



Research Findings

Patent Box Systems Generate Cross-Border Spillovers

Research Findings

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The EU's Strengths Are More Important than Ever

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Enforced Transparency Has Little Impact on Aggressive Tax Planning

The aggressive tax planning efforts of multinational companies, such as Google, Apple, and Amazon, that are aimed at effectively reducing corporate tax burdens have been the subject of public discussion for several years now. In order to combat such aggressive strategies and increase transparency in financial reporting, the Organisation for Economic Co-operation and Development (OECD) and the European Commission have proposed something called Country-by-Country-Reporting (CbCR). However, a recent study carried out by ZEW shows that CbCR is not an effective means for combatting aggressive tax planning.

Multinationals frequently exploit legal loopholes in national and international tax law to shift their profits to foreign subsidiaries in low-tax jurisdictions in order to keep their tax burden as low as possible. These corporate tax strategies are increas-

ingly being criticised by the public. As a countermeasure to this problem, the OECD and the European Commission have put forward several proposals for CbCR with the aim of increasing transparency in financial reporting. Under CbCR, multinational firms in all industry sectors would be obliged to disclose certain country-specific tax-related information, i.e. specific economic indicators for every single country in which the firms are active.

The ZEW study shows, however, that neither consolidated nor individual financial statements, nor any other existing data can serve as a suitable means for establishing a common basis for CbCR. As a first step, it would be necessary to define standardised rules regarding the determination of corporate income and the valuation of assets, which could then serve as a legal framework for all countries. In this respect, the proposal for a Common Consolidated Corporate Tax Base (CCCTB) put forward

by the European Commission constitutes a first step in the right direction.

Costs of CbCR would to a certain degree exceed the expected benefits

The study further indicates that the expected costs of implementing CbCR would – at least to a certain degree – exceed the expected benefits. Introducing CbCR would not only entail direct costs arising from processing and standardising company data, but also indirect costs that stem from disclosing sensitive corporate information to the public. A more efficient approach to reducing profit shifting activities would be to encourage the re-

spective legislators to close existing loopholes in national tax law and to ensure the enforcement of established law.

According to the authors of the study, a more stringent and standardised set of transfer pricing rules and the introduction of thin-capitalisation rules would be more effective in curbing aggressive tax planning. Countries, however, need to cooperate with one another in order to ensure that their tightened tax laws are consistent in multijurisdictional settings in order to avoid double taxation.

The complete study is available for download at:
www.zew.de/PU78801

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Firms Benefit from Social Network Activity

Companies can benefit from actively gathering feedback from social network users by improving and further developing their products and services based on this feedback. Taking a look at the contents of user comments on Facebook shows that negative user comments in particular can positively affect a company's innovation success. These are the findings of a recent study carried out by ZEW.

Social media platforms such as Facebook or Twitter have recently been facing strong criticism over filter bubbles and the spread of fake news. From the perspective of the companies, however, the potential that lies in the knowledge of the user base should not be underestimated. Especially with regard to open innovation processes, in which the integration of customers is becoming increasingly important, customers' comments

on Facebook can serve as a valuable source of information for companies, helping them to improve and develop products and services.

The analysis of a data set based on a ZEW survey among approximately 3,000 companies in the manufacturing and the services sector shows that social networks have become the most important social media channel for companies. Around 21 per cent of the surveyed companies have a Facebook page. According to the survey, setting up a Facebook page is more prevalent in industries focused on end consumers such as retail traders.

The empirical analysis of the relationship between innovation success and the companies' as well as their users' Facebook activity shows that companies which have a Facebook page as well as active Facebook users are more likely to introduce product innovations, i.e. new or significantly improved products and services. The study further reveals that simply putting up a Facebook page is, however, not sufficient to guarantee company success. When it comes to innovation success, it is important for companies to actively seek feedback from Facebook users. Finally, the analysis shows that it is rather negative than positive user comments that are beneficial for companies' innovation success.

As a result, when developing social media strategies, companies should not only focus on marketing aspects, but also consider the potential of social platforms for the company's innovation success. They can actively make use of Facebook to gather feedback from customers and users. Negative feedback should be regarded as an opportunity to identify problems. This information can then be used to improve products and services or even to develop new ones.

The complete study is available for download at:
www.zew.de/PU78877

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Patent Box Systems Generate Cross-Border Spillovers in Multinational Corporations

Many European countries have introduced patent box systems to provide tax relief for profits related to intellectual property. A ZEW study has found that these systems may generate positive cross-border spillover effects on research and development (R&D) activity within multinational corporations.

