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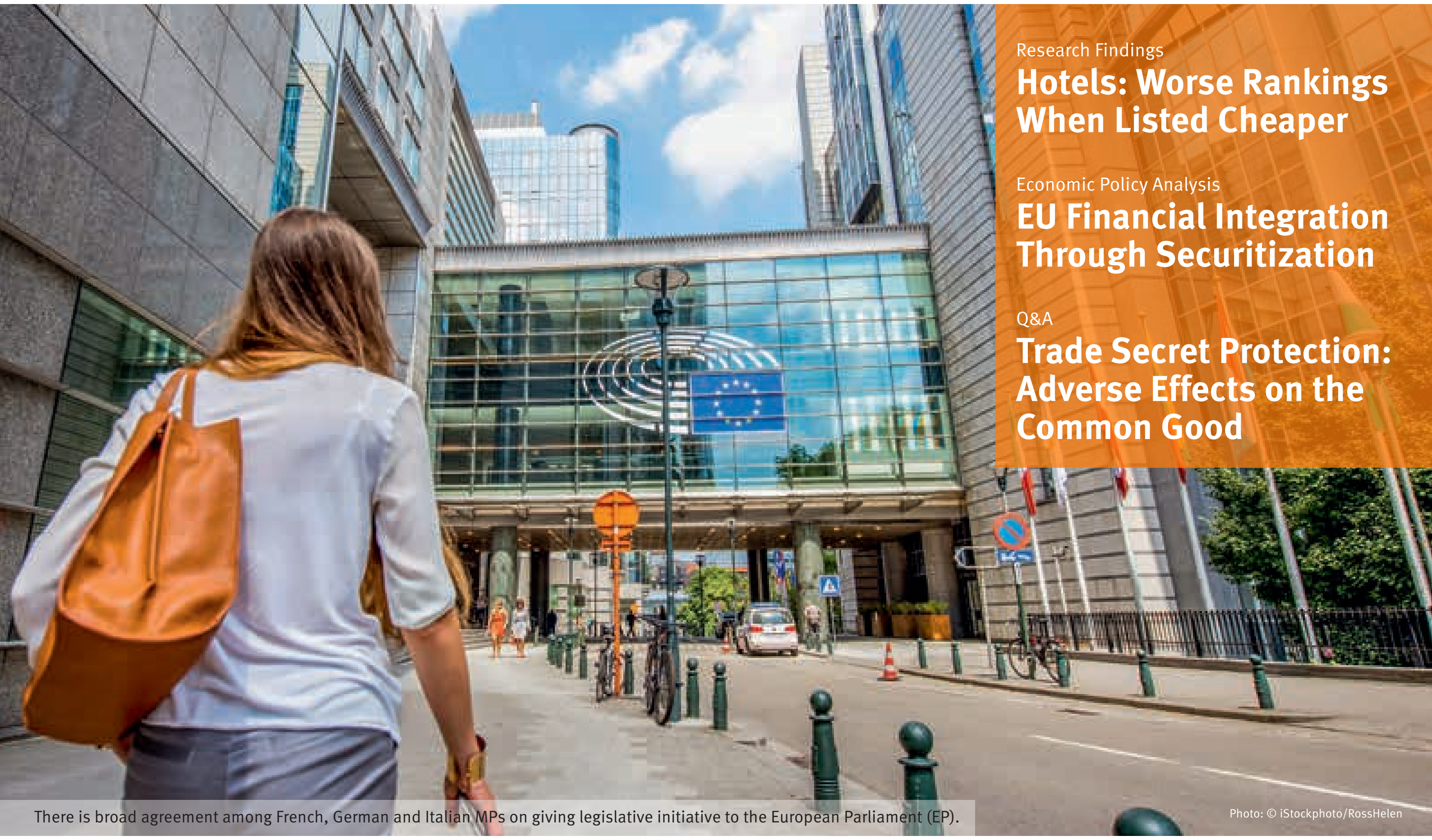


There is broad agreement among French, German and Italian MPs on giving legislative initiative to the European Parliament (EP).

Photo: © iStockphoto/RossHelen

Views of French, German and Italian Parliamentarians on EU and EMU Reforms

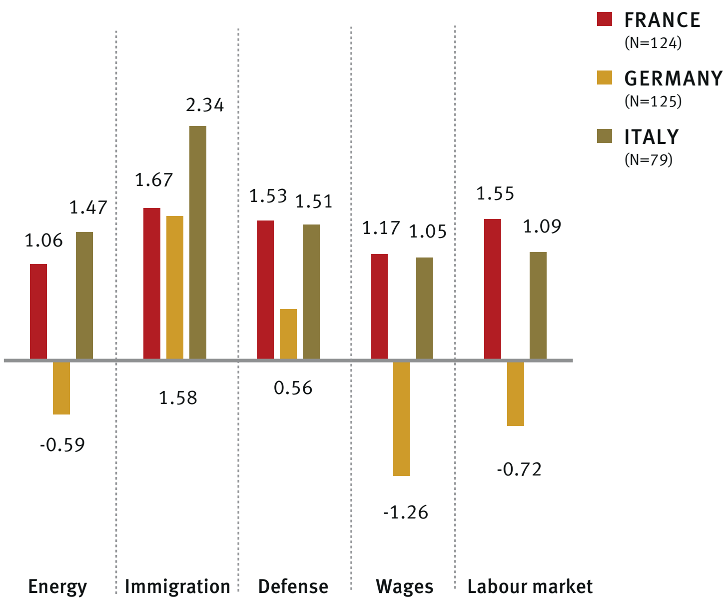
The "multicrisis" of European integration from the euro debt crisis through the migration dispute to Brexit has kicked-off a comprehensive reform debate. Against this backdrop, members of parliament (MPs) from France, Germany and Italy were asked to give their views on reform options of the EU and the European Monetary Union (EMU). The results show that the MPs are open to granting the EU more competencies in defense and immigration policy.

