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ZEWnews

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Research Results · Conferences · Publications

Retirement Ceremony for Wolfgang Franz – Clemens Fuest Appointed ZEW's New President

On 28 February 2013 ZEW honoured the retirement of Prof Dr. Dr. h.c. mult. Wolfgang Franz after his many years of distinguished service as President of ZEW. Prof. Dr. Clemens Fuest was inaugurated as his successor, effective 1 March 2013. ZEW is thus jointly run by Prof. Fuest and the Director of Business and Administration, Thomas Kohl.

Minister-President Winfried Kretschmann, Clemens Fuest, Thomas Kohl, Wolfgang Franz and Minister of Science, Research and the Arts of Baden-Württemberg,Theresia Bauer (from left to right)

Theresia Bauer, Baden-Württemberg's Minister of Science, Research and the Arts as well as the Chairwoman of ZEW's Supervisory Board, welcomed the 360 participants attending the ceremony.

In her opening remarks she pointed out that the success of the institute was inseparably linked to the name of Wolfgang Franz. She emphasized that it was in large part thanks to Wolfgang Franz that the abbreviation "ZEW" has such enormous prestige throughout Europe, not only in academia but also in the worlds of politics, business, and the media. Minister Bauer also expressed her confidence in ZEW's future. "I am so glad that you will be here," she said, addressing Clemens Fuest. In choosing him to be its new president, ZEW has secured an internationally connected and renowned researcher, she said, adding: "I am certain that with Professor Fuest at the helm, ZEW will go on to achieve new milestones in the quality of its research and its international visibility."

The Minister-President of Baden-Württemberg, Winfried Kretschmann pointed out in his speech that under the aegis of Wolfgang Franz, ZEW had grown to become a beacon in the European research community. "Thanks to ZEW, the state of Baden-Württemberg boasts a first-class economics research institute, both nationally and internationally. This excellent reputation is due in no small measure to Professor Franz," he declared. Wolfgang Franz has been and continues to be a leading policy advisor at both the state and federal levels. For many years he has had a major impact on the work of the German Council of Economic Experts. "Professor Franz has made great societal contributions with his service as an outstanding researcher and policy advisor," the Minister-President said, adding that it was an honour and pleasure for him to bestow on Wolfgang Franz, in the name of the President of the Federal Republic of Germany, the German Federal Cross of Merit, First Class (Bundesverdienstkreuz 1. Klasse).

A Promising New President

The Minister-President emphasised that with the appointment of Clemens Fuest, ZEW has secured a strong and promising leader to take over the presi-

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CHANGE OF PRESIDENCY

dency of the institute. "You are young, dynamic, optimally positioned in the international research community, and you are intimately familiar with ZEW," said the Minister-President. He voiced his certainty that as President of ZEW, Prof. Fuest would continue to make his mark.

Prof. Dr. Axel Weber, Chairman of the Board of Directors at UBS, described Wolfgang Franz as a distinguished scientist who doesn't mince words, and who could subject popular convictions to critical scrutiny. "I especially value this intellectual honesty in him," said Prof. Weber. Prof. Weber recalled their time together on the Council of Economic Experts, which was filled with many contentious discussions. On such occasions, he always experienced Prof. Franz as a "bridge builder", who realised the importance, especially after a long and intense debate, of sitting down and having a beer together.

Prof. Weber spoke of his sense of connection to Clemens Fuest from the time they had spent together at the University of Cologne. Thus, he could be certain that Clemens Fuest would not be intimidated by the "big shoes" he would be filling after Wolfgang Franz's departure, but instead, would be inspired to outdo himself in this new role.

The ensuing panel discussion chaired by the Chairman of the ZEW's Scientific Advisory Council, Prof. Dr. Friedrich Buttler, concentrated on the topic of "ZEW at the Intersection between Science and Practice". The remaining panel participants were: Prof. Dr. Karl Ulrich Meyer, President of the Leibniz Association; Prof. Dr. Ernst-Ludwig von Thadden, Rector of the University of Mannheim; and Dr. Dr. Bettermann, Chairman of the ZEW Sponsors' Association for Science and Practice.

In his words of thanks, Thomas Kohl, ZEW's Director of Business and Administration, evoked considerable hilarity among the guests as he spoke about the colourful metaphors and compelling visual images often invoked by the departing President. For example, Prof. Franz once illustrated the absurdities of differing value-added tax rates with a reference to the (meaningless) difference between fresh versus dried pig's ears.

Expanding Cooperations

In his address, Wolfgang Franz confessed that leaving ZEW had proved to be more difficult for him than he had anticipated. At the same time, he was happy to be entering a new phase of life. While he would be glad to offer his counsel to Prof. Fuest, he would restrain himself and wait to be asked, as he did not want to interfere. "I am certain that with its new president, ZEW will continue to be a success story", Prof. Franz said.

An address by Clemens Fuest concluded the ceremony. The new ZEW President reminded the audience that it was far too soon for him to present a fully elaborated strategy for the future of ZEW. Still, he wanted to speak about some areas of activity that seemed important to him. For example, he emphasized the importance of continuing to expand and strengthen existing cooperation agreements with the University of Mannheim and other universities. In addition, he felt that networking at both the European and international level was a vital issue for ZEW, and of great strategic importance to the institute. Prof. Fuest underscored the need to maintain and to enhance the high quality of scientific research at ZEW. In addition, he said it was crucial to further develop ZEW's scientifically rigorous policy advising services, and to advance the Centre's pursuit of socially relevant research. "I look forward to the work together, and I believe that now is the time for us to begin", Prof. Fuest concluded.