Many governments have recognised the importance of technological progress and corporate innovation for domestic productivity growth. Fostering R&D activity of firms is therefore one of the key objectives when designing tax systems. To this end, some countries grant companies tax relief on revenues from patents and other intangible assets. This type of tax relief, known as a patent box system, can be found in a number of European countries, including France, Spain, the Netherlands, and the United Kingdom. Critics have argued that patent boxes mainly provide tax loopholes that do little to boost R&D.

ZEW conducted a study to see whether patent boxes induce cross-border externalities, that is to say, whether the implementation of a patent box in one country influences R&D activity at related companies in other countries. In some cases, multinational companies can transfer their patent rights to affiliates in other countries with patent boxes, and thus benefit from reduced tax rates. In this way, these companies reduce the user cost of capital, which in turn stimulates investment.

Patent box systems allow profit shifting in companies

The ZEW study combines information about patent applications and corporate structures. Examining more than 23,000 European companies in countries without patent boxes, the study analyses how the introduction of a patent box in a country where one of the foreign affiliates of a firm resides affects the R&D activities of this company.

Two types of patent box regimes are being examined. Some countries stipulate that at least a portion of R&D activity must take place in the country that offers the tax relief. In these cases, the affiliate must actively participate in R&D. Other countries do not contain such provisions and instead also offer tax relief for



Some patent box systems have strong cross-border effects on companies' R&D activities.

patents that are fully developed in other countries. This allows branches in countries without patent boxes to shift their profits, effectively reducing their tax burden for R&D.

The ZEW study finds strong positive cross-border effects of patent box systems that do not require a connection between R&D and tax relief in the same country. This indicates that patent box systems reduce the user cost of capital in multinational corporations across borders. Companies in countries without patent boxes increase their research activity by around two per cent for every percentage point of difference in the tax rates when a patent box system that permits profit shifting exists in one of their affiliate's countries. By contrast, the study finds no positive effects in patent box systems that require a connection between R&D and tax relief in the same country. That is to say, the patent box systems that offer the best opportunities for profit shifting abroad also have the strongest cross-border effects on companies' R&D activities.

The complete study is available for download at:
www.zew.de/PU78494

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How Deregulation and Globalisation Interact to Boost Economic Growth

Whether firms benefit from removing regulations that impede competition depends in part on how open their sectors are to import competition. This is the finding of a new study by researchers from ZEW and the Organisation for Economic Co-operation and Development (OECD). The study uses recent firm-level analyses of productivity growth to argue that those firms which contribute the most to total growth could also be held back by reduced openness, harming overall increases in performance.

Enthusiasm for reducing domestic regulation has been gaining momentum in some OECD countries. Easing the strictness of regulation in network industries especially, as well as in retail and professional services, can improve productivity and competitiveness in downstream sectors. Furthermore, such product market reforms facilitate the entry of new firms and thus encourage incumbents to increase innovation efforts to protect their market shares. In light of these potential economic gains, countries have, step-by-step, removed or redesigned regulations in product markets over recent decades to make it easier for entrepreneurs to set up businesses and expand, as well as to facilitate the entry of foreign products and firms.

Examining the productivity growth of firms in 14 European OECD countries, researchers from ZEW and the OECD have found that the benefits of domestic deregulation depend both on the openness of individual sectors to imports and the technological development of the individual firms. The results show that firms in sectors with higher import penetration display higher productivity growth the more technologically advanced these firms are within their sector, i.e. the closer they are to their sectoral technology frontier. The most productive firms experience a significant increase in productivity when pressure from foreign competitors is high. In contrast, import penetration does not appear to be an incentive, or if so only a weak one, for firms far from the technological frontier. In addition, the pro-competitive effect of international trade depends on domestic regulatory stringency. The re-

sults indicate that, among the most productive firms, the positive effect of foreign competition is inhibited for firms operating in a country with stringent regulation such as higher barriers to entry. Domestic and foreign competitive pressures are found to be complementary; a firm's incentive or ability to improve their productivity in order to cope with foreign competition is stronger in countries with less stringent regulation. As for firms displaying lower productivity levels, foreign competition does not significantly benefit their efficiency although it may facilitate their demise as they relinquish their market share to more productive firms.

A simulation was carried out for a range of product market regulation reforms, depending on the level of import penetration in a firm's sector. Product market regulation reforms unambiguously boost productivity growth; however, their effects are magnified considerably when import penetration is high. For firms in the lower half of the productivity distribution, the impact of reform through this channel is almost negligible. Countries with a large share of high-productivity firms will thus benefit much more from product market regulation reforms, especially if they remain open to trade.