A team of researchers from ZEW, the University of Mannheim, the École Polytechnique in Paris and the Università Cattolica del Sacro Cuore in Milan surveyed members of the German Bundestag, the Italian Camera dei Deputati and the Senato della Repubblica as well as members of the French Assemblée Nationale and the Sénat. A total of 328 MPs from three countries participated in the survey conducted in autumn 2018.

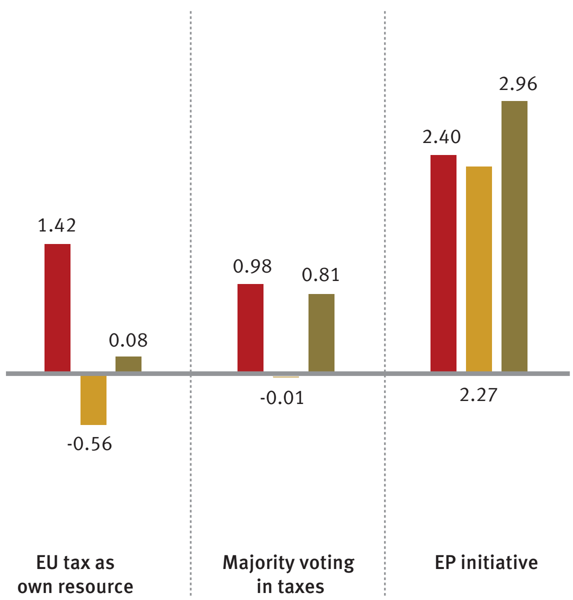
The survey reveals that there is broad agreement on giving legislative initiative to the European Parliament and on increasing national investment expenditure to boost economic growth. There is, however, considerable disagreement over certain reform proposals for the eurozone: French and Italian MPs support the implementation of new European Monetary Union institutions such as a euro area budget and Eurobonds, while the Germans oppose them.

Opinions on monetary policy differ between Paris, Rome and Berlin. Italian and French MPs support the asset purchase programme of the European Central Bank (ECB), whilst German MPs think it should be discontinued. There is strong Franco-Italian support for the completion of the Banking Union through the European Deposit Insurance Scheme, while German parliamentarians are undecided on this matter.

SUPPORT FOR MORE EUROPEAN COMPETENCIES BY COUNTRY



SUPPORT FOR INSTITUTIONAL REFORMS BY COUNTRY



N defines the number of responses, Answer scale: -4 to +4, results weighted to increase representativeness; Source: ZEW

The survey covers three reform dimensions: the division of competencies between the European and national levels, EMU reforms, and the future of EU finance and decision-making.

According to the survey, French and Italians MPs are generally more open towards shifting competencies to Brussels than their German counterparts. German MPs are more reluctant to give more competencies to the EU than their Italian and French colleagues. The results suggest that there is widespread support for greater integration in Europe in the fields of immigration and defense policies. Italian and French MPs are also in favour of the remaining policy issues – on energy, wage, and labour markets – whereas German MPs are against the idea that Europe should gain further competencies in those areas (see chart above on the left). There is also broad agreement across MPs from all surveyed countries on giving legislative initiative to the European Parliament (see chart above on the right) which is currently confined by the European Commission. MPs from all surveyed countries agree as well on increasing national investment expenditure to boost economic growth.

Higher national investment is supported by many parties across Europe

The survey results also provide information on party membership of MPs. With the exception of members of the German Alternative for Germany (AfD), higher national investment is supported by many parties across Europe, including the governing parties in Italy. The situation is quite similar as far as the support for new EMU institutions is concerned. While parties across Europe are generally in favour of implementing these instruments, the German AfD is again strongly opposed to it. Thus, the party-specific results point towards a deep divide between populist movements in Germany (AfD) and Italy (Lega, Movimento 5 Stelle).

These results of the newly conducted survey shed some light on possible next steps in the debate on European integration. The results of the survey show that the national parliamentarians of three founding countries agree on the need to shift greater responsibility to the European level regarding immigration and defense issues.

Focus on issues uniting the European Union

The authors of the survey recommend that the three founding countries should focus on the issues that unite them rather than the ones that divide them. There is clearly enough consensus among parliaments to initiate a process to increase investment spending and to give the European Parliament more legislative powers. For the euro area, the survey also suggests that there is some hope of concluding the Banking Union dossier.

All in all, the survey provides a clear indication of the blocking power of the populist movements following the next European Parliament election in May 2019. According to the authors, the divide between populist parties in Northern and Southern Europe will severely weaken their joint political impact in the European Parliament after the election.

The study can be downloaded at: *www.zew.de/PU80698-1*

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Hotels Get Worse Rankings When Listed Cheaper on Other Websites

A hotel's ranking on an online travel agent is often decisive for which hotels are booked online – and which are not. However, not every position and recommendation on platforms like Booking.com and Expedia is necessarily in the interest of the users. Hotels get worse positions in the recommended search results, if they offer lower prices on other platforms or on the hotels' own website, as a recently conducted study shows.

The study carried out by ZEW in cooperation with Télécom ParisTech and the Düsseldorf Institute for Competition Economics (DICE) examines how different hotel prices across competing distribution channels affect the hotel's position in the recommended search results of online travel agents. For this purpose, the team of researchers analysed search results of the two largest online travel agents, Booking.com and Expedia, as well as the meta-search site Kayak for 250 cities in various countries between July 2016 and January 2017, and tracked more than 18,000 hotels.

The data indicate that at least some hotels offer different prices across different distribution channels. One in four hotel offers is cheaper if booked on the hotel's own website than via an online travel agent. The study shows for both online travel agents that if a hotel charges a lower price on a competing platform or on its own website, this results in a worse ranking of the hotel in the platform's recommended search results. This holds regardless of whether a country has price parity clauses or not. The greater the price difference between competing platforms, the greater the effect on a hotel's positioning in the platforms' search results. As a consequence, hotels with lower prices on competing channels are less visible than those who do not undercut rates. This in turn has an influence on the pricing decision of hotels and reduce price differentiations across all channels.