Some 360 guests attended the ceremonial handover of office at ZEW on 28 February.

ZEW President Clemens Fuest together with Thomas Kohl, Director of Business and Administration

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RESEARCH FINDINGS

Mixed-Age Teams Are the Best Solution for Firms to Keep Older Employees Working Longer

Firms are increasingly relying on various measures – including partial retirement and further training– to extend the working life of older employees even more. Yet a new ZEW study shows that only mixed-age teams actually deliver the promised results.

With skilled employees becoming increasingly scarce in Germany due to demographic change, employers have been thinking more seriously about harnessing a resource that already exists in the firm: older workers. Firms have been implementing various measures to extend the working lives of older employees and augment their willingness to remain with the firm. But have such measures actually diminished the tendency of older workers to leave working life and retire?

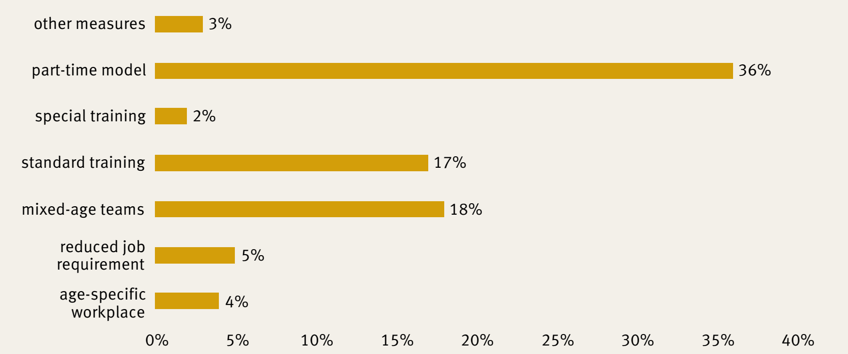
A new paper by researchers at ZEW (Discussion Paper No. 12-059) represents the first investigation of this topic. In their study, the researchers examine six retention measures: age-specific workplace amenities to accommodate possible physical impairments, reduced working hours and performance requirements, mixed-age working teams, general further training, specific further training targeting the needs of older workers, and partial retirement. The analysis draws on longitudinal data from workers aged 40 and 65 collected in 2002 by IAB (German Institute for Employment Research). The study considers 1,063 firms in western German states that employ at least five older workers. Firms in eastern German states are not included in the study, as no data about them is available in the years prior to 1990.

Partial Retirement is very Popular but Reduces the Length of Service

Overall, about 50 per cent of the firms studied by ZEW implement measures directed at older workers. The figure shows that firms vary substantially in the frequency with which they implement various measures (multiple responses were possible). The most frequent intervention is partial retirement: 36 per cent of the firms offer their older workers the option of reducing working hours if they decide to prolong their employment. Mixed-age working teams are the next most common measure (18 per cent). Mixed teams harness the greater experience of older workers as well as the fresh and up-to-date education of younger ones. General further training programmes are the third most common measure (17 per cent). However, firms are much less likely to offer reduced performance requirements, provide age-appropriate amenities, or use continuing education specifically designed for older workers. Only 5, 4, and 3 per cent of firms, respectively, implement these measures.

The empirical model underlying the analysis takes into account both the length of an individual's employment and his or her age upon leaving employment. This is important because the probability of leaving the firm is different for a 60-year-old worker starting a new job than for someone who has been working at a firm for 30 years. Similarly, for workers with the same length of service, a 60-year-old worker is naturally more likely to leave the firm than a worker who is only 30 years old. The results of the analysis show that the probability of an employee leaving a firm increases rapidly after age 55. If one takes the length of employment into account, then the probability of leaving the firm is very high after beginning a new job. With increasing duration of job service, the probability of leaving a firm decreases, and then plateaus after five years.

Specific Measures for Older Workers in 2002



The graph shows the distribution of specific measures for older workers in western German companies in the year 2002. 18 percent of the management rely on mixed-age teams as a successful measure to keep older employees working in the companies. Source:ZEW

In addition, the ZEW study shows that of the different interventions, only mixed-age working teams result in older workers remaining longer at the firm. The difference between firms with and without mixed-age working teams becomes more pronounced as the age of the employees that are studied increases. By contrast, partial retirement provisions appear to actually reduce the length of service of older workers. According to the findings of the study, none of the other interventions has any effect on the decision of older workers to leave employment. A general conclusion from the ZEW study is that the search needs to continue for appropriate tools to more effectively harness the productive potential offered by older workers. This search is becoming ever more urgent in the light of the demographic aging of the population.

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RESEARCH FINDINGS

Germany's Dual Vocational Education System and its Impacts on Innovation

Vocational education in Germany combines apprenticeship at a company with classroom instructions. When it comes to innovation, the dual system has more advantages over other forms of vocational education and non-vocational training.

Photo: BASF – The Chemical Company

In dual vocational programmes, young people acquire on-the-job skills which are an important component of the innovative strength and competitiveness of an economy.

How a nation educates its young people is an important metric in assessing the innovative capacity of a national economy. As part of the 2012 Innovation Indicator, which is prepared on behalf of the Deutsche Telekom Foundation and the Federation of German Industries, ZEW examined the role of vocational education in national innovation systems.