In summary, the analysis offers a fresh view of the effect of import penetration on firm-level productivity growth, and how this is related to a firm's position with respect to the global technological frontier. The study finds that if sectors are not highly open to imports, the benefits of domestic deregulation are substantially reduced. More importantly, while it may seem that "toying with globalisation" may carry little risk, the effects could be most severe for those very firms which have led the overall growth in European OECD economies in recent decades.

A longer version of this article was published by VoxEU.org: <http://voxeu.org/article/how-deregulation-and-globalisation-interact-boost-economic-growth>

The complete study is available at: www.zew.de/PU78679

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A high degree of openness to imports is crucial for firms to fully benefit from domestic deregulation in terms of productivity growth.





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The younger the start-up firm, the higher the damage caused by staff turnover.

Staff Turnover Damages Productivity of Recently Established Companies

While studies have shown that a moderate level of staff turnover can benefit established companies by contributing to an increase in productivity, this is not the case for more recently established firms. When employees at these younger firms are replaced, this has negative effects on the firms' productivity. This negative effect is particularly marked if the company founders have no experience of managing staff, and also becomes more pronounced the more recently the company was founded. In terms of the damage done to the productivity of these young firms by staff turnover, it does not make any difference whether the replaced employees left the company of their own accord or whether they were let go by the firm. These are the findings of a recent ZEW study.

This current analysis is based on an interpretation of data collected by the KfW/ZEW Start-up Panel on 15,300 German start-up companies founded between 2005 and 2012. According to the findings of the study, a one per cent increase in the staff turnover rate leads to a 0.074 per cent decrease in a firm's corporate value added. In other words, if a recently founded company replaces one out of three employees, this will lead to an average loss of 22,000 euros in value added in the same year the employee is replaced. Further analyses suggest that young firms are unable to recoup this loss in productivity even over the course of the next two years, by which time the new employee should have settled in at the company.

The negative effect on productivity is particularly pronounced in recently established firms if the founders have no previous experience of managing personnel: It is about twice as high when compared to companies whose founders already had management experience. In the survey on which this ZEW study is based, 72 per cent of company founders in total said that they had previous management experience, either from founding an-

other company or from being employed as a manager within another firm. However, a learning effect is not measurable for all the company founders with previous experience, with founders whose previous attempts at setting up a company failed, for instance, struggling with staff turnover just as much as those with absolutely no experience.

High costs as a result of staff turnover

Furthermore, the ZEW study also found that, as companies grow older, the loss in productivity resulting from staff turnover becomes smaller. Firms that are less than 2.4 years old in particular see their productivity decrease considerably when employees are replaced. But while there are some indications that staff turnover at firms older than 2.4 years is less damaging to the firms, it still does not have a positive effect on their productivity.

The negative effect of staff turnover can be explained by the weak position of younger companies in the labour market, which makes it difficult for them to attract well-qualified employees. Another explanation is the lack of management experience among many company founders, who as a result find it hard to make sure they are matching themselves as employers to the right kind of employee. This means that compared to their more established counterparts, younger firms run a higher risk of unexpectedly having to replace employees. On top of that, they generally bear high costs as a result of staff turnover because departing employees in young firms often have a great amount of tacit knowledge.

The complete study is available for download at:
www.zew.de/PU78827

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Promoting Integration Through Football

The immigration of large numbers of refugees in 2015 has presented Germany with the challenge of integrating newly arriving foreigners. A recent ZEW study considered the integration of a group of refugees participating in the HEIMSTÄRKE football project, which aims to promote integration into German society and the German labour market through sport. The analysis suggests that participation in the project has positive effects.

The ZEW study was carried out in conjunction with the “Real-World Lab Asylum” project in the Rhine-Neckar region and is based on 81 interviews conducted in July 2016. It also considers the migrants’ economic characteristics and the financial costs of their journeys, as well as aspects of their integration into the German labour market.

The participants were chosen from a group of young male refugees in selected locations in the Rhine-Neckar region (Sandhausen, Sinsheim, Wiesloch, and Walldorf). Thirty-two per cent of the refugees interviewed were born in Afghanistan, 17 per cent were from The Gambia, ten per cent from Syria, and nine per cent from Iran. The remaining refugees were from a number of Asian and African countries. On average, they had lived in Germany for nine months.

A number of individuals were randomly chosen to participate in the HEIMSTÄRKE project and were interviewed once. The individuals not chosen for participation were also interviewed in order to enable a comparison of the two groups. The study therefore only considers the situation of refugees in this region and does not claim to be representative of refugees in general.

HEIMSTÄRKE gives participants the opportunity to play football once a week and to take language courses, while also assisting them in their search for work. It is run by the “Anpfiff ins Leben” (Kick-off into Life) association in cooperation with the football clubs TSG 1899 Hoffenheim, SV Sandhausen, and FC Astoria Walldorf, and sponsored by German software giant SAP Walldorf.