By considering price differentials, online travel agents make their recommended search results dependent on factors that are relevant to maximising the platforms' profits, but which are not necessarily in the customer's interest, conclude the authors of the study. However, this strategy entails certain risks. On the one hand, platforms can influence hotels' pricing decisions across all distribution channels when optimising their search results in this way. This can to a certain extent be regarded as a substitute for

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A new study investigates whether online travel agents assign hotels worse positions in their search results if these set lower hotel prices on competing channels.

price parity clauses, which were banned by competition authorities and lawmakers in several European countries. On the other hand, this can also reduce the search quality for users if the search results are not in line with consumer interests.

According to the study, it would be desirable for online travel agents to better inform consumers about how they calculate their rankings labelled as 'Recommended' or 'Our top picks'. Consumers could then make a more elaborate decision as to whether they want to actually follow the recommendation. This could in turn improve search quality for users and possibly also eliminate the anti-competitive effects of such platform strategies.

The study is available to download at: *www.zew.de/PU80641-1*

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IN THIS ISSUE

Q&A: ZEW's New Junior Research Group

"Better Trade-Secret Protection Can Have Adverse Effects on the Common Good"

The ZEW Research Department "Economics of Innovation and Industrial Dynamics" recently created the Junior Research Group "Competition and Innovation" that studies the law and economics of competition and innovation. Bernhard Ganglmair, who heads the group, talks with us about its research and sheds light on the potential applications.

Industrial espionage, cyber attacks and other forms of unwanted leakage of corporate information cause billions worth of damage to the German economy ever year. To better protect trade secrets Germany recently implemented an EU directive. The new ZEW Junior Research Group studies the standardization and strengthening of trade-secret protections. Can you tell us more about this work?

Measures to improve and standardize the protection of inventions, information, and data aim at creating stronger incentives for R&D investment. But these measures can also have unintended consequences when they lead to more secrets and when companies decide not to disclose inventions, for instance, through patents. We use data from the US to examine the effect of trade-secret protections on invention disclosure and visibility. Since the 1980s, individual US states have sought to standardize the protection of trade secrets. Based on their experience, we have found that better protection leads to a decline in the number of patents, especially for processes. This, in turn, reduces the amount of available public information about new inventions and delays or even prevents the development of new technologies that build on this information. We are using model simulations to show that better protection of trade secrets can have adverse effects on overall welfare – namely when the negative consequences of decreased invention disclosure outweigh the positive consequences (i.e. increased R&D incentivization) of stronger trade-secret protection. This is particularly likely in industries where R&D is fairly profitable.

ZEW, and its Research Department "Economics of Innovation and Industrial Dynamics" in particular, has accumulated enormous amounts of knowledge in innovation and patenting. A task of the Junior Research Group is to link this knowledge with issues in "classical" competition economics. Is there a certain project that makes this link particularly clear?

In an ongoing project, we are examining the relationship between increased industry concentration and productivity growth. A central question here is the role of innovation. We want to understand how a decline in competition affects the incentive of companies to invest in cost-cutting production technologies. A drop in this kind of innovation would have a long-term effect on productivity growth. The question here is whether the connection exists and, if so, how important is it. The resources and expertise of the ZEW research unit will prove invaluable here, as will data collected at ZEW on the innovation activity of German companies. Another part of the project involves the use of theoretical models to explain the mechanisms underlying that relationship between industry concentration and productivity growth. The goal is to better understand causes and effects and arrive at new insights for possible policy measures.

What are the goals of the new Junior Research Group for the next five years?

We want to sharpen our scientific profile since good competition policy advice comes from good scientific research. In addition, good policy advice requires an active exchange with economic policy-makers. The goal is to position ourselves at this juncture between research and competition policy advice. At ZEW, we want to become a reliable partner for competition economics. We want to contribute new know-how and give valuable input for the other research units. At the same time, our interdisciplinary outlook seeks to foster the close exchange between economists and legal experts, in particular through our involvement in the Leibniz ScienceCampus of the Mannheim Centre for Competition and Innovation, which ZEW founded in cooperation with the University of Mannheim.

Dr. Bernhard Ganglmair is head of ZEW's Junior Research Group "Competition and Innovation". Prior to joining ZEW, he was an assistant professor of managerial economics at the University of Texas at Dallas. In the past, he taught at the University of Linz, Austria, and Northeastern University in Boston, US. He was a visiting researcher at the University of Bologna in Italy, Haifa University in Israel, and Boston University. His research covers a variety of topics related to technology standardization and patents, trade secrets, competition economics, contracts, and the economic analysis of law more generally. He is member of the board of the Mannheim Centre for Competition and Innovation (MaCCI) and a co-opted member of the Collaborative Research Center (CRC) 224 – EPoS at the University of Mannheim. Bernhard Ganglmair holds a PhD in economics from the University of Zurich, Switzerland, and an undergraduate degree in business and economics from the University of Linz in Austria.

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For key strategic decisions such as research and development, companies need a reliable basis for planning.

Proposed R&D Tax Incentive for Germany Could Be Further Improved

The federal government's current plan to introduce tax incentives for R&D for firms in Germany is a step in the right direction – but it could be further improved. The proposed legislation for a new "Forschungszulagengesetz" ("Research Allowances Act") is right to focus on small and medium-sized enterprises (SMEs). However, the incentive suffers from various weaknesses that will significantly reduce its impact. With targeted adjustments, the incentive would be much more effective in strengthening the attractiveness of Germany as a location for private-sector R&D.