Different Countries Different Systems

Vocational education is organised very differently from country to country. In the US and the UK, vocational training is provided to some extent in secondary school. Additional occupational qualifications are acquired through internships, seasonal and part-time work, or through local community colleges. In other countries, including Norway, vocational training takes place sequentially in two phases, beginning with two years of school education followed by an additional two years of on-the-job training. In Germany and several other European nations such as Switzerland, Austria, and Denmark, the "dual system" has established itself as the standard form of vocational education. In this system, professional education is generally obtained in a three-year integrated vocational training programme, which includes alternating phases of classroom- and firm-based learning. In terms of promoting innovation, the dual system has several advantages compared to other forms of vocational education and non-vocational training.

The dual system imparts specialized professional knowledge and lets skilled workers discover a "common language" for communicating with technicians, engineers, and product managers. This promotes the successful implementation of innovation projects. Graduates of the dual system typically have learned both industry-specific and occupation-specific ways of thinking, and have a deeper understanding of internal workflows. As a result, they can quickly adapt to the adjustments in production, sales, and organisation that accompany innovation projects. The knowledge acquired in dual training is especially valuable when working with incremental innovation processes. This form of innovation revolves around recognising opportunities for improving existing products and processes. It also concerns the implementation of new ideas in the production process, including activities related to construction, testing, production preparation, and the establishment of new production lines.

The Ranking of The Systems

If we compare the innovation rankings of the countries that were studied with a view to vocational education, we find that all of the countries that rely at least in part on a dual vocational system are located in the upper half of the rankings. Most countries that offer only school-based vocational training or provide only non-vocational training fall in the middle or lower half of the rankings. The exceptions are Singapore, Sweden, and Belgium, which provide exclusively school-based vocational education but are among the leading countries in the Innovation Indicator. One reason as to why there is no simple, direct correlation between the presence of a dual vocational system and the innovative strength of a country is that the dual system also has disadvantages. In the face of profound occupational changes arising from technological change and other labour market trends, graduates from the dual system are sometimes less flexible in adapting to challenges and new conditions. Graduates of educational systems that are less tied to on-the-job practice and graduates of primarily school-based general education programmes seem to display greater flexibility in adjusting to new conditions.

The complete Innovation Indicator report is available in German at: www.zew.de/publikation6802

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POLITICO-ECONOMIC ANALYSIS

Q&A: Examining German Labour Market Reforms

The German “Mini-Job” Programme Should be Sent Back to the Testing Laboratory

Since the start of 2013, so-called “mini-jobs”employees in Germany may earn additional 50 euros per month, bringing their total deduction-free monthly earnings to 450 euros. With this change, the federal government has strengthened a labour market instrument that should have been sent back to the testing laboratory, says ZEW labour economist Holger Bonin.

The number of individuals with mini-jobs has continuously risen in Germany over the past few years. Why are these jobs so popular?

It is the gross for net formula that makes these jobs so enticing. Male employees are glad to take on marginal part-time work in order to supplement their primary occupation exluding taxes and social insurance deductions. For mothers wishing to work for only a few hours mini-jobs seem to be very attractive as they can avoid the high implicit taxes resulting from the “splitting rule” (which allows spouses to pool and equally divide their income to determine tax liability) and benefit from free co-insurance with their working husband in the statutory public health scheme. For employers marginal part-time workers constitute a flexible reserve that helps to lower labour costs.

Mini-jobs were created to build a bridge to regular employment. Do they function in this way?

No. In any event, the rate of successful transition from marginal to regular employment is very low. Women in particular, who often take on mini-jobs in areas far from their previous occupation, find themselves caught in a trap due to stigmatization and the rapid erosion of qualification. There is some evidence that long-term unemployed individuals who take on marginal employment matching their qualification level are likelier at a later point to be employed in permanent jobs subject to social insurance contributions. However, this is hardly an argument for the tax-free status of mini-jobs. In fact, for recipients of social welfare benefits, the tax-free status plays no role whatsoever as an incentive for finding a job. According to current law, any social insurance deductions that might be due would be compensated by social welfare payments. For this reason, the current plan to increase the tax-free threshold will also have no effect on the majority of long-term unemployed individuals, who have not even completely exhausted the former 400 euro limit.

Do mini-jobs result in the loss of full-time job positions subject to social insurance contributions?

This is difficult to evaluate empirically. Perhaps it would be better to put the question a little differently. Would eliminating mini-jobs create additional normal job positions that could provide adequate income, specifically for lower-skilled workers? I am optimistic. Of course, we should not rely on the simplistic formula that four mini-jobs sum up to one full-time position – the loss of the cost advantages of mini-jobs for employers will result in reduced labour demand. Yet many simple jobs, such as stocking supermarket shelves or cleaning work, which are often organised in the form of mini-jobs today, cannot be readily eliminated. The argument that some firms only need employees for a few hours a week also does not hold water. These firms could meet their needs by contracting with full-time employment agencies.

What are the working conditions like in mini-jobs?

Many people working mini-jobs do not feel their working conditions are that bad. However, many of them work for low wages. And this is only to some extent the result of low qualification or of a small creation of value added. Being exempted from taxation and social insurance contributions is an advantage. Strong employers absorb a share of this advantage, through unpaid extra hours or other means. Besides, many mini-jobbers report about cash-in-hand work.

What should be changed about mini-jobs – or should they be eliminated?

I argue for their elimination. ZEW has performed calculations showing that the labour supply would increase perceptibly if people were no longer stuck in the mini-job trap. Certainly, a non-bureaucratic solution for contingent work would make sense. But to accomplish this, exemption from social insurance deductions for monthly earnings up to 100 euros would be sufficient.