Positive effects of the HEIMSTÄRKE project

On average, the 81 male interviewees were 23 years old and had had 8.8 years of formal education. This was above average for their home regions or countries, but significantly lower than the average for Germany. In Germany, 8.8 years of formal education generally would not suffice to complete one’s secondary education.

According to their own statements, 72 per cent of the interviewees had had a job before coming to Germany, and had an average of 4.3 to six years’ work experience. At the time of the survey, 14 per cent of the group had undertaken paid work in Germany. This low percentage can be attributed to the participants’ educational ambitions. The younger and more educated refugees may rather be oriented towards education or training than towards employment.

Another reason can be found in the lack of institutional assistance in finding a paid employment: 80 per cent of the refugees claimed to have received no help with their job search.

The participants gave a very positive appraisal of their participation in the project: Almost 60 per cent stated they would prefer to take part more than once a week. The study shows that 35 per cent of the participants had been invited into German homes as guests, as compared to 27 or 22 per cent of the migrants in non-participating groups. The study thus reveals that positive effects of participation in HEIMSTÄRKE are beginning to show.

Refugees are optimistic about their prospects on the German labour market

36 per cent of the interviewees were looking for work. They were optimistic about their prospects on the labour market: 91 per cent believed they would find paid work within the next two years. The refugees interviewed thus appeared to have a relatively large amount of work experience and optimism, though their average level of education has to be considered very low in comparison with young Europeans of the same age.

The financial costs of the refugees’ journeys can be an important factor in their economic integration. If the migration process associated with these costs is seen as an investment, a certain return from it may be expected. Also, if refugees accu-



mulated debts, the incentive to be active on the labour market might be considerably increased. The ZEW study shows that 77 per cent of the refugees crossed the Mediterranean on their way to Germany and paid on average 2,210 euros for this crossing. The average total cost of their respective journeys was significantly higher, at 4,900 euros. This may be due to their different countries of origin and respective routes to Germany. 81 cent of the refugees took on loans to finance the cost of their journeys.

The complete study is available at: www.zew.de/PU78879-1

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Irregularities in the procurement process, delays in execution and sky-rocketing costs for the tax payer: the Elbe Philharmonic Hall in Hamburg is one of the most prominent examples in Germany for problems arising in public procurement.

Foto: © Istockphoto/ThomasFluegge

Why Complete Transparency Does Not Work

The Berlin-Brandenburg airport, the railway project Stuttgart 21, and the Elbe Philharmonic Hall have one thing in common: They all bear witness to the irregularities in the procurement process, delays in execution, as well as sky-rocketing costs for the tax-payer, which frequently arise in public procurement and planning. In the hopes of tackling corruption, the EU Commission now wants to make the public procurement process completely transparent. While this is well-intentioned, full transparency brings its own set of problems, in particular the risk of distorting competition.

Public contracts account for almost 14 per cent of Germany's gross domestic product, with more than 250,000 public authorities purchasing goods and services for the state in Germany. However, this doesn't mean that these deals are always cost-effective or fully above board. Increased efficiency in public procurement could save the tax-payer billions of euros. On top of that, the fact that administrations are susceptible to corruption makes it necessary for the procurement and management of public contracts to be subject to the scrutiny of public authorities and the general public.

Transparency requirements have been interpreted by the European Union and domestic courts as a tool for safeguarding the procedural rights of companies involved in public tenders. The EU Commission has therefore made it easier for private bidders to take legal action over alleged unfair treatment in the procurement process. This will lessen the financial burden on under-financed public supervisory bodies and allow the market to self-regulate. For many experts, however, this is still not enough. There is to be even greater transparency in the public procurement process, with the EU Commission planning to create full-cycle procurement registers that would make all procurement documents publicly available online and free of charge by 2018. This would include technical documents containing highly sensitive product information as well as the companies' bids. And yet, there are doubts surrounding this plan.

In the name of transparency, the conditions and prices of awarded public contracts would be made public and bidders would have access to sensitive market information including the size of the bids made by their competitors as well as their technical documents. It is therefore possible that public con-

tractors could unwittingly damage competition and facilitate cartels. Cartels are often based on price fixing. In a stable cartel, members need to check that the cartel strategy is being adhered to by other members and punish those who deviate from it, something which would be made far easier by the procurement registers since it would be clear to see whether a member was adhering to the cartel's fixed prices or not. Cartels are, however, damaging to the national economy since they lead to higher prices and lower product quality. The high number of cases of bid rigging in public procurement markets illustrates the serious problem that cartels represent, even in Germany.