These are the key findings of an assessment of the proposed R&D tax incentive that was conducted by a team of researchers at ZEW. The proposed R&D tax incentive would offer a 25 per cent credit on a firm's corporate income taxes for R&D expenses on wages and salaries (excluding employers' contributions to social insurance). Taxable costs are capped at two million euros per financial year and company group, which means that the maximum funding amount is 500,000 euros per year. The effect of the funding scheme would thus be rather negligible for companies with R&D expenditures in the tens or hundreds of millions of euros per year. However, this class of company undertakes more than 80 per cent of all private-sector R&D in Germany.

To be eligible for funding, companies also have to submit a declaration stating that the claimed R&D expenditures comply with the law's definition of R&D. This requirement entails high bureaucratic costs. As a result, a major potential advantage of an R&D tax incentive – avoidance of red tape – is lost.

Finally, the law is set to expire after four years, a time frame that is out of alignment with the mid- to long-term nature of corporate R&D activities. According to the ZEW assessment, such a short time frame will fail to provide incentives for firms – particularly SMEs – to invest in more R&D staff and infrastructure.

The proposal could have much greater impact

The German Federal Ministry of Finance has earmarked a total of 1.25 billion euros per year for the implementation of the new funding scheme. However, calculations regarding the innovation behaviour of the German economy conducted by ZEW researchers and based on the Mannheim Innovation Panel (MIP) show that the legislative proposal could have a considerably greater impact if the funding amount was higher and the attendant bureaucratic costs were lower.

First, all R&D expenses for personnel should be eligible for funding. The fact that the employers' contributions to social insurance are not part of the eligible expenses in the current proposal does not make economic sense. In addition, the proposed ceiling is far too low. As a consequence, many medium-sized enterprises with substantial R&D potential – so-called "mid-range companies", with 250 to 3,000 employees – would only receive funding for a small share of their eligible R&D expenses, which means that there would be no incentives for these company to invest more in R&D.

The ZEW researchers therefore recommend a combination of higher eligibility caps and tiered subsidy rates – as has been implemented, for example, in the Netherlands and France. Specifically, the researchers suggest that as part of the planned reform, R&D expenses for personnel ranging between two and ten million euros should be liable for taxation, but subject to lower tax rate of around 15 per cent.

The researchers note that while lifting the ceiling would result in additional costs of around one billion euros per year, part of this additional cost can be saved by abstaining from the planned declaration process. Finally, the researchers call for completely eliminating the four-year time limit, since firms need a reliable basis for mid- to long-term strategic decisions such as R&D.

Although the proposal of the Finance Ministry features a relatively high funding rate compared to other countries, it's effectiveness is undermined by its narrow range of applicability and the low funding cap on the amount allocated to each company. At the same time, companies have to bear relatively high application and bureaucratic costs. Particularly in the case of small companies, it is likely that these costs will exceed the funding amount granted by the government. This will discourage many companies from using the tax incentive, which, in turn, will render this instrument ineffective for a segment of the private sector that is highly important from an innovation policy perspective. Compared to many other countries, Germany still lacks tax incentives for private-sector R&D, which is why the government proposal is very welcomed. According to the analyses, however, it currently falls short of its objectives.

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One way to increase financial integration is to establish a functioning securitization market.

Foto: ©iStockphoto/SergiyMolchenko

Fostering European Financial Integration Through Securitization

Sharing risk is a vital part of a functioning monetary and economic union such as the eurozone. The lack of cross-border risk sharing in the banking sector is a significant barrier to better integrated financial markets in Europe. One way to increase financial integration is to establish a functioning securitization market.

Sharing risk is a vital part of a functioning monetary and economic union such as the eurozone. It allows idiosyncratic shocks to one part of the union to be smoothed in order to prevent economic conditions of regions to drift too far apart. While the degree to which risk should be shared between eurozone countries is subject to debate, it is currently well below the levels reached in other federations. This is primarily due to insufficiently integrated financial markets, and a fragmented European banking sector. However, increasing banks' risk sharing through more cross border investments is notoriously difficult and not without risk. Cross-border bank M&As are often not to the advantage of the merging institutions. Furthermore, such mergers can produce large and systemically important institutions, which regulators are trying to discourage for good reason. The strategy preferred by the EU Commission entails strengthening capital markets in order to induce a shift in firm funding away from bank loans towards marketable debt securities and equity. This is sensible, but would also require a change in the saving behaviour of European households: away from safe bank deposits towards more risky bonds and stocks.

Securitization increases cross-border risk sharing

A less deliberated path towards more cross-border diversification of banks entails making loan portfolios of banks marketable. The securitization and subsequent trading of firm loans allows banks to geographically diversify their portfolios without the necessity of establishing foreign offices. However, the European securitization market has been in decline for the past decade. Stakeholders associate this decline with the stigma attached to securitization ever since complex and intransparent US-mortgage backed securities precipitated the global financial crisis, and with tighter regulation.

In order to increase cross-border risk sharing through securitization in the EU, we suggest a two-pronged strategy: It entails, on one hand, further improving the existing regulatory framework to reduce barriers to a thriving securitization market. On the other hand, incentives for risk sharing and securitization in Europe should enter EU regulation and EU programmes.

Specifically, we propose adjustments to the capital and liquidity regulations within the newly-created European framework for "Simple, Transparent and Standardized" (STS) securitization and outline the importance of harmonizing credit information, debt enforcement and tax rules across the EU. Creating a single market for securitized European loans with a European investor base requires a level regulatory playing field within the EU and a harmonized information structure with regard to the underlying loans. However, putting in place a regulatory framework that facilitates a securitization market to thrive in the EU is a necessary, but not a sufficient condition for more cross border risk sharing by European banks.

