployed before launching their business, according to data collected in 2005 to 2008 by the "KfW-Gründungsmonitor", a survey of start-up activity in Germany. Previously unemployed business owners typically pursue small-scale entrepreneurial projects. They often started their own business for lack of other employment opportunities. These so-called "necessity start-ups", but not start-ups from unemployment in general, are more frequently abandoned within a short time frame than other start-ups. As a consequence of the economic crisis, the number of business bankruptcies rose in 2009 by an estimated 16 percent, to 34,300 cases. An even higher number of bankruptcies is feared for 2010.

Sources of SME Financing

SMEs finance over 70 percent of their investments in innovation with equity capital; only 12 percent of such investment is financed through bank loans. With regard to general investment, half of all funding comes from equity capital and one-third from bank loans. The information gap between companies and external providers of capital concerning the potential profitability of planned innovations is often the stumbling block that prevents loan approval. Highly innovative companies in particular suffer the ill effects of such informational disparities. When companies rely excessively on internal sources of financing, during times of economic hardship they run the risk of being unable to implement their innovation projects.

The complete 2010 MittelstandsMonitor report is available in German at: www.mittelstandsmonitor.de

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Many companies invest in renewed manufacturing facilities despite the economic crisis.

ments in order to keep their production facilities up to date. At the same time, the majority of SMEs are seeking to retain skilled employees, as many firms have had problems finding qualified personnel, despite the crisis. Thus, in 2009, over a third of companies seeking to hire new employees had difficulties filling positions, particularly when specialists and managerial employees were sought. Yet this was not only due to a lack of qualified applicants. Companies also failed to provide sufficient incentives.

Nevertheless, applicants do not automatically view small and medium-sized enterprises as less attractive than large companies as potential employ-

ing conditions in numerous areas just as highly as at large companies – in some areas, in fact, small companies fared even better. The SOEP data show that while, on the whole, small and medium-sized enterprises offer more attractive immaterial incentives, large companies win out when it comes to material compensation.

From Unemployment to Self-employment

In 2009 the number of business start-ups in Germany was considerably higher than in the previous year. This was first and foremost a product of the economic crisis and its effects on the

RESEARCH FINDINGS

Rising Age of High-tech Founders

While the average age of individuals starting companies in the high-technology sector in Germany was 37.2 years in 1995, by 2008, this figure had risen to 40.8. This is a key finding of the current issue of "High-Tech-Gründungen in Deutschland", an annual study of high-tech start-ups conducted by the Centre for European Economic Research (ZEW) in collaboration with Microsoft Germany.

Currently, fewer than 25 percent of business founders in the high-technology sector are under 32 years of age. Thus, the stereotype of the young tech-savvy entrepreneur who starts a company in college or right after graduation needs to be revised. The study clearly shows a rising age of individuals launching start-ups which can be attributed to the demographic change during this period. Nevertheless, this upward age trend cannot continue indefinitely. Between 1995 and 2008 there was a 25 percent drop in start-up activity in the high-technology sector. If nothing is done to improve the underlying conditions for the establishment of new high-tech companies in Germany, the number of start-ups will continue to fall simply on the basis of demographic change – by an anticipated ten percent by the year 2030 and twenty percent by the year 2050.

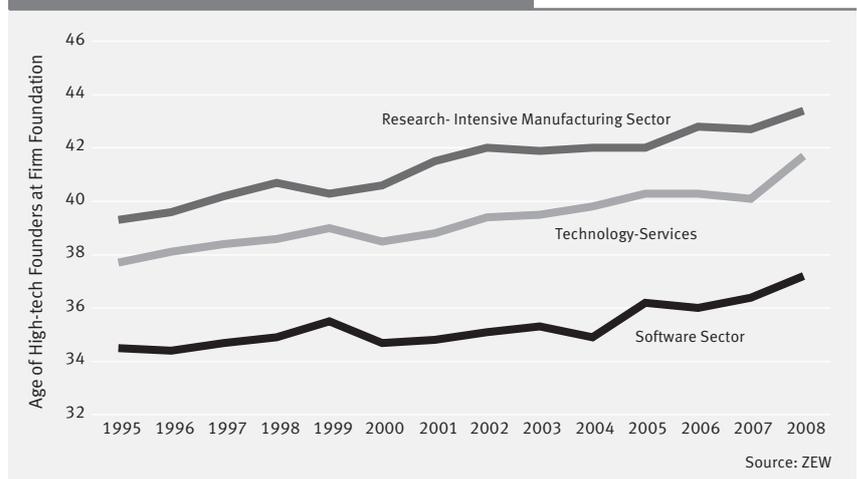
Many Common Features of High-tech Founders