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Since 2007 **Prof. Dr. Holger Bonin** has been head of the Research Department “Labour Markets, Human Resources and Social Policy” at ZEW. In addition, he is a professor of economics with focus on labour markets and social security at the University of Kassel. Prof. Bonin has studied the efficacy of social benefits related to marriage and family, employment problems related to low qualification levels, and the economic consequences of demographic change. He is a Research Associate at the Institute for the Study of Labor (IZA) and Member of the Population Economics Division of the German Economic Association.

Photo: ZEW

POLITICO-ECONOMIC ANALYSIS

A Two-Tier Banking System Would not Reduce the Systemic Risk Effectively

In the wake of the global financial markets crisis, proposals to separate investment banking from ordinary commercial banking have called forth heated debate. This article based on an recent ZEW study analyses and evaluates some of the recommendations currently on the table for separating investment and commercial banking.


Photo: iStockphoto

A new ZEW study examines the consequences resulting from the proposed separation of ordinary commercial banking from investment banking activity.

Most of the activities of investment banks are cited as the major cause of the present global financial crisis. Consequently, much of the recent debate about restructuring the European banking sector has focused on proposals concerning a two-tiered banking system, in which the activities of commercial, or retail, banks would be legally and fiscally separated from those of investment banks.

The United States as Historical Example

This article summarizes the results of a ZEW study (Discussion Paper No. 13-011) conducted on behalf of the Association of German Public Sector Banks (VÖB). The study discusses in the beginning the historical experience of the United States with a two-tier banking system. Afterwards it presents various recommendations for implementing a two-tier banking system in Europe, and explains the impact this system would have on German public sector banks. Finally, the paper discusses the extent to which a two-tier system would serve to reduce systemic risk in the banking sector.

In the United States, a two-tier system was established by the Glass–Steagall Act in 1933 as a response to the Great Depression. Separation was primarily intended to prevent conflicts of interest between different bank activities conducted within the same bank and, in this way, to protect the banks' customers.

Over the decades, this dual banking system was gradually softened, and by the end of the 1990s, it was officially terminated. Prior to the repeal of Glass–Steagall, a number of studies concluded that the risk posed by conflicts of interest in the universal banks of the 1920s appeared to have been greatly exaggerated.

Each of the contemporary proposals for setting up a two-tier system has a different focus. The Volcker Rule, which has received particular attention in the United States, aims to limit the scope of business activities for banks engaged in deposit banking. By contrast, the other proposals are directly targeted at the business structure of banks. The recommendations by the Vickers Commission in the United Kingdom sets particularly strict conditions on the retail banking sector, with the intention of shielding it from other banking activities.

In the other reform proposals under discussion in Europe (particularly those from the OECD, German social democratic candidate for Chancellor Peer Steinbrück, and the EU's Liikanen Group), the focus has been on regulating specific activities undertaken by investment banks.

Two Alternatives for Independent Banking Entities

Let us take a closer look at the proposal put forth by the Liikanen Group. In order to further reduce potential instabilities in the financial sector, the Liikanen Group has recommended establishing legally independent banking entities for risky trading activities. The Group suggests two alternative ways to separate commercial banks from investment banks. The first alternative (Avenue 1) prescribes that all banks whose investment activities exceed a certain threshold must set up a non-risk-weighted capital buffer that goes beyond the Basel III requirements.

The size of the buffer would be proportional to the scope of the trading activities. A larger capital buffer would also be required in the event of a large proportion of deposit financing, in order to additionally counteract the danger to the commercial banking sector from the higher risk of speculative activities. In a second step, the banks would have to submit a "restructuring and liquidation plan" for testing by regulators.

The liquidation plan would need to indicate how the bank would protect losses occurring in the investment portion of the bank from spreading to its retail segment. If the bank failed to pass this test, it would be required to separate off its in-

POLITICO-ECONOMIC ANALYSIS

vestment activities into a legally separate banking entity. The second alternative proposed by the Liikanen Group (Avenue 2) would not make the separation of the investment portion of the bank contingent on failure to pass a regulatory test. Instead, separation would be required as soon as the bank exceeded an established quantitative threshold.

Different Models not Appropriate for the German Banking Sector

As possible options the Liikanen Report discusses both the complete separation of the investment activities of the bank, as well as the mere separation of activities beyond a certain threshold. Similarly to Avenue 1, separation would create two legally independent banking entities, which would be required to demonstrate independent management and financial reporting. Furthermore, the bank would not be allowed to shift capital between these entities. Not all of the recommendations currently under discussion are appropriate for meeting the needs of Germany's public banking sector. Problems are especially likely to occur if restrictions are placed on existing interbank cooperation. This would specifically apply to the recommendation of the Vickers Commission, which would also place higher equity capital requirements on savings banks (Sparkassen) and Landesbanken as retail institutions. By contrast, the Volcker rule and the OECD recommendation could be implemented for savings banks and regional banks with relatively little difficulty.

If the Avenue 2 proposal of the Liikanen Group were adopted, thus requiring a total separation of the entire investment portion once a threshold value is exceeded, it remains unclear how special consideration could be made for the needs of associated groups in Germany's banking system.

The study makes clear that a two-tier banking system cannot contribute substantially to the reduction of systemic risk. Systemic risk occurs when a shock that initially affects a single institution spreads to other institutions, thereby affecting a large portion of the banking sector. Systemic risk arises primarily from the rapid growth of credit accompanied by insufficient capital reserves and a large proportion of short-term capital market financing. These principal risk factors would not be addressed by a two-tier system. For this reason, discussions concerning the introduction of a two-tier system should be considered of secondary importance in the broader debate about reducing systemic risk.