Excessive transparency can be counter-productive

To be clear, transparency is important, but excessive transparency can be counter-productive. It is not without good reason that EU public procurement guidelines contain a number of exemptions from the existing transparency rules. This is where policy-makers need to provide more legal certainty by making the existing rules more concrete. Furthermore, they need to take a more nuanced approach when constructing the new online procurement registers. Registers like these can help to make it easier for supervisory bodies and audit offices to monitor public procurement. However, this does not mean that the general public, including all market players, should be granted real-time access to this detailed information. What would make more sense would be to have regulations determining when and what level of access should be given the private sector, academic institutions, and the general public respectively. Delaying access to the information would destabilise cartels. Companies deviating from the cartel strategies would be able to benefit from the deviation profits for longer, making deviation more profitable.

Those demanding complete transparency in the procurement process are running the risk of negative consequences for consumers and the economy, such as price distortion, lower quality goods, and a higher cost of implementing competition law.

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Q&A: What Does the New US Presidency Mean for Europe?

“Trump Is a Neo-Mercantilist”

The new US President Donald Trump has begun to unveil the first contours of his economic policy: the threat of punitive tariffs on Mexican imports, an entry ban on immigrants from seven predominantly Muslim countries, and the construction of a wall along the US' southern border. Friedrich Heinemann, head of ZEW's Research Department “Corporate Taxation and Public Finance”, critically assesses the actions of the Trump administration thus far.

What does the outcome of the US election mean for Germany as an export country?

Nearly ten per cent of German exports are sold in the United States, making it the most important national market for German companies. Moreover, Germany has a very high trade surplus with the United States, which could put the German export economy in the crosshairs of the Trump administration. If Donald Trump makes good on his idea of raising protective tariffs, we will feel the pain. Not only does it stand to hurt trade between our countries; there's also the indirect harm from losses incurred by German companies with factories in Mexico.

Are there rational economic arguments for stronger protectionism on the part of the US?

Donald Trump's economic policy, insofar as it resembles anything like a coherent position, borders on mercantilism. The mercantilists argued very much like Trump: A country increases its wealth by protecting its industries through tariffs and increasing its domestic capital through exports and current account surpluses.

But classical economists debunked mercantilism more than two hundred years ago. Mercantilism primarily serves domestic companies, while the wealth of nations grows more in the long

run when they embrace international competition. It is no surprise that Trump has many enthusiastic fans among American manufacturers. But in one respect Trump is no mercantilist: he is a wall builder which distinguishes him from his economic forbearers. The mercantilist did everything to attract people from other countries. They understood that hard-working economic migrants were a boon.

How will Trump's economic policy affect global economic growth?

The greatest danger is that aggressive US tariffs will trigger retaliation from its trading partners. Another problem is the unpredictability of Donald Trump's economic policies. Mexico has already felt the effects of this uncertainty, seeing its currency tumble and international companies suddenly halt new investment. The shock waves have reached far into the South American continent.

And hopes driving up the stock markets – namely, that large US stimulus packages will have a positive effect – are inflated. It is the wrong time to stimulate the US economy with tax cuts and investments. It is already doing well and the United States has already reached near full employment. Additional fiscal stimulus will create inflation and force the US Federal Reserve Bank to raise interest rates significantly, ultimately leading to higher exchange rate and financial market volatility around the world.

Which protectionist instruments could be used by the Trump administration?

There is a real risk that US President Donald Trump takes up a Republican plan to reform corporate taxation. This reform design would be a revolution to corporate taxation. It would fundamentally change the tax base: the new tax system would only tax domestic sales and imports, while revenues from export would be fully tax free.

The import tax, administered as a “border adjustment tax”, would have similar effects like a tariff and would heavily distort international trade and investment decisions. European companies exporting to the United States would suffer from double taxation. As a result of the border adjustment tax, they would have to pay taxes on their exports both at home and in the United States.

How should Germany and the EU respond to trade difficulties?

With a level head. We shouldn't answer irrationality with irrationality. The Trump era will come to an end, perhaps faster than we think. By keeping cool and de-escalating trade policy conflicts, we will be investing in a good relationship with Trump's successor. This means that the European Union should not let itself be drawn into the fray. If other countries are foolhardy enough to impose tariffs that make their own consumers poorer, that's their decision.

Prof. Dr. Friedrich Heinemann



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Photo: Thomas Tröster

Around 350 guests had accepted ZEW's invitation to listen to Hans-Werner Sinn's speech and discuss his EU reform proposals.