Aside from analysing age distribution, the study explored the characteristics of high-tech founders in various

age groups as well as how the underlying conditions for the establishment of start-ups might be improved. It was demonstrated that irrespective of age,

and IT companies, while older entrepreneurs were likelier to be involved in research-intensive manufacturing. Older founders generally had more capital available and chose legal structures with more limited liability, such as the GmbH. Younger founders, by contrast, preferred less expensive legal structures and relied upon flexible employment models.

Development of High-tech Founders' Age



founders had a great deal in common, including their motivations for starting a company, research activities, level of product innovation and principal sources of financing. Differences were evident, however, with respect to the sectors they tended to prefer: young entrepreneurs more often started software

The research findings make clear that the introduction of a start-up subsidy programme that uses age as a key criterion for assistance would be unproductive. The differences between age cohorts are not significant enough to justify this. Instead, policy should aim to improve overall conditions for high-tech founders in Germany so that the start-up potential manifest in older individuals, women and academics may be better exploited.

Since the year 2006, ZEW has been studying selected aspects of business start-ups in the high-tech sector in Germany in collaboration with Microsoft Germany. The findings are published annually in the study series "High-Tech-Gründungen in Deutschland", which is available in German language at ZEW's entrepreneurial research platform www.zew.de/gruendungen

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The **high-tech sector** is composed of the research-intensive manufacturing and technology-services sectors. Branches of the economy in which at least 2.5 percent of total turnover is invested in R&D are deemed to be part of the research-intensive manufacturing sector, which encompasses, among others, the mechanical engineering, electrical technology and medical technology industries. The technology-services sector is composed of businesses whose provide services that require technologically demanding activities, such as the telecommunications and data-processing service industries, companies that offer R&D services, architectural and engineering firms as well as technical laboratories. Of course, the software sector also forms part of technology-services sector, but because of its significance in information-based economies, it is considered separately.

RESEARCH FINDINGS

Corporate Taxes in Europe – It Pays off to Take a Closer Look

The effective tax burden on companies varies in Germany from place to place. While tax levels in Germany's sixteen largest economic centres are relatively high on an international scale, German municipalities with the lowest effective tax burdens are on par with Swiss cities such as Bern and Geneva. However, even in these German municipalities effective tax levels are far above those found in the group of low-tax locations that again led the BAK Taxation Index, including Hong Kong and the Swiss canton of Appenzell Ausserrhoden.

These are the findings of the 2009 BAK Taxation Index for companies, a study carried out by the Centre for European Economic Research (ZEW) on behalf of BAK Basel Economics AG. The BAK Taxation Index measures the effective tax burden of domestic corporations. In 2009 over 80 locations in industrial nations around the world are analysed and compared. Hong Kong leads the ranking in 2009, with an effective average tax burden of 9.7 percent. New York, by contrast, ranks highest, with an effective tax burden of 41.8 percent. Furthermore, the sixteen Swiss cantons assessed by the Index as well as numerous economic centres in Eastern Europe display low effective tax rates.

Tax Rate Variations at Local Scale

There is also considerable tax rate variation at the local level, particularly in Germany and Switzerland. This variation is assessed in detail by the BAK Taxation Index 2009 for the first time. For each of the sixteen German states and sixteen Swiss cantons that are evaluated, the Index presents the effective tax rates in the economically most important city, as well as in the municipalities with the lowest and highest tax levels.

Of all German economic centres assessed, Erfurt – the capital of Thuringia – shows the lowest effective corporate tax rate. With an effective average tax burden of 26.2 percent, Erfurt ranked 83rd of 124 locations. The German economic centre with the highest tax rate,

Munich, shows up in much higher ranks (109th, with an effective company tax burden of 29.1 percent). Primarily French and US cities such as Paris (31.5 percent) and New York display even

between capital cities and smaller municipalities can be observed in the Swiss cantons. In ten of the sixteen cantons that were assessed, the effective tax burden in the cantonal capital is considerably higher than the minimum tax burden found within that same canton. Thus, the detailed analysis of intra-regional variation in effective company tax burdens even underlines Switzerland's role as a low-tax country. For example, while the effective company tax burden in the capital city of



Comparisons of the effective tax rate paid by corporations show significant differences even within the same country or region.

higher tax levels. The lowest taxing municipalities can be found in the German federal states of Brandenburg, Mecklenburg-Western Pomerania and Thuringia. The effective average tax rate there is just 20 percent, a rate which places them on par or even below Swiss metropolises such as Zurich (18.2 percent), Bern (18.5 percent), Basel (20.9 percent) and Geneva (21.5 percent).