We propose that diversification benefits in capital regulation should focus on cross-border diversification rather than on general correlations of asset returns. Since credit cycles in the EU are far from being perfectly correlated, more cross-border diversification will dampen the cyclicality of banks' balance sheets. The discretionary countercyclical capital buffer (CCyB) therefore provides a logical and existing regulatory instrument to incentivize cross-border risk sharing by banks. Specifically, we propose increasing the CCyB from zero to 2.5 per cent with increasing geographic concentration of the loans and securities portfolios of individual banks. Furthermore, we consider subsidies to kick-start the European market for STS securitizations. In order to counteract the barriers to a flourishing European market for STS securitizations, existing and future EU programmes aimed at improving the accessibility to finance for firms and households should favor setups which facilitate the cross-border sharing of associated credit risk. We see an increasing focus on securitizations in these programmes as the most promising starting point for incentivizing securitization in the EU. We show how this can be done in the context of adjustments to the SME Initiative, an EU programme that aims at increasing the competitiveness of underdeveloped regions by improving the financing situation of resident SME companies.

An EconPol policy brief on the issue is available for download at: *www.zew.de/PU80657-1*

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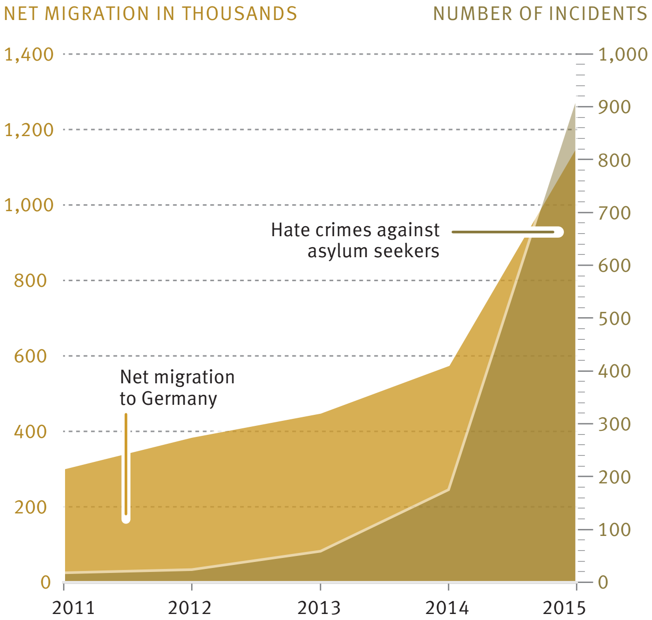
Hate Crimes Occur Predominantly in Regions with Little Immigration Experience

Hate crime in Germany has increased significantly in the wake of the large influx of asylum seekers in the past years. Some regions have, however, seen a far greater increase in hate crimes against asylum seekers than others. This rise in hate crime is not only driven by the number of refugees moving to a specific region. Regions that saw the arrival of a great number of asylum seekers and that previously had only a low share of foreign-born inhabitants have experienced the highest increase. What is more, the probability of becoming a victim of hate crime in East Germany is ten times greater than in West Germany, as a recently conducted study shows.

Hate crimes are politically motivated criminal acts, which are based on prejudice against and rejection of other social groups. A team of researchers from ZEW and Goethe University Frankfurt have been investigating attacks directed against refugee shelters as well as the people living in them. These crimes include hate speech, swastika graffiti, physical assaults and arson. In the study, the researchers investigated whether the scale and the regional distribution of the influx of asylum seekers has an effect on the number of hate crimes against this migration group, and determined the factors that have an additional impact on the incidence of hate crime. The study is based on data on hate crimes against asylum seekers reported to police departments in the period between 2013 and 2015.

FOREIGN NET MIGRATION AND HATE CRIME IN GERMANY



Source: German Federal Statistical Office, Federal Criminal Police Office

The results of the study show that there is no statistically significant link between the mere number of refugees and hate crimes recorded in a specific county, meaning that counties that experienced a great influx of refugees did not record more hate crimes per capita than regions which received only few asylum seekers. According to the study, the rise in hate crime is primarily attributable to regional differences. In this context, the researchers investigated whether other factors – namely the share of immigrants already living in a particular county, the economic situation of a specific region and the incidence of hate crimes committed during the 1990s – can explain the differences that continue to exist between German regions.

As the study shows, the presence of foreign-born residents at the local level plays the most significant role. The number of attacks against asylum seekers is much greater in regions that had only a small share of foreign-born individuals before the influx of refugees than regions with an already high share of foreign residents. Whether or not hate crime against refugees occurs depends primarily on how much experience a region has with immigration.

Hate crimes are not motivated by economic factors

When crime rates are compared across all German states, it becomes evident that the number of incidents is much greater in East German regions. East German counties with a share of foreign-born individuals of three per cent, and which receive 1,000 refugees per 100,000 local residents, experience, on average, two to three hate crimes per 100,000 residents per year. In a comparable county in West Germany, this figure ranges between 0.4 to 0.6 incidents. In addition, the researchers found evidence that hate crimes against asylum seekers are more likely to occur in regions that had already experienced criminal acts directed against immigrants 25 years ago. The increase in hate crime is also linked to xenophobic attitudes that had already existed in the respective regions and which now seem to have become entrenched. The study shows that, in some cases, a small number of asylum seekers moving to a particular region is already enough to trigger a rise in hate crime.

Local economic conditions play only a minor role in this phenomenon. The study concludes that hate crimes against immigrants are not primarily motivated by economic factors. It is therefore important for policymakers to cultivate awareness and compassion when allocating asylum seekers to regions with little immigration experience.

The study can be downloaded at: *www.zew.de/PU80696-1*

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Politics tends to delay debt restructuring. In the case of Greece, for example, it took far too long for private creditors to be involved in a debt haircut.

Foto: ©iStockphoto/ Yevgeni Kacnelson

Europe Urgently Needs an Insolvency System for Heavily Indebted Euro Countries

Europe finally needs an insolvency system for heavily indebted euro countries. When it comes to mapping out the details of such a system, however, particular care shall be taken. It is essential to take precautions to ensure that banks are no longer allowed to lend without limits to single euro states. These are the central findings of a study conducted jointly by ZEW and the international research network EconPol Europe.