Hans-Werner Sinn Calls for a New Europe

Migration, Brexit, the looming euro and debt crises and a US President who wants to limit free trade all point to one thing: Europe is in desperate need of reform. This was the central message of Professor Hans-Werner-Sinn's speech, in which he presented his 15-point programme for the re-establishment of a European Union post-Brexit as part of the lecture series First-Hand Information on Economic Policy at ZEW.

All signs in Europe point to change. "We need to respond to those signs," urged Hans-Werner Sinn, professor emeritus of economics and public finance and former ifo Institute President, during his presentation in front of an audience of around 350 guests and leading figures from the worlds of politics, science and economics. In light of recent developments, such as the imminent departure of Great Britain from the European Union and the European Central Bank's free credit default insurance, far-reaching reform is necessary. "Europe needs reform," said Sinn, "and the time for reform is now."

While the US, the most important export market for the German economy, is under threat from the protectionist views of US President Donald Trump, Germany's third main export market, the UK, is now also at stake due to Britain's departure from the EU. "The UK leaving the EU will have the same economic impact as the twenty smallest member states leaving." Brexit will also cause those EU nations in favour of free trade to lose their blocking minority of 35 per cent in the EU Council of Ministers. This minority will shrink to 26 per cent and upset the current balance of power in Europe. "For this reason alone, Germany must push for the renegotiation of EU treaties," claimed Sinn.

"Europe needs a change in course"

Meanwhile, the ECB is using national resources and a "patchwork of complicated individual measures" such as the "Outright Monetary Transactions" programme and quantitative easing measures to approve loans, thereby increasing the risk of a massive increase in government debt. 2.3 trillion euros' worth of securities are expected to be sold this way by the end of 2017 – a bottomless pit in Sinn's view. "The German Bundesbank has to credit the lion's share of quantitative easing because the liquid funds are accumulated in Germany," explained the economist. Ultimately, this would make Germany liable to blackmail and the country would find itself forced into consenting to a European fiscal union. "Our economy is currently growing as a

result of negative interest rates, abundant liquidity and an undervalued euro," concluded Sinn, "this is not real growth, but rather artificial growth."

"We cannot build a collective Europe on this basis," said Sinn. He made the case for abandoning de facto joint debt liability so that Europe can regain some much needed stability. In the hope of setting Europe back on course, Sinn proposed a "breathing currency union", which allows member states to leave the EU in order to devalue their currencies. Outstanding debt would need to be settled and the buying of government



Photo: © Thomas Tröster

Economist and financial scientist Hans-Werner Sinn presented a fifteen-point programme for a post-Brexit EU.

bonds would have to be stopped. "If we want to save the euro-zone, Germany has to become more expensive," concluded Sinn.

He ended by declaring himself in favour of distinguishing between the country of origin principle in the case of inherited entitlements and the host country principle in the case of earned entitlements. "Up until this point, we've been trapped between three irreconcilable aims: free movement within the EU, the creation of an effective welfare state, and social inclusion. It just can't work," Sinn added. Further points in Sinn's programme included allowing asylum applications sent from outside the EU to be received and processed as well as the stabilisation of states bordering the EU to the south and the east. The concluding point on Sinn's programme was a potential consolidation of all European armies, including the Eastern European armed forces.

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Public and Strategic Procurement is Focus of the ZEW Market Design Workshop

What mechanisms are there to help improve the distribution of refugees in their destination countries? How can public procurement be made more efficient? These are just a few of the questions from the field of market design which were discussed by around 30 international researchers and industry practitioners at a workshop on market design held by ZEW in Mannheim.

Despite the continuing increase in the number of refugees worldwide, the local distribution of refugees during resettlement remains largely subject to an ad-hoc decision-making process and is not systematically regulated. Alex Teytelboym, Oxford University, presented his research on allocation mechanisms which could improve the distribution of refugees and their families in their destination countries that take the preferences of both refugees and the various regions into account.

This was followed by a talk from Cuihong Li, University of Connecticut, on how companies can most effectively organise their supplier pool. Her research findings showed that, while a larger supplier pool leads to stronger competition, it also reduces the incentive for suppliers to innovate or invest and thus can lead to higher prices and inefficiency.

Large-scale projects such as the Berlin Brandenburg Airport, the Elbe Philharmonic Hall in Hamburg and the railway and urban development project Stuttgart 21 are just a few examples of the im-



Cuihong Li from the University of Connecticut discussed how companies can most effectively organise their supplier pool.

portance of strategic planning in public procurement. The root cause of the problems faced by these projects is often poor planning, which makes time- and cost-intensive renegotiations necessary further down the line.

Fabian Herweg, University of Bayreuth, presented a market design that offers providers an incentive to report any deficiencies in their planning before they are awarded the contract and not to hold out for later renegotiations.