Low-Tax Country Switzerland

The lowest taxing German locations are, however, much smaller municipalities. A similar difference in tax levels

the canton of Schwyz amounts to 16.1 percent, the lowest rate within the canton is just 12.4 percent. Clearly, even those German municipalities with comparatively low tax rates do not at all reach the low levels found in the locations that lead the BAK Taxation Index 2009. Alongside Hong Kong, the Swiss cantons of Appenzell Ausserrhoden (10.8 percent), Obwalden (11.1 percent) and Nidwalden (12.7 percent) remain almost unrivalled for their low tax rates. The cantons of Schaffhausen and St. Gallen are also very attractive from a tax perspective.

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ZEW CONFERENCE

ZEW and WISE Organise “LABOR 2009”

On 12-13 December 2009 the Wang Yanan Institute for Studies in Economics (WISE) and ZEW jointly held the 2009 International Symposium on Contemporary Labor Economics (LABOR 2009) in Xiamen, China. Fifty labour market researchers from Asia, Africa, Europe and the US gathered in the South Chinese port city in order to discuss questions pertaining to labour market dynamics and poverty reduction.

ZEW's research department of Labour Markets, Human Resources and Social Policy for the first time took part in organising the conference, which has been held annually since 2006. The conference has quickly grown to become one of the important forums of labour market research in Asia. “I am pleased that the partnership between

The presentation given by David Neumark of the University of California at Irvine was concerned with the role of networks in the hiring of employees. A key focus in this research is placed on the proximity to which employees of a company live near one another. On the basis of linked employer-employee data from the US, Neumark has shown that



Participants at the LABOR 2009 held in Xiamen, China.

WISE and ZEW, which began with visits between the two institutes, is now visible as a joint conference,” WISE director Hong Yongmiao explained at the conference kick-off.

Several renowned keynote speakers were welcomed at the conference. Jim Albrecht of Georgetown University surveyed the latest developments in the use of the Machado-Mata method. The method uses quantile regression decomposition to analyze how much of the difference across two distributions (e.g. two wage distributions by gender) is attributable to differences in observables (e.g. education levels), and how much to differences in the impact of these observables on the outcome of interest (e.g. the rate of return on human capital).

the employees of a company more often live in the same neighbourhood than it would be the case supposed employees were randomly drawn from the relevant

labour market region. The network effects that stem from place of residence are particularly evident among minorities and low-skilled workers.

Susan Vroman of Georgetown University gave a presentation on the use of job search theory to study economies with an important informal sector. She showed that labour market policies targeted at the formal sector can produce important spill-over effects on the informal sector. They may shift relative wages between sectors, affect formal-sector output as well as informal-sector output, and change the number of the workforce in unemployment, informal-sector employment and formal-sector employment. Thus, even when policies only address one part of the labour market, they can have important overall distributional effects.

WISE was founded in 2005 with the goal of expanding the leading position occupied by Xiamen University in the field of economics. Econometrics, finance and labour economics are key areas of research. The majority of WISE staff were educated abroad. The associated professors hold chairs at renowned US universities. ZEW's cooperation with Xiamen University will be expanded in the future. Planning for a second joint labour-market symposium, LABOR 2010, has already begun.

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INSIDE ZEW

Digitalisation of ZEW Discussion Papers Successfully Completed

Together with the German National Library of Economics (ZBW) in Kiel and Hamburg, ZEW has successfully digitised its complete archive of Discussion Papers. Previously, for the years 1991 to 1998, it was only possible to access scattered publications online. All ZEW Discussion Papers are now available at ZEW's website, at the online database of Research Papers in Economics (RePEc)

and at EconStor, the digital archive of the German National Library of Economics. Furthermore, all of the papers were scanned using optical character recognition (OCR) software. This enables their contents to be electronically searched. According to a statistical assessment performed by RePEc, the ZEW Discussion Papers are one of the “Top 25 Working Paper Series” worldwide.