Comprehensive regulatory measures for the banking sector have already been ratified, such as Basel II and the EU Alternative Investment Fund Manager Directive.

Advantage of US Two-Tier-System

The only advantage of a two-tier system is that it would make it easier to liquidate banks during a crisis, since a clear demarcation between the banks to rescue and the banks to let fail would already exist. Moreover, the findings show that strict separation between investment and commercial banks might actually lead to the loss of useful risk-mitigating effects. For example, some limited engagement in investment banking activities can reduce total risk for a commercial bank and improve its earnings-to-risk ratio. As a result of separation, both the commercial bank and the investment bank could easily be forced to forfeit a measure of stability compared to the situation that prevailed prior to separation. The findings of the ZEW study suggest that separate banks are not necessary for preventing conflict of interest within banks, such as might occur if the bank recommends that customers purchase an investment product produced by that bank.

Alternative Models for Regulation Are Urgently Needed

If the aim of regulators is to introduce an additional measure of supervision to the investment banking sector, then other options are also available.

One proposal under discussion is to link regulatory capital requirements to the scope of investment banking activities. For example, higher capital requirements could be applied to banking groups that are too big to fail, such as banks with global systemic relevance. Specifically, it might make sense to link regulatory capital requirements to the volume of transactions conducted with hedge funds. This would avoid the expensive process of splitting up banks, which is associated with an uncertain outcome.

Regardless of the path pursued by policy makers, they could establish incentives for limiting investment banking activities. Yet no matter which path is taken, it is important to recall that there are already comprehensive regulatory reforms in place as well as additional measures being planned, including Basel II, the EU Alternative Investment Fund Manager Directive, and new regulations for systemically important financial institutions.

Clearly, the full impact of these reforms must be assessed before new measures are initiated.

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CONFERENCES

ZEW Conference on Emissions Trading Schemes in Europe, Asia, and Australia

Together with the Australian National University (ANU), ZEW hosted a conference in Mannheim on 12–13 November 2012 entitled "The Rise of Emissions Trading in Asia: Established Principles – Novel Practices". At the conference, some 30 international experts exchanged views about current global trends in the evolution of emissions trading systems.

Photo: ZEW

Participants in ZEW's international conference on emissions trading systems

The conference was organised as part of a project sponsored by the Robert Bosch Foundation titled "Sustainable Partners: Emerging Emission Trading Schemes in the People's Republic of China". The aim of the event was to discuss how existing emissions trading schemes operate as well as to illuminate new approaches being developed in China, South Korea, and Australia.

Regina Betz (University of New South Wales), Frank Jotzo (ANU), and Andreas Löschel (ZEW) outlined the fundamental principles underlying the trading of emissions rights based on the examples of the European Emissions Trading Scheme (EU-ETS) and the planned Australian Emissions Trading Scheme. The following presentations focused on Asian approaches for regulating greenhouse gas emissions. Zhang Xiliang (Tsinghua University) provided an overview of China's national plans. Qing Tong (Tsinghua University), Wu Libo (Fudan University), and Qi Shaozhou (Wuhan University) presented local emissions trading projects in Beijing, Shanghai, and in the province of Hubei. Yong Gun Kim (Korea Environment Institute) and Hojeong Park (Korea University) provided an overview of the planned Korean Emissions Trading Scheme and additional policy responses. They shed light on the prospective macroeconomic effects of the trading scheme based on the findings of ex-ante studies. Christian De Perthuis (Université Paris-Dauphine) spoke about the forthcoming third trading period of the EU-ETS. Denny Ellerman (MIT, European University Institute) discussed possible future prospects for the global regulation of greenhouse gas emissions based on linking regional emissions trading schemes.

The conference concluded with a talk by Dirk Weinreich, Head of Division in the German Federal Ministry for the Environment.

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Second International Annual Conference of the Leibniz ScienceCampus MaCCI at ZEW

The Mannheim Centre for Competition and Innovation (MaCCI), a joint initiative of the Centre for European Economic Research (ZEW) and the University of Mannheim, held its second Annual MaCCI Conference at ZEW on February 15 and 16, 2013. About 100 participants attended the two-day conference. The first day of the conference covered presentations and panel sessions on reforms of the competition law on vertical restraints and on the underlying economic insights. The second day was devoted to topics from all fields of competition law and economics. All together 30 researchers and practitioners presented their current research in twelve sessions. MaCCI strengthens the position of German jurisprudence in the European discourse and the practical relevance of economics. The major objective of MaCCI is to stimulate and disseminate research in the areas of competition, regulation and innovation law and policy, and to foster fundamental as well as applied theoretical and empirical economic and comparative law research.

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INSIDE ZEW

3rd SEEK Conference at the ZEW in Mannheim: Engines for More and Better Jobs in Europe

Due to the remarkably high level of interest in the SEEK Conferences in 2011 and 2012, the Centre for European Economic Research (ZEW) is pleased to announce the third conference of its research programme "Strengthening Efficiency and Competitiveness in the European Knowledge Economies" (SEEK), taking place in Mannheim from April 25-26, 2013. The prime goal of the conference is to elucidate the challenges that labour markets and the welfare systems in the European economies are facing. Because this issue has been receiving increasing attention in the worlds of politics and academia, a second aim is to bring together policy makers and scientists to discuss way to realise the goal of work and prosperity for everyone. For further information, go to seek.zew.eu

5th ZEW/MaCCI Conference on the Economics of Innovation and Patenting

The Centre for European Economic Research (ZEW) and the Mannheim Centre for Competition and Innovation (MaCCI) are pleased to announce their conference on the economics of innovation and patenting on June 3-4, 2013. The conference aims at stimulating discussion between international researchers conducting related empirical and theoretical analysis. In addition, it will focus on policy implications of recent research. Theoretical, empirical and policy-oriented contributions from all areas of the economics of innovation and patenting are welcome.