Kai A. Konrad Takes over as Chair of the Scientific Advisory Council



From left: ZEW Business and Administration Director Thomas Kohl, Professor Kai A. Konrad, Professor Axel Ockenfels, ZEW President Professor Achim Wambach.

The ZEW Scientific Advisory Council met for the first time this year. This occasion also marked Professor Kai A. Konrad's debut as the council's chair. He took over the position of the long-standing chairman, Professor Friedrich Buttler, who retired at the end of last year. Kai A. Konrad is the Director of the Department of Public Economics at the Max Planck Institute for Tax Law and Public Finance in Munich, and has been a member of ZEW's Scientific Advisory Council for several years.

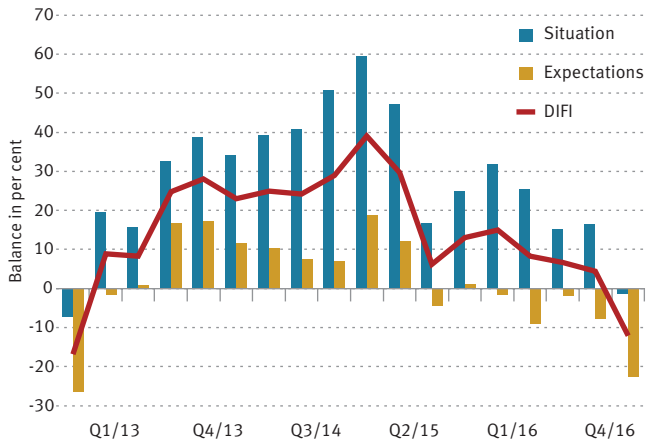
Professor Axel Ockenfels was appointed new council member. He is a professor at the Department of Economics of the University of Cologne, as well as the founder of the Cologne Laboratory for Economic Research. His main research areas are market design, game theory, behavioural economics and experimental economics. The Council monitors and reviews ZEW's work and plays a significant role in the institute's quality assurance.

Achim Wambach Appointed to Advisory Board of the German Federal Insurance Office

ZEW President Professor Achim Wambach has been appointed new member of the German Federal Insurance Office's Scientific Advisory Board for the Further Development of the Risk Structure Compensation Scheme. He is appointed to the Scientific Advisory Board to help develop an evaluation report regarding the Risk Structure Compensation Scheme. His appointment by the German Federal Ministry of Health runs from 1 February 2017

until 30 September 2017. The task of the Scientific Advisory Board for the Further Development of the Risk Structure Compensation Scheme is to offer advice to the Federal Insurance Office. The Federal Ministry of Health, or – in agreement with the Ministry – the Federal Insurance Office, may also assign the Advisory Board to prepare special reports and official statements.

Commercial Property Financing Conditions Worsen

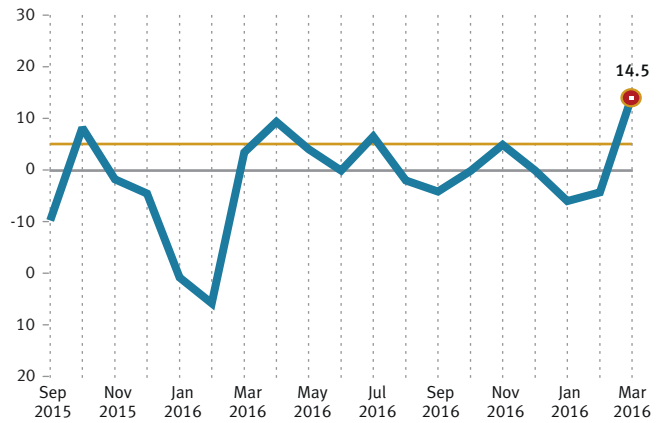


Source: JLL and ZEW

In the first quarter of 2017, the German Real Estate Finance Index (DIFI) has decreased by 16.4 points to 12.0 points. For the first time since the first quarter of 2012, the index for commercial property financing found itself in negative figures. According to the quarterly survey carried out by ZEW in cooperation with real estate services provider JLL, a decrease was observed not only in the assessment of the situation over the past six months, but also in expectations for the coming six months, with the corresponding balances of positive and negative assessments sinking by 17.7 points to minus 1.3 points and by 14.9 points to minus 22.6 points respectively. It should be noted that almost three quarters of the surveyed experts reported no change in the financing situation, nor did they anticipate any changes to financing conditions over the course of the next six months. Nevertheless, the continuing decrease in expectations indicates that businesses are preparing for a shift in financing conditions.