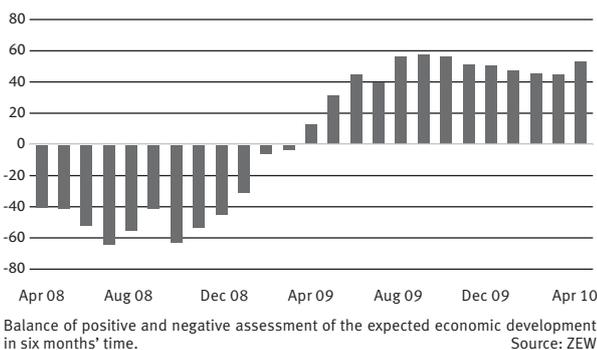
ZEW FINANCIAL MARKET DATA

ZEW Financial Market Surveys April 2010

The ZEW conducts three monthly surveys questioning financial market experts for their expectations within six months time for essential financial market data in several European countries and the Eurozone. The questions regard the current business situation, the business outlook, interest rates, stock markets, exchange rates, and inflation. Additionally, a “special question” on an interesting economic topic is asked. Up to 350 financial market experts are questioned in the Financial Market Survey for Germany. About 70 analysts participate

in the Financial Market Survey for Switzerland that is conducted in cooperation with the Swiss bank Credit Suisse. About 80 analysts contribute to the Financial Market Test for the Central and Eastern European Region (CEE) and Austria, carried out in cooperation with Erste Group Bank der Österreichischen Sparkassen. The CEE Region consists of Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia. The survey collects economic data for each of these countries, but also looks at the CEE Region as a whole.

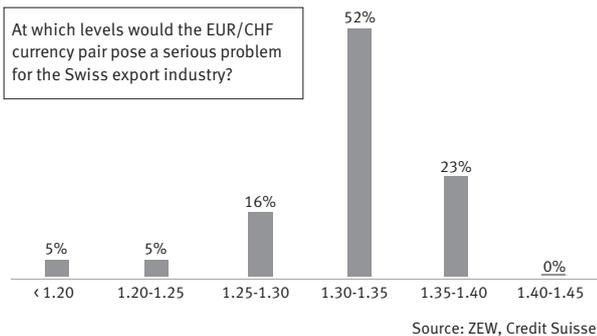
The complete results of the surveys are published every month in Financial Market Reports. The “ZEW Finanzmarkt-report” (www.zew.de/FMR) contains the survey’s outcome for Germany. The survey results for Switzerland are published in the Financial Market Report Switzerland (www.zew.de/FMR_CH). The survey results for the CEE Region and Austria are published in the Financial Market Report CEE (www.zew.de/FMR_CEE). Below, some selected outcomes of the April 2010 surveys are featured briefly.



Germany: Economic Expectations

The ZEW Indicator of Economic Sentiment for Germany increased by 8.5 points in April 2010. It now stands at 53.0 points after 44.5 points in the previous month. Thus, the financial market experts expect the German business activity to continue to recover from the economic crisis within the next six months. The financial market experts' positive expectations seem to have been decisively reinforced by the recent increase in exports and stable incoming orders. Currently impulses from exports invigorate German business activity.

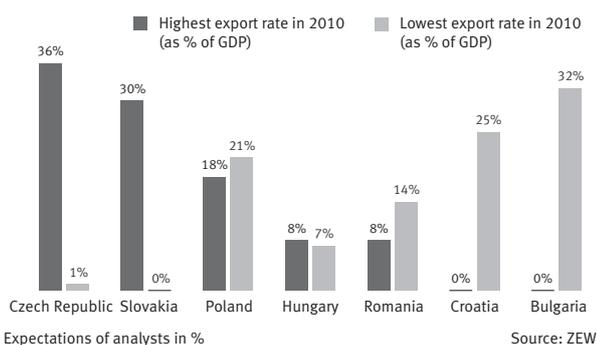
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Switzerland: Exchange Rate Risks for Exports

The financial market experts were asked in the April survey at which level the EUR/CHF exchange rate would pose a serious danger to Switzerland's export sector. About 52 percent of respondents see this risk in the neighborhood between 1.30 and 1.35. 23 percent foresee severe risks already looming in the zone between 1.35 and 1.40. Another 18 percent of polled analysts predict dangers for Switzerland’s export industry between 1.25 and 1.30. Currently one Euro is worth about 1.40 Swiss Franc.