ZEW Researcher Honoured with Best Paper Award

ZEW researcher Sven Heim was honoured with the Best Paper Award at the International Energy Industry Meeting (IEWT) in Vienna, Austria. An international jury awarded Heim's paper which analyses the interesting research question: "Do discriminatory auctions favor collusive behaviour? – Evidence from Germany's market for reserve power". The paper analyses a dramatic price increase on the German market for reserve power which cannot be attributed to increasing costs.

Sven Heim

According to the results presented in the paper, the price increase is due to a strategic interaction between the two most powerful providers on the German market, who abuse the pay-as-bid rule. The paper provides new insights regarding the ideal design for auctions on energy markets. The biennial IEWT took place at Vienna University of Technology (TU Wien) from February 13 to 15, 2013. The conference took place for the eighth time. The meeting was hosted by Vienna University of Technology (TU Wien) together with the Austrian Association for Energy Economics (AAEE). The conference addresses researchers from engineering science as well as economists. Furthermore it is considered the largest and most renowned conference on energy economics in the German-speaking world.

The IEWT conference is located where science and practice meet. This year's conference featured some 400 participants and more than 150 lectures and presentations within the plenary and parallel sessions. Since 2012, Sven Heim has been a member of the ZEW Research Group "Competition and Regulation" and has been a doctoral candidate at the University of Giessen.

11th ZEW Conference on the Economics of Information and Communication Technologies

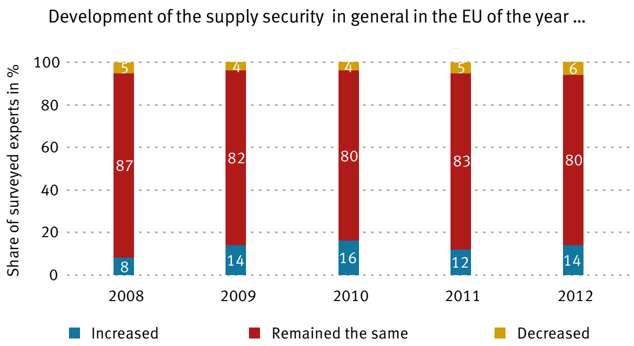
The Centre for European Economic Research (ZEW) in Mannheim is holding its 11th Conference on the Economics of Information and Communication Technologies on June 21-22, 2013. The conference objective is to discuss recent scientific contributions to the economics of information and communication technologies (ICT) and the economics of ICT industries, for example software and internet industries, competition policy and regulation of ICT, telecommunication and new media as well as ICT and the labour market and digital divide. Keynote speakers will be Eric Bartelsman (Free University of Amsterdam, NL) and Juanjuan Zhang (MIT Sloan School of Management, US).

ZEW DISCUSSION PAPERS

No 13-012 Florian Misch, Norman Gemmell, Richard Kneller: Using Surveys of Business Perceptions as a Guide to Growth-Enhancing Fiscal Reforms.
No 13-011 Gunnar Lang, Michael Schröder: Do we Need a Separate Banking System? An Assessment.
No 13-010 Christof Ernst, Katharina Richter, Nadine Riedel: Corporate Taxation and the Quality of Research and Development.
No 13-009 Matthias Hunold, Christoph Wolf: Competitive Procurement Design: Evidence from Regional Passenger Railway Services in Germany.
No 13-008 Wolfgang Buchholz, Michael Schymura: How Can Pure Social Discounting be Ethically Justified?
No 13-007 Andreas Löschel, Michael Schymura: Modeling Technological Change in Economic Models of Climate Change: A Survey.
No 13-006 Andreas Löschel, Bodo Sturm, Reinhard Uehleke: Revealed Preferences for Climate Protection when the Purely Individual Perspective is Relaxed - Evidence from a Framed Field Experiment.
No 13-005 Andreas Löschel, Sascha Rexhäuser, Michael Schymura: Trade and the Environment: An Application of the WIOD Database.

FACTS AND FIGURES

Stable Development of the Security of Energy Supply Expected



Source: ZEW

The security of energy supply is a crucial ingredient of energy policy. For already five years, the experts of the Energy Market Barometer have been asked to assess the security of supply. The majority of the experts has been thinking since 2008 that the security of overall energy supply, i.e. for gas, oil, coal, and electricity combined, has not changed. In 2011 even 83 per cent of them expected the security of energy supply to remain the same. In general the vast majority of experts expect a stable or improving security of supply for gas, oil, and coal individually.

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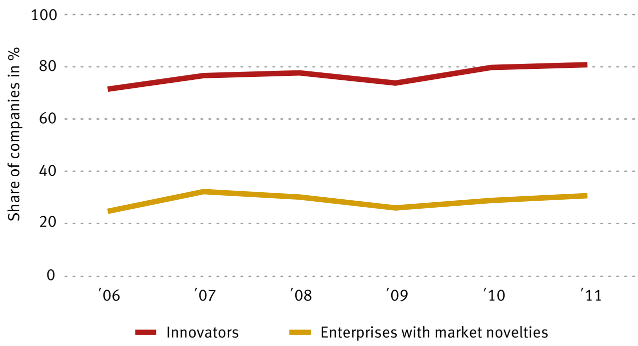
IT and Telecommunications Sector in Leading Positions Again



Source: ZEW/ISI (2013): Mannheim Innovation Panel, 2012 survey

The share of enterprises in the IT and telecommunications sector introducing new products or processes increased in 2011 to 81 per cent. The proportion of enterprises that launched new products rose to 31 per cent. The target figure of 11.2 billion euros for 2012 represents the highest innovation budget of the branch so far. For 2013, a further increase to 11.5 billion euros is expected. 23 per cent of the sector's turnover were generated by new products. The IT and telecommunications branch has a top position among all service sectors.