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China Economic Panel: Expectations Continue to Rise



Balance of the symmetrically weighted positive and negative assessments regarding the macroeconomic environment in China in twelve months. Survey period: 28 February 2017 – 16 March 2017. Source: ZEW/Fudan University

The economic outlook for China has significantly improved by 18.7 points according to the current survey for March. The CEP Indicator, which reflects the expectations of international financial market experts regarding China’s macroeconomic development over the coming twelve months, is currently at 14.5 points. This is the first time since July 2016 that the indicator has significantly exceeded the long-term average of 5.1 points. The surveyed experts’ assessment of the current situation at 3.3 points was one point lower than the previous month’s assessment. The point forecasts for GDP growth in the first two quarters of 2017 both rose and are now each at a level of 6.6 points. The growth forecast for 2018 rose slightly to 6.4 per cent. When viewed together, the current sentiment and the point forecasts offer a slightly more positive assessment of the economic situation compared to February. The experts seem at least to consider the threat of a significant decline in growth to be very small.

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ZEW Lunch Debate in Brussels

ZEW is pleased to announce its next Lunch Debate, entitled “Making the Most of the European Fiscal Board”, at the Representation of the State of Baden-Württemberg to the European Union in Brussels on 27 April 2017.

The European Fiscal Board (EFB) was set up by the European Commission as an independent advisory board on fiscal matters. In what promises to be a thought-provoking discussion, this Lunch Debate will shed light on how the EFB functions and try to give an initial assessment of its strengths and weaknesses. Participation in the event is only possible on invitation. If you are interested in attending the event, please contact us at LunchDebates@zew.de. For further information, please visit:

www.zew.de/VA2284-1

Sixth Mannheim Energy Conference

ZEW and the Mannheim Centre for Competition and Innovation (MaCCI), a joint initiative of ZEW and the University of Mannheim, are pleased to announce the sixth Mannheim Energy Conference on 11–12 May 2017.

International scholars and practitioners in the field of energy economics will come together to discuss latest insights, new opportunities and future challenges. The conference shall provide a stimulating environment for debates on issues fundamental to the energy industry, on policy implications of recent research, and new research questions arising from energy market regulation and policies. The conference fee is EUR 200. Registration for the event will start on 3 April 2017.

For further information, please visit: www.zew.de/energy2017



The EU's Strengths Are Now More Important Than Ever

2016 was not a good year for the European Union. In June, the people of the United Kingdom, the country with the second-highest gross domestic product (GDP) in Europe, voted to

leave the EU. 2017 brings elections in France and Germany, while an election in Italy is also likely. These elections will offer yet another platform for EU- and euro-sceptic parties to spread their message. Protectionism, as propagated by newly elected US President Donald Trump, represents the greatest danger to the world's economy in 2017.

The benefits of globalisation have been recorded many times over; no country would have ever been elevated from the status of a “developing nation” if it had not opened up to the world economy. Our standard of living can only be maintained through open borders. The advantages of globalisation have not, however, been distributed equally. There are many who have lost out to globalisation. Nonetheless, economic studies have identified technological changes – and not open markets, as is often claimed – as the most influential factor when it comes to changes in labour markets and the inequality of income.

Open markets and their benefits are one of Europe's greatest accomplishments. One important aspect that tends to get less attention in public discussion is the EU's role as guarantor for consistent conditions and equal rules for all competitors.

The most important elements of competition supervision are happening in Brussels while the national supervisory boards also co-ordinate with one another to be as consistent as possible. Firms should be competing over customers, not the laxest regulations. Steps are being taken to allow public tenders to go out across the EU in order to create equal starting conditions. Even if this doesn't come off, the aspiration is a fair and honest one. The best supplier – not the national supplier – should be in with a chance. State aid control, which focuses on national

subsidies, is having a strong disciplining effect. The possibility of subsidy races playing out between countries as they once did is now severely limited. The EU is creating significant stimuli for fair market conditions across Europe in the rail, postal, telecommunications, and energy sectors. It is down to Brussels that one day it might be possible to travel to London via the Channel Tunnel with German railway operator Deutsche Bahn.

The European Commission, however, not only acts as referee between the various European nations; it also advocates for the adherence to these rules beyond Europe's borders. It is surely better to take Google to court in Brussels for abusing its dominant market position rather than through 28 different national competition authorities. The EU has also initiated several legal proceedings against China through the World Trade Organisation for trade practices which distort competition. It is a good thing for these and further legal proceedings to come from an economic zone with a total GDP of more than 14 trillion euros. Even Germany, the largest economy in Europe with a GDP of around three trillion euros, would be in a far weaker position when asserting its interests.

The world economy can expect nothing good to come from Donald Trump's protectionist plans. This makes it all the more important for the European Commission to not only create fair starting conditions within Europe, but also to work towards a level playing field with other economic blocs of countries.

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