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CEE Region: Imports and Exports 2010

In the April survey, about 77 percent of the survey participants predict an increase in exports to Western Europe for 2010. More than half of the surveyed participants foresee an increase of imports from Western Europe and a boost in trade between the CEE countries. The financial market experts are of the opinion that the Czech Republic will obtain the highest export rate as a percentage of the Gross Domestic Product (GDP) among the analysed CEE countries. Bulgaria, in contrast, is expected to exhibit the lowest export rate in 2010.

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INSIDE ZEW

■ Professor Franz's Contract as ZEW President Extended

Professor Wolfgang Franz is going to be President of the Centre for European Economic Research (ZEW) in Mannheim beyond 2011. The ZEW Supervisory Board decided to extend his contract until 2013. Professor Dr. Dr. h.c. mult.

Wolfgang Franz has served as the president of ZEW since April 1997. In this capacity, he is the Director of Science and Research. He co-directs the Institute with Thomas Kohl, the Director of Business and Administration.

■ Changes in the Supervisory Board of ZEW

Ernst Burgbacher, a member of the Bundestag and Secretary of State at the German Federal Ministry of Economics and Technology, has been appointed to the Supervisory Board of the Centre for European Economic Research (ZEW) in Mannheim. He succeeded Dagmar Wöhr, a Bundestag representative and former Secretary of State at the German Federal Ministry of Economics and Technology. Klaus Tappeser, Head of Ministry Department at the Baden-Württemberg Ministry of Science, Research and the Arts, has also been appointed to ZEW's Supervisory Board. He replaces Dr. Dietrich

Birk, who in January 2010 resigned from his position as Secretary of State at the Baden-Württemberg Ministry of Science, Research and the Arts.

The ZEW Supervisory Board is composed of eleven members from the worlds of politics, business and academia. The acting Chairman is Gerhard Stratthaus, member of the management committee of the Financial Market Stabilization Agency (SoFFin), Landtag representative and former Minister of Finance in the state of Baden-Württemberg. The acting Vice-Chairman is Dr. h. c. Eggert Voscherau, president of the Chemical Industry Employer's Association (BAVC).



ZEW President Prof. Dr. Dr. h. c. mult. Wolfgang Franz, Gerhard Stratthaus, Chairman of the ZEW Supervisory Board, Dr. h. c. Eggert Voscherau, Vice-Chairman of the ZEW Supervisory Board, Thomas Kohl, Director of Business and Administration at ZEW (from left).

ZEW DISCUSSION PAPERS

No 10-012, Stephan Lothar Thomsen, Katrin Heinicke: The Social Long-term Care Insurance in Germany: Origin, Situation, Threats, and Perspectives.

No 10-011, Bettina Büttner, Stephan Lothar Thomsen: Are We Spending Too Many Years in School? Causal Evidence of the Impact of Shortening Secondary School Duration.

No 10-010, Delphine Prady, Hannes Ullrich: Entry and Competition in Freight Transport: The Case of a Prospective Transalpine Rail Link Between France and Italy.

No 10-009, Bertrand Koebel, Francois Laisney: The Aggregate Le Chatelier Samuelson Principle with Cournot Competition.

No 10-008, Holger Stichnoth: Does Immigration Weaken Natives' Support for the Welfare State? Evidence from Germany.

No 10-007, Cahit Guven, Claudia Senik, Holger Stichnoth: You Can't Be Happier than Your Wife: Happiness Gaps and Divorce.

No 10-006, Astrid Dannenberg, Thomas Riechmann, Bodo Sturm, Carsten Vogt: Stability and Explanatory Power of Inequality Aversion – An Investigation of the House Money Effect.

No 10-005, Torben Klarl: Spatial Model Selection and Spatial Knowledge Spillovers: A Regional View of Germany.

No 10-004, Felix Schindler: Further Evidence on the (In-) Efficiency of the U.S. Housing Market.

No 10-003, Laura Wichert, Winfried Pohlmeier: Female Labor Force Participation and the Big Five.

No 10-002, Matthias Köhler: Corporate Governance and Current Regulation in the German Banking Sector: An Overview and Assessment.

No 10-001, Andrea Schertler, Tereza Tykova: What Lures Cross-Border Venture Capital Inflows?