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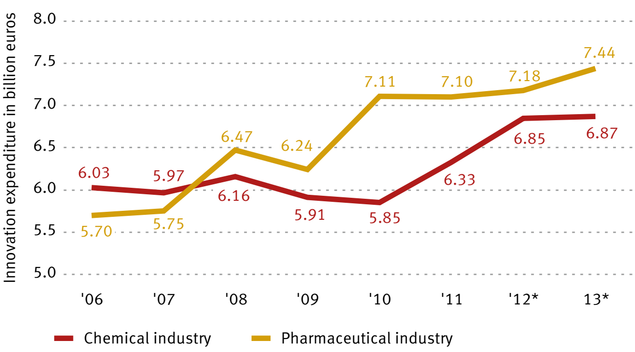
Chemical Industry is Catching Up in Terms of Innovation Expenditure



* Target figures from spring/summer 2012 Source: ZEW, Mannheim Innovation Panel

In recent years, the chemical industry significantly expanded its budget for the development and introduction of new products and processes. The innovation expenditures reached a total of 6.85 billion euros in 2012. The chemical industry was thus able to catch up with its sister branch, the pharmaceutical industry. From 2011 to 2012 the expenditures of the latter remained at a level of about 7.1 billion euros. Contrary to the chemical industry, the pharmaceutical industry is planning to slightly increase the expenditures on innovation in 2013.

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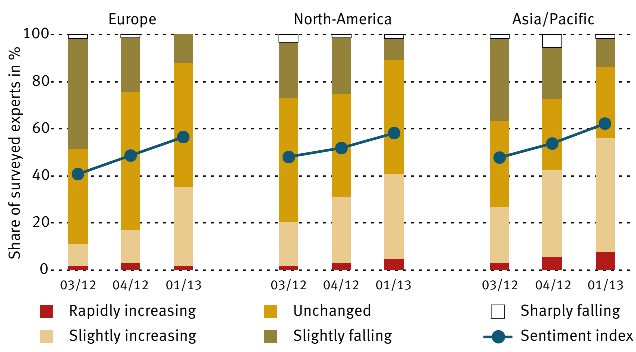
Substantial Increase in Rates for Sea Freight Partially Expected



Source: ZEW

In accordance with the volume trends, a comparably sharp increase of sea freight rates is expected until the middle of the year. In the past weeks, major shipping companies announced rate increases, particularly for traffic from Asia to Europe. 60 per cent of our experts expect them to take effect. 55 per cent also estimate a price increase for the North America route. However, the sea freight rate index of the Federal Statistical Office shows that the development of sea freight rates is highly unstable and very responsive to demand and supply conditions.

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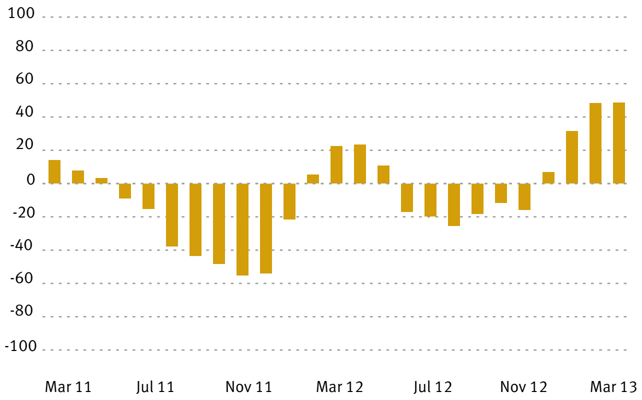
FACTS AND FIGURES

ZEW Financial Market Test March 2013



Balance of positive and negative assessments concerning economic development in Germany
Source: ZEW

Germany: Experts Remain Optimistic

The ZEW Indicator of Economic Sentiment for Germany has increased by 0.3 points in March 2013. The indicator now stands nearly unchanged at a level of 48.5 points. Hence, after three substantial increases between December 2012 and February 2013, the indicator has stabilized in March at a respectable level. The assessment of the current economic situation for Germany has improved in March. The respective indicator has increased by 8.4 points and now stands at the 13.6 points-mark. Economic expectations for the eurozone have worsened in March. The respective indicator has decreased by 9.0 points to 33.4 points. The indicator for the current economic situation in the eurozone remains almost unchanged at a level of minus 76.1 points (minus 0.5 points).