The euro area still lacks a statutory sovereign debt restructuring mechanism that precisely defines procedures and responsible institutions in case of a sovereign insolvency. A few elements that affect the handling of sovereign insolvency are in place, such as the obligation to include collective action clauses in new euro area sovereign bond issues and the performance of a debt sustainability analysis prior to ESM (European Stability Mechanism) lending. Nevertheless, apart from these few clarifications, the strategy of how to cope with insolvent sovereigns remains vague and largely undefined. As a consequence, the euro area still sticks to a case-by-case approach in dealing with sovereign debt restructurings.

Politics tends to delay debt restructuring if levels of government debt become unsustainable

The starting point for the analysis of a Franco-German team of authors is the observation that that this case-by-case approach might be sub-optimal as politics tends to delay debt restructuring if levels of government debt become unsustainable. In the case of Greece, for example, it took far too long for private creditors to be involved in a debt haircut. In the future, a statutory insolvency system should provide remedy for euro countries. It must be kept in mind that a flawed system could provoke the risk of triggering a new chain reaction of state and bank failures. The study shows how such risks can be minimised. Accordingly, with the help of credit limits and specific capital requirements banks should finally be forced to hold fewer domestic bonds in their balance sheets. The activation of an insolvency system should not be triggered by rigid rules. Instead, the authors of the study propose different choice options for different institutional sovereign debt restructuring dimensions. Furthermore, – according to the authors – it would be advisable for an independent institution to decide on this matter in order to counterbalance the political myopia of other players. One such institution could be the European Fiscal Board. The researchers are concerned that if the European Commission was granted with too many rights, this could again lead to politically motivated procrastination in the procedure. Imposing new collective action clauses could additionally facilitate a smooth debt restructuring process.

Risks associated with debt restructuring mechanisms are controllable

According to the authors of the study, an insolvency system for euro countries must no longer be a taboo, as there are ways to combine the opportunities of a credible sovereign debt restructuring mechanism with financial stability. Without a credible solution in the case of excessive government debt that imposes losses on private creditors, taxpayers from other euro states would ultimately be forced to foot the bill in order to bail out such a country.

The risks associated with the introduction of a debt restructuring mechanism are controllable. It is important that policymakers do not lose any more time and take the first steps towards reform. Otherwise, the eurozone will ultimately remain defenceless towards governments that pursue irresponsible fiscal policies and count on receiving transfers.

The complete EconPol policy brief on the issue is available to download at: *http://www.econpol.eu/sites/default/files/2019-03/EconPol_Policy_Report_12_Sovereign_debt_restructuring.pdf*

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Legislation of Institutional Committees Offers a High Degree of Predictability

Power and decision-making authorities concerning the European tax system are distributed among various institutions. In their own way, they influence the design of a common European tax system and are equally faced with the challenge of taking national tax policies into account. In a lecture organised as part of the First-Hand Information on Economic Policy series at ZEW, Professor Ferdinand Kirchhof, former Vice-President of the Federal Constitutional Court, addressed this complex relationship between the different actors of tax policy in a talk in mid-February 2019.

"European tax legislation requires a uniform decision," professor Ferdinand Kirchhof opened his lecture to 110 guests from the realms of economics and academia at ZEW. Reconciling the national and European fiscal interests of 28 different tax systems is not an easy task. In view of the current anti-European and protectionist tendencies, the European Union is now, after its 70-year-long history of success, facing an increasing dichotomy between integration and separation. "As history has shown, the concept of an increasingly connected and cooperative EU has indeed proven successful. The prevailing divide between EU Member States demonstrates, however, just how difficult this task is. This is particularly true when it comes to ensuring a consistent system for tax legislation," said the former judge during his lecture "Tax Law Between Berlin, Karlsruhe and Luxembourg", which was supported by the Leibniz ScienceCampus Mannheim Taxation (MaTax).

Different actors of European taxation

According to Kirchhof, in order to grasp the scope of the issue, one must consider the different actors of European taxation: the EU Commission, the European Council, the European Parliament and the European Court of Justice (ECJ). The EU Commission has shown the greatest commitment towards strengthening European integration and has been a strong supporter of a uniform European tax law. In contrast, the European Council opposes the expansion of European tax legislation and acts as a break in this process, thus – as a counterweight to the EU Commission – providing a balance between interests as well as European stability. Consequently, there are differences between the Council's and the Commission's stances regarding direct and indirect taxation.

As a third actor in tax legislation, the European Parliament has no right of initiative, but merely the right to be heard, explained Kirchhof. The Parliament plays therefore only a marginal role in EU tax legislation. This stands in contrast to the European Court of Justice, which has, in accordance to the principle of the separation of powers, "the responsibility of interpreting the EU treaties," said Kirchhof. The ECJ advocates a "culture of integration" and is guided by the principles of a "pro-European policy and an increasingly close union between EU Member States," Kirchhof pointed out – the fact that the EU is leaving the possibility open for the UK to withdraw from Brexit is the most recent example for the ECJ's stance.

"The legislative process of the international committees offers a relatively high degree of predictability," said the former constitutional court judge. Given the lack of national regulations, direct taxation legislation by the ECJ becomes predictable, which enforces the prohibition of state aid, fundamental freedoms, the principle of non-discrimination as well as the Charter of Fundamental Rights. As a result of the Europeanisation of EU law, there is an increasing focus on fundamental freedoms. The mechanisms of implementation and execution often do, however, not work at all or only to an insufficient extent, making proceedings before the ECJ necessary – in many cases, the ECJ already takes action in cases of "potential" transgressions. The ECJ only permits infringements and encroachments on fundamental freedoms if there are reliable grounds for justification. As an example, Kirchhof cited the principle of coherence of national tax systems, which ensures that the tax schemes form a self-contained system.