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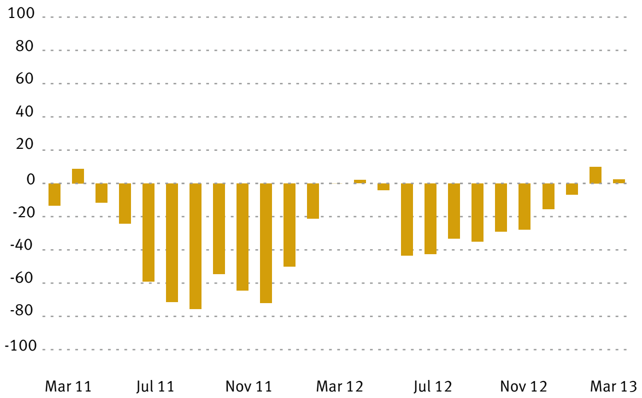

Balance of positive and negative assessments concerning economic development in Switzerland
Source: ZEW, Credit Suisse

Switzerland: Economic Expectations Decline

Economic expectations for Switzerland are declining for the first time since October 2012. The indicator decreased by 7.7 points to a level of 2.3 points. The ZEW-CS indicator's change in March mainly results from the shift of expectations of a group of analysts who, contrary to their optimistic view in February, are now taking a more observant position. The group of experts forecasting a stable economic situation in the next half-year has thus grown significantly. At the same time, the share of analysts expecting economic conditions to deteriorate over the next six months has decreased. The share of analysts with this view now amounts to 13.3 per cent, the lowest level since April 2011.The indicator of the current economic situation decreases slightly by 2.4 points and reaches a level of 15.6 points in March.

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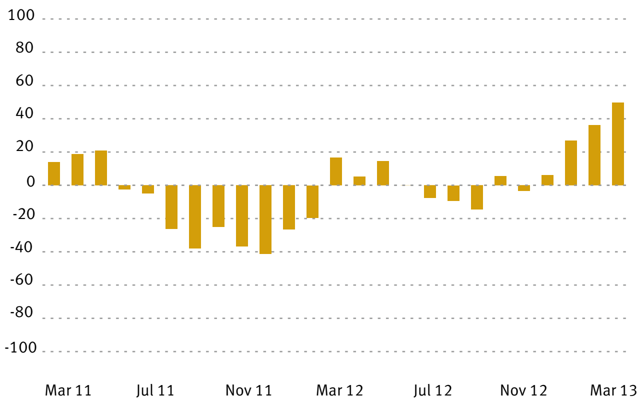

Balance of positive and negative assessments concerning economic development in the CEE region
Source: ZEW

CEE Region: Positive Sentiment Strengthens

In March 2013 the ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe improved for the fourth time in a row. The Indicator has increased by 13.6 points. It now stands at 49.9 points. This is the highest level of the indicator since October 2010. The debt crisis in the Eurozone, especially in Cyprus, as well as the difficulties in the government formation in Italy apparently seem to have no major impact on the economic expectations for the CEE region up till now. The optimistic assessment of the economic situation of the CEE region is also reflected by the positive sentiment regarding the macroeconomic development of important CEE countries. Economic expectations have increased by 33.8 points for the Czech Republic and by 22.3 points for Poland.

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OPINION

Reintroducing the Wealth Tax at any Cost?

One of the issues that will figure prominently in the upcoming German parliamentary election is whether to increase taxes on wealth. For the most part, Germany currently taxes wealth by means of an inheritance tax. Now the Social Democrats and the Green Party are calling for a one per cent annual tax on Germans whose net wealth exceeds €2 million. Such a tax, known as a “net wealth tax”, existed in Germany before, but in 1995 the German Constitutional Court ruled it unconstitutional for taxing different kinds of assets in an inequitable manner.

Advocates of the wealth tax have used two arguments to support their proposal. First, Germany’s national debt has swollen in efforts to rescue banks during the economic crisis. It’s only fair to ask the wealthy to do their part in reducing state debt, especially since private bank creditors have been insulated from losses. Second, they argue that a wealth tax is needed to help reduce an unacceptably high level of income inequality and strengthen an underfinanced welfare state.

What should we make of these arguments? At first glance, the idea that Germany’s financial problems can be solved by increasing the tax burden on a small group of wealthy individuals – estimates put the number at 150,000 people – seems attractive, at least for the vast majority of the population exempted from the tax. A closer look, however, shows that the wealth tax will cause new forms of injustice and inflict considerable economic damage that impacts us all. Those who want more redistribution would do better to increase progressive income taxation or use the inheritance tax more effectively.

The main problem with the wealth tax is that it puts investment and jobs at risk. A current ZEW study by Christoph Spengel and Lisa Evers examines the tax burden on corporations that results from existing taxes combined with the proposed wealth tax. According to the study, a one per cent wealth tax with a €2 million tax allowance would increase the effective corporate income tax burden by 14 to 20 per cent depending on business type. In addition, since the wealth tax would have to be paid even when companies record an annual loss, it would exacerbate economic crises. Even Peer Steinbrück, the SPD candidate for Bundeskanzler, admits that company assets must be protected. But for most wealthy taxpayers, the majority of their wealth is tied up in business.

Of course, some taxpayers do have very high private financial assets. But they can easily circumvent a wealth tax by moving abroad. Ultimately, a wealth tax only affects those who have real estate assets, which can’t move with them. Thus, the burden of a wealth tax would by no means be fairly distributed. What’s more, administrative costs would amount to up to 50 per cent of revenues from the wealth tax, as taxpayer wealth would have to be assessed anew each year.

For these reasons, almost all industrialised countries have eliminated their net wealth taxes. Often it is claimed that asset-related taxes are lower in Germany than in other countries. But this is mainly because property taxes are higher abroad. And this is one area where Germany’s politicians could consider raising taxes. But the reintroduction of the wealth tax would represent an economic Sonderweg that would keep domestic and foreign investors away from Germany. The same applies to a single retroactive levy, as most would be wary of government assurances that it is a one-time deal. Any party that runs with a wealth tax on its election platform could regret it in case of a win. The price that Germany would pay for reintroducing the tax is too high.

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