Professor Kirchhof, former Vice-President of Germany's Federal Constitutional Court, at ZEW.

The lecture was followed by a Q&A session. ZEW President Professor Achim Wambach engaged in a discussion with Ferdinand Kirchhof. Questions were raised on the topics of property tax, digital tax, inheritance tax, tax competition and the overall complexity of the tax system. In this context, Kirchhof pointed out that the challenges in the areas of the economy, academia and society would primarily require uniform European regulations. According to Kirchhof, there are, however, many tax policy areas in need of improvement which should be addressed by policymakers.

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State of Baden-Württemberg Grants 1.1 Million Euros for New Science Data Centre

The University of Mannheim and ZEW receive more than one million euros of funding from the Baden-Württemberg Ministry of Science within the framework of the state governments' digitalisation strategy "digital@bw". The research grant will be used to launch a high-performance science data centre in the field of business and economic sciences. The goal of the Mannheim Business and Economic Research Data Center (BERD) is to combine the highly fragmented data available in the economic sciences, and facilitate access to this data through an intelligent search tool. The data sets range from historic, printed stock market data, tax data or economic surveys that first have to be made available in a digital form, to digital data sets on social media communication, online advertising or the administration of customer relations. Another important objective of BERD is to develop innovative methods on how to work and deal with this data. How should the different data formats such as texts, pictures or videos be stored and used? The new science data centre will also expand the range of educational and further training possibilities. This will provide students with the necessary methodological expertise to correctly evaluate the data generated and develop new insights from it. In order to set up this new infrastructure, the University of Mannheim and ZEW have established a strategic network of connections with partners like the Deutsche Bundesbank, the German Data Forum and the universities of Hamburg and Cologne.


Photo: Daniela Haupt

The executive committee of the new science data centre (from left): Dr. Sabine Gehrlein, Dr. Josef Kolbitsch, ZEW economist Dr. Georg Licht, Professor Florian Stahl and ZEW economist Dr. Sandra Gottschalk.

ZEW Launches Seven New SEEK Research Projects in 2019

In 2019, ZEW launches seven new projects as part of the international research programme "Strengthening Efficiency and Competitiveness in the European Knowledge Economies" (SEEK). In these projects ZEW researchers will analyse the specific aspects of European economic development and shed light on the conditions for intelligent, sustainable and inclusive economic growth. Are the instruments of the European fiscal institutions successful in their role of ensuring efficiency and transparency in EU spending? How do measures to implement equal opportunities impact the economic development of individual countries? Is the EU General Data Protection Regulation (GDPR) slowing down innovation activity in Europe? Do more stringent environmental policies have a positive effect on the competitiveness of regulated companies? These are just some of the questions that will be addressed as part of the new SEEK research projects at ZEW over the next two years.

ZEW's SEEK programme has been funded by the State of Baden-Württemberg since 2010. The overarching aim of the programme is to promote excellent economic research. Up to now, researchers at ZEW have completed over 40 application-oriented research projects in collaboration with international partners as part of the SEEK programme.

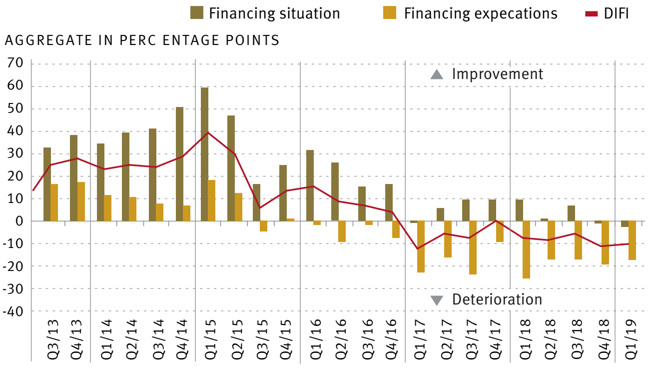
ZEW President Achim Wambach Discusses World Trade at the Leibniz Economic Summit


Photo: André Beckersjürgen

Achim Wambach (3rd from the right) at the Leibniz Economic Summit

Within the framework of the Leibniz Economic Summit held under the title "The End of Multilateralism/The Future of World Trade" in January 2019, ZEW President Professor Achim Wambach participated in a discussion with the heads of six German economic research institutions also belonging to the Leibniz Association. The debate centred around the following questions: Is the international economy turning away from multilateralism? What are the consequences of US trade policy for the European and the global economy? What would be an appropriate way for international decision-makers to respond to these US policy decisions? These are just some of the economic policy issues that were addressed by Achim Wambach and the heads of renowned economic research institutions Professor Marcel Fratzscher (DIW Berlin), Professor Clemens Fuest (ifo Institute, Munich), Professor Dennis J. Snower (Kiel Institute for the World Economy), Professor Reint Gropp, (Halle Institute for Economic Research), and Professor Christoph M. Schmidt (RWI, Essen).

DIFI Still Below Zero: Pessimistic View Continues



Source: JJL and ZEW

The German Real Estate Finance Index (DIFI) by ZEW and JLL, which reflects survey participants' assessment of the current situation (including the previous six months) of and expectations (for the coming six months) for the commercial real estate financing market, is almost unchanged and again below zero at minus 9.7 points in the first quarter of 2019. Since the third quarter of 2018, in addition to collecting the experts' opinions on the office, retail, logistics and residential real estate segments, experts are also asked for their assessments of the hotel segment. In the previous quarter, the DIFI was at minus 10.4 points including hotels (minus 10.8 excluding hotels). This means that the DIFI has been at a consistently sub-zero position for almost two years, which reflects the prevailing subdued economic situation that has been cooling down since 2018.

The survey included a special question which asked how demand in the German real estate market will develop amongst various investor groups. There will be increased demand for German properties from family offices and Asian and Middle Eastern investors over the next twelve months. Overall, German real estate will remain in high demand as an investment over the next twelve months.

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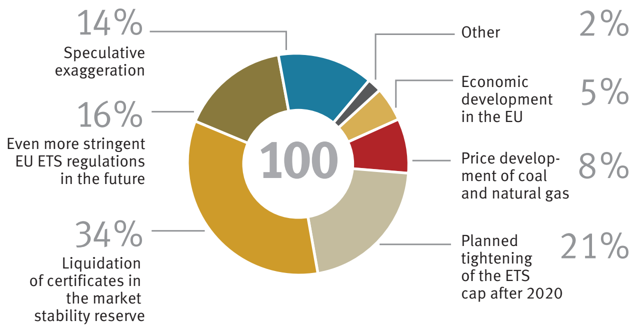
Approved EU Emission Trading Reforms Drive up CO2 Prices



Main drivers of EUA prices according to the survey respondents

Source: ZEW

The prices for European emission allowances (EUAs) have tripled over the course of 2018 and have reached their highest level in ten years, with prices well above 20 euros per tonne of CO_2. A central reason for this rapid surge in EUA prices are the planned reforms to the EU emissions trading system adopted at the beginning of 2018, imposing a stronger reduction of newly issued emission certificates per year from 2020 onwards and allowing for the deletion of surplus certificates from the so-called market stability reserve. This is the result of the latest ZEW Energy Market Barometer, a survey carried out by ZEW among energy market experts. 34 per cent of the respondents consider the plans to delete certificates in the market stability reserve to be the most important reason for the price increases, whereas 21 per cent regard the planned tightening of the ETS cap, which will reduce the number of certificates issued per years, to be the fundamental driver behind the price surge. This illustrates the extent to which expectations of future scarcity determine the price of EUAs.

When asked about the reasons for the currently high CO_2 prices, 16 per cent stated that they expect the EU ETS regulations to become even more stringent in the future and 14 per cent consider speculative exaggeration in the market causing the high prices.

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Second ZEW-FDZ Data User Workshop

The second workshop for data users of ZEW's Research Data Centre (FDZ) will take place on 19 and 20 November 2019 in Mannheim. The workshop will give researchers the opportunity to present and discuss studies conducted using ZEW survey data and it will provide a platform for the exchange among users as well as between users and ZEW's survey teams. It also addresses the particularities of ZEW (panel) surveys. Furthermore, there will be discussions on topics and questions for future surveys. Regular users of ZEW survey data are kindly invited to attend this workshop and present their research using the ZEW data set.
Further information: *www.zew.de/AM6473-1*

Summer Workshop for Young Economists

ZEW is pleased to invite submissions for its 21st Summer Workshop for Young Economists in Mannheim on 17 to 19 July 2019. This year's workshop will cover recent topics and methods adopted in empirical public economics. A particular focus will be on causal inference as well as structural methods in public policy evaluations. The workshop will bring together international doctoral students and postdocs for three days of intensive training. Keynote lectures will be given by David Agrawal (University of Kentucky), Eckhard Janeba (University of Mannheim), and Juan Carlos Suárez Serrato (Duke University and NBER).
Further information: *www.zew.de/VA2783-1*


Photo: ZEW

No Exception for a "European Champion"

It's official: the EU Commissioner for Competition, Margrethe Vestager, has decided to block a merger between Siemens and Alstom despite massive pressure from company executives and their political allies. Her decision should be applauded.

In 2017, the German conglomerate Siemens and the French rail transport multinational Alstom announced a plan to combine their train-manufacturing operations. Had the deal been approved, the new group would have had 62,000 employees and annual revenues of more than 15 billion euros. The companies argued that the merger was needed as a counterweight to China's state-owned CRRC, the largest supplier of rail transit equipment in the world. With annual revenues totaling some 30 billion euros, CRRC is twice as large as the stillborn Siemens Alstom group.

Joe Kaeser, the CEO of Siemens, publicly criticized Vestager after she announced her decision. "It must be bitter if you are technically right, but do everything wrong for Europe," he tweeted. Politicians in France and Germany seem to agree. The German Economy Minister Peter Altmaier and the French Finance Minister Bruno Le Maire called EU competition rules "obsolete" and said that the merger would have created a "European champion" in the railway industry, echoing a statement made by Kaeser in 2017.

Had the antitrust procedure taken place in Germany, the outcome might have been different. The Federal Cartel Office is responsible for assessing the effect of planned mergers on competition. But in the event of a negative ruling, companies can file an appeal with the Ministry of Economic Affairs, which then reviews the case by weighing the harm to competition against the potentially positive effects on industry and society at large. The merger of Edeka and Tengelmann was an instance in which the Economy Minister – a post then held by Sigmar Gabriel – overturned the decision of the Federal Cartel Office along with the negative opinion delivered by the Monopolies Commission. Of the 22 merger appeals filed since 1973, 9 have been approved. In Brussels, there is nothing equivalent to ministerial review. This is no surprise: the EU antitrust decisions are issued from the top, not by a lower-ranking authority.

The small number of successful appeals in Germany – many of which were controversial – shows that only rarely do countervailing factors offset the harmful effects on competition. The Siemens-Alstom merger is no exception. For one, it is doubtful whether the transaction would have created a new "champion". Ms. Vestager believes that both Siemens and Alstom are already important players in the global market capable of competing independently. For another, the merger of the two most important competitors in Europe would likely have led to higher prices, which would have fallen on European railway companies and, ultimately, railway passengers themselves. And that is precisely what EU antitrust officials were worried about. Clearly, the competitive pressure exerted or likely to be exerted by China's CRRC in Europe was too low to outweigh these concerns.

Fortunately, Europe remains committed to safeguarding competition, not companies. We must hope that it continues to trust in the innovation and the positive societal effects of healthy competition. The Siemens-Alstom decision was not only technically right; it was right for Europe.

President of the ZEW, Prof. Achim Wambach, PhD

ZEW

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